DfT OLR Holdings Limited

Annual Report and Financial Statements

For the year ended 31 March 2019

Company Registration Number 07141122

Registered office:

Albany House 8th Floor
94-98 Petty France
London
SW1H 9AE
England

Contents

Company information

Non-Executive Chairman	Richard George
Chief Executive and Accounting Officer	Robin Gisby
Executive Finance Director	Richard Harrison
Non-Executive Directors	David Bennett Tim Buxton
Company Secretary	Richard Harrison
Registered Office	Albany House 8th Floor 94-98 Petty France London England SW1H 9AE
Independent Auditors	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors Central Square 29 Wellington Street Leeds LS1 4DL

I have pleasure in presenting the first annual report and audited consolidated financial statements for DfT OLR Holdings Ltd (DOHL) for the financial year ended 31st March 2019.

DOHL is a wholly owned subsidiary company of the Department for Transport (DfT). The company performs the role of an Operator of Last Resort Holding Company on behalf of DfT for Train Operations that are moved into government ownership.

The primary objectives of DOHL are to facilitate the transfer of ownership and then to provide good governance, support and direction to the companies under its control whilst in the DfT ownership. To perform these roles a small group of highly experienced railway managers has been assembled over the last 18 months.

The statements cover 2018-2019, the first year of operation of the company. The year saw the initial establishment of the company to facilitate the transfer of the former Virgin Trains East Coast (VTEC) Franchise under the ownership of Virgin/Stagecoach to the London North Eastern Railway Limited company (LNER).

The transfer of ownership to DOHL occurred on 24th June 2018 following the Secretary of State's announcement on 16th May. The transfer and mobilisation of the new arrangements were undertaken in a way that sought to cause as little disruption to the travelling public, the staff and the commercial impetus as could be managed. With the excellent support and hard work of the management and staff these objectives were achieved in an efficient, measured and timely fashion. It was imperative given the commercial dynamics of the company, that the change of brand that was necessary with the change of ownership did not become a growth inhibitor. The re-branding that was put in place to create LNER we consider to be a notable success in that respect.

Alongside the transfer and governance arrangements of the Train Operating Company (TOC), DOHL also established the necessary governance arrangements, financial protocols, banking arrangements and relationships within DfT and the industry to ensure that it has been able to function well and meet all necessary compliance targets and good governance measures as appropriate.

The Holding Company operation in financial terms is a small one. The finances are driven by the scale of operation of the operating companies under the Holding Company control – which at this point in time is exclusively LNER. A review of the LNER operations in the year is presented in the CEO's remarks. The CEO of DOHL as part of his duties acts as Chairman of the LNER Board.

Work is also being undertaken to ensure that DOHL is equipped, if necessary, to manage any further Rail Operations should this be required. The Williams Rail Review being undertaken at this time means there is some uncertainty as to how long LNER and any other TOC would remain in the control of DOHL – or in what shape the company may be divested. Meanwhile the objective of DOHL is to ensure that any company held within its control remains in good health and is fit for purpose in whatever guise and timescale is determined.

Richard George
Chairman
18 July 2019

In DOHL's first year of operation it successfully carried out its prime purpose – the transfer of a franchised Train Operating Company to a period of public ownership – with the mobilisation of LNER. This was achieved seamlessly in less than six weeks without disruption to services or passengers and within budget. That could not have happened without the excellent support, advice and commitment of the management and staff. I would like to reemphasise our thanks for their major contribution, especially given the difficulties and uncertainties they have had to cope with previously in working on the East Coast route.

We were also very grateful for the detailed planning by the Section 30 mobilisation and transition team. They were able to confirm that the core operation was in good shape, particularly its safety performance. While the previous incumbent had financial difficulties LNER has not required an operational turnaround. It has also continued to be both profitable and cash generative – just not at the levels anticipated within the previous franchise.

Without such detailed and dedicated preparation we would not have achieved such a smooth transition and been ready to move quickly to the next stages of stabilising the management team and supporting them as they set about the challenges of establishing the LNER brand; improving performance, customer service and the commercial offer; introducing the new Azuma train and developing the business.

Given the changes in operator on the East Coast main line over the last decade it was important to reconnect the train service with the communities it serves and to be clear that it was being operated and developed on their behalf. This approach has been fundamental to the new LNER brand and has been reinforced in developing the new company's links with stakeholders along the route. It is pleasing to note that the brand has already received widespread recognition.

Delivering a good train service, after safety the core measure of a management's performance, has been difficult given the ageing fleet, the impact of timetable changes by other operators in May 2018 and various infrastructure issues. After management made a number of changes to improve operational resilience performance has gradually improved, albeit from a very low base. We are however far from satisfied with the current levels. Further improvements to the level our customers expect will require the introduction of the new Azuma train.

Significant improvements have been made in customer service both on the train and throughout the booking service. Examples include: Sensa, the unique seat occupancy display system; the new Hero Chefs menu using local ingredients and suppliers; a new Family ticket; free Wi-Fi throughout the train; and at-seat ordering in standard for customers booking direct with LNER.

Azuma is the game changer for LNER as it brings improved fleet reliability, more seats and faster journeys. It cannot come soon enough but at the time of transition the timetable for its introduction was unclear. DOHL worked with the LNER management in clarifying responsibilities and supported them in taking a leading role in establishing a more robust programme for its introduction. It was very rewarding to see the outcome of a great deal of hard work across LNER with the launch of the first Azuma on 14 May 2019.

That though is just the start of a complex programme over the next two years which will also need to be coordinated with some significant infrastructure developments by Network Rail.

The launch of Azuma brings to an end the first phase of DOHL's role with LNER. It is now ready to embark on further developments to build its role as the preeminent long distance train operator on this premier route. The next steps will include: continuing to drive up performance and customer service, introducing leading edge developments in digital interaction with customers, working more closely with Network Rail as it devolves, playing a leading role in both the East Coast Partnership with Network Rail and other operators on the East Coast main line and in the introduction of ERTMS on the route.

That also means that DOHL is now ready to take on further activities should that be required.

Robin Gisby
CEO and Accounting Officer
18 July 2019

The Directors present their strategic report for the year ended 31 March 2019.

OPERATIONAL REVIEW

Key Performance Indicators

In addition to monitoring financial performance, the Company uses a range of performance indicators (KPIs) for any subsidiaries to assess the effectiveness of performance in key activities. The most important of these KPIs focus in the following key areas:

Safety

Safety is at the heart of our approach to running the railway. LNER's Executive Safety, Sustainability and Security Board reviews a variety of KPIs to ensure effective monitoring of safety performance and that a proactive approach to safety is adopted by all employees. In general, LNER met or exceeded its targets with the following headline results:

	2019 Average 24 Jun – 31 Mar
Passenger major injuries per 1 million passenger journeys	**0.23**
Workforce lost time accidents per 1,000 employees	**0.23**
Employee physical assaults per 1,000 employees	**1.15**

LNER saw a reduction in RIDDOR (Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013) reportable customer accidents to 1 during the reporting period, reducing the FWI (Fatality and Weighted Injury) MAA to 0.035 per annum. Similarly with staff accidents we saw a reduction in RIDDOR reportable employee accidents to 7 between 24 June 2018 to 31 March 2019 reducing the FWI to 0.028 per annum.

In the time frame 24th June 2018 and 31st March 2019, there have been 41 LNER employees who have been physically assaulted. Of these, the highest individual causes are ticket related issues (24% of all physical assaults) and alcohol/drug issues (22% of all physical assaults). Nationally, the British Transport Police have reported a 26% rise in assaults in the last year. Factors including the relative success of England in the World Cup and increase in the overall alcohol consumption could be attributed to the increase in assaults, not only towards LNER employees, but across the industry as a whole.

Employee Engagement

Improving engagement has been a significant focus of activity throughout the year with clear action plans created across teams within the business led by our engagement champions. The engagement survey completed in March 2019 showed overall engagement at 74%. Some of the actions concentrated on recognition and communications and we are pleased to report significant progress has been seen in this area. Much more activity will be planned in the coming year to drive further improvements.

Train Performance

The Public Performance Measure (PPM) is a measure of the punctuality of passenger trains in Britain. It is the primary measure of Operational Train Performance and is the percentage of scheduled trains which successfully run their entire planned route, calling at all timetabled stations, and arrive at their terminating station 'on time' (within ten minutes for long-distance operators). LNER's Moving Annual Average (MAA) for PPM was 74.83% against a target of 84.0%.

The three main causes impacting the PPM MAA were fleet reliability, fatalities and trespass incidents. Across the year, class 91 technical performance did improve however performance of the 40 year old High Speed Trains (HST) worsened. These issues impact PPM to a greater extent these days due to a more congested railway (i.e. there are fewer incidents but every incident has a larger impact of cancellations and delays). One of the main reasons HST performance worsened was damage caused to the ageing fleet from extreme weather during both winter and summer seasons.

A combination of fatalities and trespass incidents have also been significant contributor to the PPM MAA target not being met. LNER are working with Network Rail on Performance Improvement Plans to address these areas of concern. Over the last year the partnership between LNER and the Campaign Against Living Miserably (CALM) has gone from strength to strength. CALM are leading a movement against suicide; the biggest killer of men under 45 in the UK, with 75% of all suicides being male. It's an issue which has a huge impact on our industry, our people and our communities and we want to help CALM with their life saving work. 71 of our employees have attended Samaritans Managing Suicidal Contacts training during the year and our employees have made many life-saving interventions during the year.

Revenue

LNER revenue grew 8.5% in the period, compared to performance under the previous franchise. Revenue growth was driven by 1.0% journey growth and strong yield growth of 7.4%. Journeys growth was stronger on flows to and from London at 2.6% compared to a -1.9% decline on non-London.

Growth was strong in the first half of the year (industry periods 4 to 9) averaging 7.5% revenue growth before slowing to 0.6% in periods 10 and 11 (mainly due to a shorter booking horizon and lower fuel prices) and then finishing the year with 9.1% growth in periods 12 & 13. The North East to London market saw the strongest revenue growth at 9.7% and this market also generated the highest revenue increase at £9.9m.

Customer Advocacy

LNER finished the year on a Net Advocacy Score (NAS) of 26 (based on January to March 2019) against the target of 23. NAS scores are calculated by sending a selection of customers a survey asking them to rate how likely they are to recommend LNER to friends, family or colleagues. Weekly NAS scores demonstrated a strong upward trend in the second half of the year. Whilst there remains a strong correlation between NAS and PPM, in 2018/19 the Customer Experience strategy focussed on nailing the basics, including the launch, management and monitoring of Onboard Customer Experience Standards, and forming a Standards Delivery to team to act upon NAS findings. This focus will be built upon in 2019/20, including with a refreshed Voice of the Customer Programme.

SUSTAINABILITY REPORT

Being responsible businesses underpins DOHL's and its subsidiaries' business values, which includes managing our impact on the environment. The performance for LNER for the period 24th June 2018 – 31st March 2019 is summarised below. No other group companies have any significant impacts on these metrics.

	Total*	Carbon tCO2e
Total water (m3)	**110,189**	**n/a**
Total gas kwh	**3,040,103**	**637**
Total non traction electricity kwh	**12,765,740**	**4,503**
Heating oil (litres)	**114,622**	**521**
Traction electricity (EC4T) kwh	**190,047,773**	**67,041**
Traction diesel (litres)	**23,178,877**	**83,514**
Waste % recycled	**14.4%**	**n/a**

*This data includes estimates

In 2018/19 LNER has maintained ISO 14001 and ISO 50001 Environmental and Energy Management System certification and begun a series of initiatives to improve waste recycling and energy efficiency. These include a phased introduction of water refill points at stations to assist our customers to avoid single use plastic bottles, waste coffee cup separation and feasibility of solar PV electricity generation.

Following initiatives during the period on board our trains LNER have seen plastic packaging waste reduce by 36% and paper packaging waster reduce by 33%.

FINANCIAL REVIEW

Operating performance

Turnover for the forty weeks ended 31 March 2019 was £680.8 million (2018: £nil) which in the main reflects ticket revenue earned from passenger services at LNER and associated income earned from catering, car parks and commission from the sale of tickets on other train operators' services.

The operating expenditure reported in the year was £628.2 million (2018: £nil), comprising access charges payable to Network Rail for stations and depots, rolling stock lease costs, staff costs, other operating costs in the forty week period and a franchise premium payment of £128.4 million was paid to the DfT by LNER.

Profit before taxation and the DfT franchise premium was £181.9 million (2018: £nil) with a net profit before taxation of £53.5 million (2018: £0.001 million loss).

Statement of financial position

At 31 March 2019 the Group had net assets of £67.9 million (2018: £0.001 million net liabilities).

Statement of cash flows

The Group has generated a net cash inflow of £73.7 million in the year leaving a cash balance of £73.8 million at 31 March 2019 (2018: £nil).

Key risks and uncertainties

The Company maintains a register of strategic risks. The risks which have an impact on the Company's goals and objectives are overseen by the Executive Directors, the Audit and Risk Committee, and the Board. This focus, underpinned by close working with the DfT and LNER, has ensured that risks are being managed within the Board's risk appetite.

The key risks of the Company that were identified by the Board during the year were:

- That the mobilisation of the LNER franchise did not deliver the outputs required.
- That the Company is not sufficiently well equipped to manage any further Franchise Operations should this be required
- The transition of the new Azuma trains into consistent reliable service fails to deliver against expectations

The Group is exposed to external and internal risk factors. The business is dependent on passenger numbers which in turn are impacted by external risk factors such as Brexit, regulatory, economic and competitor activity. Under the terms of the Services Agreement, the Group falls under the regulation of the Department for Transport, and the Office of Rail and Road. Laws and regulations are subject to alteration and amendment and the costs of compliance with new legislation and regulations may have an adverse impact on the Group's financial performance. To mitigate the risk from such changes the Group proactively engages with both Government and railway groups.

Internal risks include failure of internal controls and industrial disputes. The Group operates established formal and robust internal processes to ensure systems and controls are operating effectively, and that the quality and integrity of information provided to it is reliable, enabling Directors to monitor and challenge the performance of the company, and make informed decisions. The Group also has an established Internal Audit programme which has been developed through a risk based analysis of our operations. Our Internal Audit team aim to be at the forefront of strategic and technological developments throughout the business and deal with emerging risks as they arise so that, as a business, we're able to respond to these as effectively as possible.

The retention and recruitment of key personnel is essential to ensure the Group has the correct level of expertise and industry knowledge. To mitigate this risk, the Group undertakes efficiency and effectiveness reviews to optimise organisational design and secure a sound base for development of future workforce capability.

By order of the Board

Robin Gisby
CEO and Accounting Officer
18 July 2019

Registered Office: Albany House 8th Floor, 94-98 Petty France, London, SW1H 9AE

The Directors present their annual report, business review, the audited consolidated financial statements for the year ended 31 March 2019.

History and background

DOHL ("the Company") is a non-departmental government entity which was incorporated on 30th January 2010 by the Secretary of State for Transport. Its principal activity is the management and support of train companies that are returned to temporary public ownership. On 24 June 2018, following termination of the East Coast Main Line Company Limited (ECML) Franchise Agreement, DOHL took over the management and operation of the business, now London North Eastern Railway Limited.

The Company is wholly owned by the Secretary of State for Transport and had one wholly owned train operating company subsidiary, London North Eastern Railway Limited. The Company also owns a number of other companies although none had any significant trading activity.

DOHL and London North Eastern Railway Limited comprise the Group (the "Group").

Principal activities

The principal activity of DOHL is as a Holding Company on behalf of DfT for Franchised Train Operations that are moved into government ownership in accordance with Section 30 of the Railways Act 1993. DOHL facilitates the ownership transfer and then provides good governance, support and direction to the operating companies under its control whilst in the DfT ownership.

The principal activity of London North Eastern Railway Limited is the provision of passenger services on East Coast main line.

Results and dividend

The Group's reported financial performance for the year ended 31 March 2019 shows a profit after tax for the financial year of £41.2 million (2018: £0.001 million loss).

The Directors do not propose a dividend for the year (2018: £nil). No dividends were received from LNER during the year.

Directors

The Directors of the Company who were in office during the year and up to the date of signing the financial statements are listed below:

Non Executive Chairman	Richard George	Appointed 25/06/2018
Chief Executive and Accounting Officer	Robin Gisby	Appointed 24/06/2018
Executive Finance Director	Richard Harrison	Appointed 24/06/2018
Non Executive Directors	David Bennett	
	Tim Buxton	Appointed 25/06/2018
	Richard Cantwell	Resigned 24/06/2018
	Simon Smith	Resigned 24/06/2018

Company Secretary

The Company Secretaries in office during the year and up to the date of signing the financial statements are listed below:

Richard Harrison	Appointed 24/06/2018
Ruth Boyd	Resigned 22/08/2018
Helen Pattington	Resigned 22/08/2018

Directors' attendance at board meetings

The Directors' attendance at Board meetings in the period 24 June 2018 to 31 March 2019 was as follows:

	Attended	Invited
Richard George	9	9
Robin Gisby	9	9
Richard Harrison	9	9
Tim Buxton	9	9
Dave Bennett	7	9

Conflict of interest

Procedures are in place to ensure Directors comply with their duties in relation to conflicts of interest. Board Directors are obliged to provide details of any direct or indirect interests that conflict with, or may conflict with, the Company's interests. At the start of every Board meeting the Chair asks for any interests to be declared.

Health and safety

The safety of employees and LNER customers have been of prime importance and working with partners such as British Transport Police, Network Rail and other key stakeholders, LNER has put in place initiatives that will ensure, so far as is reasonably practicable, the health, safety and welfare of its staff and our customers. LNER's 2019/20 Safety & Sustainability Plan set risk-based and targeted objectives which would maintain, and further improve, the safety performance delivered in 2018/19 which has been recognised by LNER being awarded the RoSPA 'Gold Award' for safety performance improvement. The business continues to be regarded as a thought leader in the field, especially in relation to its use of the Risk Management Maturity Model (RM3) and bow tie. LNER has embedded RM3 within its safety management arrangements through assurance and self assessment arrangements and uses this tool to develop and deliver a framework for delivering on opportunities for continual improvement in the maturity of its management systems. Bow tie risk management tools have been introduced which assist the organisation in the modelling and management of key risks. This visual approach to risk management is delivering a step change in understanding of LNER's key risks and the management of them and has been the bedrock for successful delivery of contingency operations and forms the core of work underway to improve both safety and performance risk management this year.

Charitable and political donations

The Group made charitable donations totalling £23,250 during the year ended 31 March 2019 (2018: £nil). This donation for £23,250 was in respect of the Railway Mission Chaplaincy service. There were no political donations made in the year (2018: £nil).

So far Group employees have donated over 600 volunteer hours supporting CALM with various awareness and fundraising events. In 2018 LNER officially launched the partnership on World Mental Health Day with a video featuring people from across our business and the introduction of a delay repay donation scheme. This enables our customers to donate their compensation to CALM, so far this has raised £27,000 through the generosity of our customers. More than 75 people across our business have taken part in training delivered by CALM and have helped raise more than £30,000 for the charity. In other community work, LNER have been working with HMP Askham Grange to support ex offenders into employment, continue to support partner schools across the route with educational and employability activities and support regional Pride events.

Going concern

Whilst the Directors note that the Group's current liabilities exceed its current assets by £831,000, they have no concerns about the Company's or Group's ability to continue as a going concern. The Secretary of State has set up the Company in connection with the exercise of his statutory duties. A Funding Deed exists between the Company and Secretary of State whereby a loan facility of £120 million has been provided to the Company. At the year end the Company had no requirement to draw down on this facility and it was therefore unused. This loan facility remains available should it be required.

Through the Oversight Committee and other communication, the Directors remain in ongoing dialogue with representatives from the Department for Transport about the future of the Company.

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

Indemnification of Directors and Officers

The Company maintains Directors' and Officers' Liability Insurance in respect of legal action that might be brought against the Directors of the Company. The Company has indemnified each of The Company's Directors and other officers of the Company against certain liabilities that may be incurred as a result of their offices.

Directors' statement of disclosure of information to auditor

The Directors who held office at the date of approval of the Directors' Report confirm that insofar as the Directors are aware, there is no relevant audit information (as defined in section 418 of the Companies Act 2006) of which the Company's auditors are unaware, and they have taken all the steps required of them as Directors in order to make themselves aware of any relevant audit information (as defined) and to establish that the Company's auditors are aware of that information.

Directors' statement of disclosure of information to auditor

The auditors, PricewaterhouseCoopers LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act.

The financial statements on pages 24 to 55 were approved by the Board of Directors on 18 July 2019 and signed on its behalf by

Robin Gisby
CEO and Accounting Officer
18 July 2019

Registered Office: Albany House 8th Floor, 94-98 Petty France, London, SW1H 9AE

STATEMENT OF DIRECTORS' AND ACCOUNTING OFFICERS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

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

Company law requires the Directors prepare financial statements for each financial year. Under that law the Directors have prepared the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and company and of the profit or loss of the group and company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed for the group financial statements and IFRSs as adopted by the European Union have been followed for the company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and company will continue in business.

The Directors and Accounting Officer are also responsible for safeguarding the assets of the group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors and Accounting Officer are responsible for keeping adequate accounting records that are sufficient to show and explain the group and company's transactions and disclose with reasonable accuracy at any time the financial position of the group and company and enable them to ensure that the financial statements comply with the Companies Act 2006.

Directors' and Accounting Officer's confirmations

The Directors and Accounting Officer consider that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the group and company's position and performance, business model and strategy.

CORPORATE GOVERNANCE

As required by the Government Financial Reporting Manual 2018-19, the Company is required to prepare a governance statement. This Corporate Governance Report is intended to provide an understanding of the Company and Group's governance procedures, and demonstrate how the Company and Group seek to adhere to the principles of good corporate governance where appropriate for their size and operation. The report describes how the relevant principles and provisions set out in the Corporate Governance in Central Government Departments: Code of Good Practice (Corporate Governance Code) were applied to the Company and Group during the financial year and will continue to be relevant for the forthcoming financial year. The Company and Group have complied with the relevant principles and provisions of the Corporate Governance Code.

The Company and Group seek to adhere to the principles of good corporate governance where appropriate for their size and operation.

The Board of Directors

The Board currently consists of the Non-Executive Chairman, two Executive Directors in the Chief Executive and the Finance Director together with two further Non-Executive Directors. It usually meets twelve times each year and is responsible for monitoring the operational and financial performance of the Company and its subsidiary companies, reviewing progress against the Company's budgets and setting and reviewing its business plans.

The Board of the Company met on nine occasions in the period from 24 June 2018 to 31 March 2019. Details of the Directors' attendance at each of these meetings can be found in the Directors' report on page 11.

The Directors are satisfied that the current Board has the breadth of business, financial and operational experience necessary to manage effectively an organisation of the size and type of the Company.

Information and Board development

The Board receives detailed briefing papers and reports on the business to be conducted at each meeting in advance of the meeting. These papers are provided in advance to allow appropriate time for members of the board to review and challenge the data used in the papers and reports discussed at each meeting.
Each briefing paper and report is prepared by the appropriate individual who is responsible for the relevant area of the business.

All Directors have access to the advice and services of the Company Secretary who, if necessary, has access to external legal advice. Board and other meetings are attended by specialist external company secretarial support. Each Director can, if necessary, seek independent professional advice at the Company's expense in the furtherance of their duties.

Directors receive induction training on appointment to the Board which is tailored to their individual needs and experience, and are offered further specialist advice as they may require. Information is provided to Directors on their responsibilities, regulations and legal obligations.

As part of the mobilisation and development of the Company, members of the Board have met and continue to meet a range of key officials from within the Department for Transport and also broader stakeholders.

Framework Agreement and Oversight Committee

A Framework Agreement exists between the Company and the Department for Transport which sets out the broad framework within which the Company will operate. The document does not though create legally valid, binding and enforceable obligations on the parties. The Company's responsibilities include providing stewardship and oversight of and managing the mobilisation of the Company and any other operating company established in connection with the Secretary of State exercising his duties under Section 30 of the Railways Act.

As part of the requirements of the Framework Agreement, an Oversight Committee meeting is held normally on a four weekly basis and chaired by a senior representative from the DfT.

Audit and Risk Committee

The Audit and Risk Committee is chaired by Claire Bullen an independent individual with appropriate expertise. Richard George (non-executive Chair), Dave Bennett and Tim Buxton (both non-executive Directors) are members of the Committee, and Robin Gisby (Chief Executive and Accounting Officer) and Richard Harrison (Finance Director) also attend meetings of this Committee when appropriate.

Under its terms of reference the Committee keeps under review the Company's internal and external financial statements and reports to ensure that they reflect best practice.

The Committee ensures that the internal audit function has appropriate access to information to enable it to perform its function effectively and in accordance with relevant professional standards, and that it has adequate standing within the Company. It considers audit reports on the Company from the internal auditors and reviews and monitors management's responsiveness to the findings and recommendations.

The Committee is responsible for making recommendations to the Board in respect of the appointment and re-appointment of the Company's external auditors and recommends to the Board the audit fee to be paid to the external auditors.

Remuneration Committee

The Group Remuneration Committee is chaired by Richard George and includes the Non-Executive Directors. The Executive Directors attend as required. Details of the Committee's activities along with the Remuneration and staff report can be found on page 18.

Directors and their Interests

The current Directors of the DOHL Board are listed on page 11. A Register of Directors' Interests is maintained by the Company Secretary through whom public inspection can be arranged. None of the Directors have any interests, such as shares in the companies within the Group.

Financial reporting

The Directors have a commitment to best practice in the Company's financial reporting and systems. A statement of the Directors' Responsibilities for preparing the financial statements may be found on page 15.

Directors' and Officers' liability insurance

The Company has Directors' and Officers' liability insurance cover in place as permitted by the Companies Act 2006.

Financial Risk Management

The Board is continually reviewing the exposure to liquidity and cash flow risk. For the year ended 31 March 2019 the Company's risk management controls operated well and the Company was not exposed to any significant risk in these areas.

Internal controls and risk management

The Board is also responsible for maintaining a sound system of internal control that supports the achievement of the Group's goals and objectives. Internal Controls and governance have been reviewed by the Government Internal Audit Agency during the year, and will continue to be reviewed. The key risks and uncertainties of the Group are noted in the Strategic Report on page 7 and the Board is satisfied that these are being satisfactorily managed. There have been no ministerial directions given, or any significant lapses of protective security in the year.

REMUNERATION AND STAFF REPORT

Directors

The remuneration related to the forty weeks from 24 June 2018 to 31 March 2019 is as follows. No remuneration was paid before this. Full year equivalents are in brackets:

	Salary/fees	Pension and other benefits	Year ended 31 March 2019	Period ended 31 March 2018
	£'000	£'000	£'000	£'000
Robin Gisby	150 (195)	-	150 (195)	-
Richard Harrison	135 (175)	-	135 (175)	-
Richard George	27		27	-
Tim Buxton	13	-	13	-
David Bennett	-	-	-	-
	325	-	**325**	-

The chair of the Audit and Risk Committee, Claire Bullen, received no remuneration for performing her role, nor did any other Directors.

Employees
The Group seeks to adhere to the principles of good governance as appropriate for a Group of its size and operations.

A culture of inclusion is important to us and we continue to work hard to address any discrepancies and ensure we have a diverse workforce reflective of our communities.

We promote an environment of equal opportunity and one free from discrimination. We work to a policy in which no employee receives less favourable treatment on the grounds of their colour, nationality, race, religion/belief, ethnic or national origin, sex, marital or civil partnership status, gender reassignment (whether proposed, started or completed and under or not under medical supervision), disability or past disability, part-time or fixed-term status, pregnancy or maternity, parental responsibilities, sexual orientation, age (a protected characteristic) or membership or non-membership of a trade union.

The Group gives full consideration to applications for employment from disabled persons where the candidate's particular aptitudes and abilities are consistent with adequately meeting the requirements of the job. Opportunities are available to disabled employees for training, career development and promotion. Where existing employees become disabled, it is the Group's policy to provide continuing employment wherever practicable in the same or an alternative position and to provide appropriate training to achieve this aim.

We strive to build a business which is fair and equal and we are committed to working towards closing the gender pay gap. Overall our business includes 41% roles being held by women and we are working to make further progress to increase the number of women in our driver population as well as more senior roles through improved flexible working and clear development plans.

We want to create an environment where our people are engaged and have the opportunity to reach their full potential and to do this it is important we are aware of and care for our teams' wellbeing, physical and mental health. We have an in-house team of clinical staff and health and wellbeing specialists who promote health awareness at work and at home through clinic appointments, drop in surgeries, monthly topics and mobile Apps. We recognise the importance of raising the awareness of mental health and have trained mental health first aiders who support our team members across our business.

All our team members have access to an Employee Assistance Programme (EAP) which provides information, advice, training and services to help them deal with events and issues in their work and personal lives, such as legal advice to help with family health issues.

Robin Gisby
CEO and Accounting Officer
18 July 2019
Registered Office: Albany House 8th Floor, 94-98 Petty France, London, SW1H 9AE, England

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

In our opinion, DfT OLR Holdings Limited's group financial statements and company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the company's affairs as at 31 March 2019 and of the group's profit and the group's and the company's cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the company's financial statements, as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the consolidated and company statements of financial position as at 31 March 2019; the consolidated income statement and consolidated statement of other comprehensive income, the consolidated and company statement of cash flows, and the consolidated and company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

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

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's and company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the group's trade, customers, suppliers and the wider economy.

Reporting on other information

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

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

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

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 March 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

As explained more fully in the Statement of Directors' and Accounting Officer's responsibilities in respect of the financial statements set out on page 15, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the group's and 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 group or the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Other Matter

The financial statements for the year ended 31 March 2018, forming the corresponding figures of the financial statements for the year ended 31 March 2019, are unaudited.

Ian Plunkett FCA (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

Leeds

18 July 2019

DfT OLR Holdings Limited

Consolidated Income statement

For the year ended 31 March 2019

	Note	**Year ended 31 March 2019**	Period 1 February 2017 to 31 March 2018
		£000	£000
Revenue			
Passenger income	2	**622,746**	-
Other operating income	2	**58,019**	-
Total Revenue		**680,765**	-
Other operating costs		**(628,235)**	(1)
Operating profit/(loss)	3	**52,530**	(1)
Finance income	6	**970**	-
Finance and similar charges	6	**-**	-
Profit/(loss) before taxation		**53,500**	(1)
Tax on profit	7	**(12,274)**	-
Profit/(loss) for the financial year		**41,226**	(1)

The group traded for the period 24 June 2018 to 31 March 2019.

The income statement has been prepared on the basis that all operations are continuing operations.

As permitted by Section 408 of the Companies Act 2006, The Company has not presented its own income statement. The profit of the Company for the financial year was £160 (2018: loss of £572).

The accompanying notes form an integral part of this income statement.

DfT OLR Holdings Limited

Consolidated Statement of Other Comprehensive Income

For the year ended 31 March 2019

	Note	Year ended 31 March 2019 £000	Period 1 February 2017 to 31 March 2018 £000
Profit for the year		**41,226**	-
Items that will not be reclassified to profit or loss:			
Actuarial gain on retirement benefit obligations	21	**26**	-
Deferred tax defined benefit pension transferred in		**(4)**	-
Total items that will not be reclassified to profit or loss		**22**	-
Total comprehensive profit for the year		**41,248**	-

DfT OLR Holdings Limited

Consolidated Statement of Financial Position

As at 31 March 2019

	Note	**At 31 March 2019 £000**	At 31 March 2018 £000
ASSETS			
Non-current assets			
Intangible assets	8	**29,071**	-
Tangible assets	9	**17,955**	-
Investments	10	**-**	-
Retirement benefit asset (net)	21	**28,073**	-
		75,099	-
Current assets			
Inventories	11	**2,142**	-
Trade and other receivables: amounts due within one year	12	**96,334**	119
Cash at bank and in hand		**73,802**	59
		172,278	178
Total assets		**247,377**	178
LIABILITIES			
Current liabilities			
Trade and other payables	13	**(173,109)**	(179)
Non-current liabilities			
Trade and other payables	13	**(94)**	-
Provisions for liabilities	14	**(6,246)**	-
		(6,340)	-
Total liabilities		**(179,449)**	(179)
Net assets		**67,928**	(1)
EQUITY			
Ordinary share capital	17	**-**	-
Capital contribution	19	**26,681**	-
Retained earnings		**41,247**	(1)
Total shareholders' funds		**67,928**	(1)

The accompanying notes form an integral part of this statement of financial position. The financial statements on pages 24 to 55 were approved by the board of Directors on 18 July 2019 and were signed on its behalf by;

Robin Gisby
CEO and Accounting Officer
18 July 2019

DfT OLR Holdings Limited

Company Statement of Financial Position

As at 31 March 2019

	Note	**At 31 March 2019 £000**	At 31 March 2018 £000
ASSETS			
Non-current assets			
Tangible assets	9	**17**	-
Investments	10	**67,929**	-
		67,946	-
Current assets			
Trade and other receivables: amounts due within one year	12	**5,291**	119
Cash at bank and in hand		**40,443**	59
		45,734	178
Total assets		**113,680**	178
LIABILITIES			
Current liabilities			
Trade and other payables	13	**(45,752)**	(179)
Non-current liabilities			
Provisions for liabilities	14	**-**	-
		-	-
Total liabilities		**(45,752)**	(179)
Net assets		**67,928**	(1)
EQUITY			
Ordinary share capital	17	**-**	-
Capital contribution	10	**67,929**	-
Retained earnings		**(1)**	(1)
Total shareholders' funds		**67,928**	(1)

The accompanying notes form an integral part of this Company Statement of Financial Position. The financial statements on pages 24 to 55 were approved by the board of Directors on 18 July 2019 and were signed on its behalf by;

Richard Harrison
Finance Director
18 July 2019

DfT OLR Holdings Limited
Consolidated Statement of Cash Flows
As at 31 March 2019

	Note	Year ended 31 March 2019	Period 1 February 2017 to 31 March 2018
		£000	£000
Profit before taxation		**53,500**	(1)
Adjustments for:			
Depreciation and amortisation		**11,655**	-
Loss on sale of fixed assets		**893**	-
Pension valuation adjustments	21	**4,775**	-
Interest received	6	**(970)**	-
Corporation tax paid	7	**(4,676)**	-
Cash flow from operating activities before changes in working capital		**65,177**	(1)
(Increase) in trade and other receivables		**(96,215)**	(111)
(Increase) in inventories		**(2,142)**	-
Increase in trade and other payables		**166,099**	170
Capital grants received		**99**	-
Changes in working capital		**67,841**	60
Proceeds from the sale of fixed assets		**309**	-
Purchase of fixed assets		**(59,878)**	-
Cash outflow from investing activities		**(59,569)**	-
Interest received		**294**	-
Cash flow from financing activities		**294**	-
Net cash generated from activities		**73,743**	59
Net increase in cash and cash equivalents		**73,743**	-
Cash and cash equivalents at beginning of year		**59**	-
Cash and cash equivalents at end of year		**73,802**	59

DfT OLR Holdings Limited
Company Statement of Cash Flows
As at 31 March 2019

	Note	Year ended 31 March 2019 £000	Period 1 February 2017 to 31 March 2018 £000
Profit before taxation		**-**	(1)
Adjustments for:			
Depreciation and amortisation		**4**	-
Cash flow from operating activities before changes in working capital		**4**	(1)
(Increase) in trade and other receivables		**(5,172)**	(111)
Increase in trade and other payables		**45,573**	170
Changes in working capital		**40,401**	60
Purchase of fixed assets		**(21)**	-
Cash outflow from investing activities		**(21)**	-
Net cash generated from activities		**40,384**	59
Net increase in cash and cash equivalents		**40,384**	-
Cash and cash equivalents at beginning of year		**59**	-
Cash and cash equivalents at end of year		**40,443**	59

DfT OLR Holdings Limited

Consolidated and Company Statements of Changes in Equity

For the year ended 31 March 2019

Consolidated	**Ordinary share capital**	**Capital contribution**	**Retained earnings**	**Total shareholder funds**
	£000	**£000**	**£000**	**£000**
As at 31 March 2017	-	-	-	-
Profit/(loss) for the year	-	-	(1)	**(1)**
Other comprehensive income for the year	-	-	-	-
Total comprehensive profit/(loss) for the year	-	-	**(1)**	**(1)**
As at 31 March 2018	-	-	**(1)**	**(1)**
Profit for the year	-	-	41,226	**41,226**
Other comprehensive income for the year	-	-	22	**22**
Capital contribution	-	32,146	-	**32,146**
Deferred tax on defined benefit pension transferred in		(5,465)	-	**(5,465)**
Total comprehensive profit for the year	-	**26,681**	**41,247**	**67,928**
Total comprehensive income for the year	-	**26,681**	**41,247**	**67,928**
As at 31 March 2019	-	**26,681**	**41,247**	**67,928**

Company	**Ordinary share capital**	**Capital contribution**	**Retained earnings**	**Total shareholder funds**
	£000	**£000**	**£000**	**£000**
As at 31 March 2017 and 31 March 2018	-	-	**(1)**	**(1)**
Profit for the year	-	-	-	-
Other comprehensive income for the year	-	67,929	-	**67,929**
Total comprehensive income for the year	-	**67,929**	**(1)**	**67,928**
As at 31 March 2019	-	**67,929**	**(1)**	**67,928**

1 Accounting policies

The Company is a private limited company limited by shares and registered in England. The address of The Company's registered office is shown on page 3 and a description of the Company's principal activities are set out on page 11.

The principal accounting policies are set out below.

a) Basis of Preparation

The financial statements have been prepared on a going concern basis, as explained in the Directors report.

These financial statements have been prepared in accordance with applicable IFRS, as adopted by the European Union, the Companies Act 2006 and the Government Financial Reporting Manual 2018-19 (FReM). The Company has adopted and interpreted the FReM, as issued by HM Treasury, to the extent that the FReM is consistent with the requirements of the Companies Act 2006.

Where there is a choice of accounting policy, the one judged to be most appropriate to the particular circumstances of the Company for the purpose of giving a true and fair view has been selected. The particular policies adopted by the Company are described below. They have been applied consistently to items that are considered material to the accounts.

The Company has taken advantage of the exemption available under section 408 of Chapter 4 of Part 15 of the Companies Act to omit the Company's individual profit and loss account and only report the group profit and loss account.

b) Revenue

Passenger income represents amounts agreed as attributed to the London North Eastern Railway by the income allocation systems of the Rail Settlement Plan Limited ("RSP"), mainly in respect of passenger receipts. Income is attributed based principally on models of certain aspects of passengers' travel patterns and, to a lesser extent, from allocations agreed for specific revenue flows. The attributed share of season ticket income can involve some estimation – for example revenue is deferred within creditors, and released to the income statement over the year of the relevant season ticket.

Travel on a train operating company's services can be sold by other train operating companies as well as other travel retailers. Furthermore, certain tickets for train travel can be sold which provide the holder with a choice of train operators to travel with. In light of those factors, LNER's passenger income includes amounts receivable from individuals or groups of individuals to travel on UK rail services that is attributed to train operating companies by the Railway Settlement Plan Limited. RSP administers the income allocation system within the UK rail industry and allocates revenue to operators principally on agreed models of route usage.

1 Accounting policies (continued)

b) Revenue (continued)
Procedures exist to allow operators to challenge the appropriateness of revenue allocation – where the revenue allocated to LNER is subsequently adjusted, the effect of the adjustment is recognised in the income statement in the period in which we are made aware of it. Where an adjustment results in additional revenue being attributed to LNER, the additional revenue is recognised when the amount of revenue can be reliably estimated and it is highly probable that the economic benefits will flow to LNER.

Other operating income is generated in the course of the Company's ordinary activities and is derived from ticket commissions, car park income, station trading income, catering sales, depot and station access payments and the provision of goods or services to other train operating companies and excludes VAT. Revenue is recognised when a customer obtains control of goods or services and has the ability to direct the use and obtain the benefits from the goods or services. Revenue from services is recognised on the basis of agreed rates and is recognised over time over the period the services are rendered. Commission income is recognised on an accrual basis in accordance with the substance of the relevant agreements.

Deferred revenue is generated when passengers purchase tickets for travel in future financial periods. This is then released in the same financial period as the travel. The value of the deferred income is reported through the income allocation system detail.

c) Performance incentive payments
Performance incentive payments received from or made to Network Rail by London North Eastern Railway in respect of rail operational performance are recognised in the same period that the performance relates to and are classified as operating costs.

Accrued income is generated from performance payments made to LNER by Network Rail which is then settled in a future period. The income is generated when Network Rail take possession of the track to do maintenance work or due to on the day disruption caused by an entity other than LNER.

d) Taxation
Tax, current and deferred is calculated using tax rates and laws enacted or substantively enacted at the Statement of Financial Position date.

Corporation tax is provided on taxable profits at the current rate applicable. Tax charges and credits are accounted for through the same primary statement as the related pre-tax item.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to taxation authorities using the tax rates and laws that have been enacted or substantively enacted at the Statement of Financial Position date.

1 Accounting policies (continued)

e) Deferred tax

Deferred tax is recognised in respect of all material temporary differences that have originated, but not reversed, by the Statement of Financial Position date. Deferred tax is measured on a non-discounted basis at tax rates that are expected to apply in the periods in which the timing differences reverse.

Deferred tax assets are recognised where their recovery is considered more likely than not in that there will be suitable taxable profits from which the future reversal of underlying timing differences can be deducted.

f) Tangible assets

Tangible assets for DOHL Ltd are stated at their fair value, LNER tangible assets are stated at historic cost less accumulated depreciation which is considered as a proxy for fair value. Depreciation is provided on a straight-line basis to write off the cost less estimated residual value of fixed assets over their expected useful economic lives as follows:

Leasehold land and buildings	3 - 10 years or lease term
Plant and equipment	3 - 10 years or lease term

Assets in the course of construction are not depreciated until they are available for use and on completion are transferred to the appropriate asset class.

g) Intangible assets

Intangible assets are shown at their original historic cost net of amortisation and any provision for impairment for LNER, which is considered to be the lower of depreciated replacement cost and value in use. The Company does not hold any intangible assets. Cost includes the original purchase price of the assets and costs attributable to bringing the asset to its working condition for its intended use.

Amortisation is charged on a straight-line basis over the life of the service agreement and is recorded in operating costs in the Income Statement.

The need for any impairment write-down is assessed by comparing the carrying value of the asset against the higher of net realisable value and value in use.

Intangible assets acquired separately from a business combination are capitalised at cost. Amortisation of intangible assets is calculated on the straight-line method to write-off the cost of each asset over the expected life of the service agreement.

Mobilisation costs have been capitalised and amortised over the expected life of the service agreement. These comprise rebranding, marketing, recruitment, media, uniform, system and professional services costs.

1 Accounting policies (continued)

h) Inventories

Inventories are valued at the lower of cost and net realisable value on a weighted average cost basis. Cost comprises direct costs and excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses. Where necessary, provision is made for obsolete, slow moving and defective inventory.

i) Grants

Capital grants are credited to deferred grant income and released to the income statement over the estimated useful economic lives of the related assets.

j) Retirement benefit obligations

LNER contributes to a defined benefit pension scheme on behalf of the majority of employees. Full details are provided in note 21.

LNER participates in the Railway Pension Scheme, a defined benefit scheme which covers the whole of the UK Rail industry. This is partitioned into sections and LNER is responsible for the funding of the sections during the period of the service agreement. In contrast to the pension schemes operated by most businesses, the RPS is a shared cost scheme, which means that costs are formally shared 60% employer and 40% employee.

The trustees complete a full actuarial valuation triennially, separately for each section of the RPS, but the obligation is updated annually by independent actuaries using the projected unit credit method for financial reporting purposes.

The current service cost and gains and losses on settlements and curtailments are recognised in staff pension costs within operating costs in the income statement.

Past service costs are included in operating costs where the benefits have vested, otherwise they are amortised on a straight-line basis over the vesting period. The expected return on assets of funded defined benefit schemes and the interest on pension scheme liabilities comprise the finance element of the pension cost and are included in interest costs. Actuarial gains and losses arising from experience adjustments, changes in actuarial assumptions and amendments to pension plans are charged or credited to the statement of total recognised gains and losses in the period in which they arise.

The charges in respect of defined contribution schemes are recognised when they are due. The Group has no legal or constructive obligation to pay further contributions into a defined contribution scheme if the fund has insufficient assets to pay all employees benefits relating to employee service in the current and prior periods.

k) Accounting for participation in Railways pension scheme

As disclosed in note 21, LNER applies a "current service period adjustment" to the amounts recorded in the Statement of Financial Position for the RPS. This represents the remaining element of the service operator's 60% share of the IAS 19 deficit or surplus after determining the amount of any deficits LNER is required to fund (or surplus it is entitled to recover) over the remaining service period.

1 Accounting policies (continued)

k) Accounting for participation in Railways pension scheme (continued)

This adjustment can give rise to a net pension asset, representing the expected excess of the income statement expense under IAS 19 for service cost and net interest over the contributions payable over the remainder of the service agreement period. The economic benefit of the asset is expected to be realised through the lower cash contributions over the remaining period of the service agreement, and therefore upon the expiry of the service agreement, there will be no pension asset (or liability) remaining. This judgement is consistent with the industry wide accounting treatment for the RPS that was agreed on adoption of IFRS in 2005.

l) Provisions

Provisions for current obligations and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

The amount of any provision is re-assessed at each Statement of Financial Position date. Any increase or decrease required to the amount of the provision is charged or credited to the income statement.

m) Investments

Fixed asset investments are carried in the Statement of Financial Position at fair value. All the fixed assets investments are subject to an impairment review at any time if events or changes in circumstances indicate that their carrying value may not be recoverable.

n) Financial instruments

Financial instruments held by the Group are trade and other receivables, trade and other payables and cash.

Trade receivables are recognised initially at the amount of consideration that is unconditional. They are subsequently measured at amortised cost using the effective interest method, less loss allowance.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

1 Accounting policies (continued)

o) Derivative financial instruments and hedging

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 documented at its inception. This documentation identifies 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.

Any gains or losses arising from revaluing derivatives designated as cash flow hedges are recognised through the statement of comprehensive income or the income statement depending on the effectiveness. The effective portion of the gain or loss is recognised through the statement of comprehensive income while the ineffective portion is recognised in the income statement.

p) Critical estimates and judgements

Preparation of the financial statements, in accordance with Financial Reporting Standards and the FReM, requires Directors to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Actual outcomes could differ from those estimated. The Directors believe that the accounting policies and estimation techniques discussed below represent those that require the greatest exercise of judgement. The Directors have used their best judgement in determining the estimates and assumptions used in these areas but a different set of judgements could result in material changes to the Group's reported financial performance and/or financial position.

The critical estimates and judgements summarised below cover those regarded by the Directors as critical to the Group's reporting in general.

i. Pensions - estimate

The determination of LNER's pension benefit obligation and expense for defined benefit pension schemes is dependent on the selection by the Directors of certain assumptions used by actuaries in calculating such amounts. Those assumptions include the discount rate, the annual rate of increase in future salary levels and mortality rates. The Directors' assumptions are based on actual historical experience and external data. While we believe that the assumptions are appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the pension obligation and future expense.

The pension assumptions may vary due to actual changes in market conditions following the Statement of Financial Position date but IAS 19 requires the assumptions to be set based on the market conditions prevailing at the Statement of Financial Position date. The pension assumptions are also affected by judgements the Directors are required to make on matters that cannot be directly observed from market prices such as life expectancies, future pay increases, harder to value assets and the criteria for bonds to be included in the population from which the discount rate is determined. Note 21 provides information on the sensitivity of pension benefit obligations to changes in assumptions.

1 Accounting policies (continued)

p) Critical estimates and judgements (continued)

ii. LNER term 3 year assumption - estimate

An assumption of a 3 year service agreement has been used in these financial statements. This is based on the current service agreement (which runs to the 27th June 2020) of 2 years with an additional year for the tendering process required to award a new service agreement. This judgement affects these financial statements in respect of mobilisation amortisation, pension accounting, operating leases and reporting for leases under IFRS 16.

iii. Accounting for LNER investment - judgement

The LNER investment has been accounted for at fair value based on the net asset position at 31 March 2019. DOHL believes the assets it has acquired cannot independently generate cash flows and therefore using net assets as the fair value is considered the most appropriate method.

iv. Accounting for transfer of assets - judgement

The transfer of assets and liabilities from East Coast Main Line Company Limited on 24 June 2018 has been accounted for as an asset acquisition. The assets acquired do not constitute a business, as they do not represent an "integrated set of activities" as required to be defined as a business. This is due to reliance on other assets in the rail network, not owned by LNER, that are required in order for the assets acquired to operate fully, and to generate cash flows.

q) Accounting standards adopted in the year

i. IFRS 9 'Financial Instruments'

IFRS 9 'Financial Instruments' replaces IAS 39 'Recognition and Measurement' and is applicable to financial assets and financial liabilities. Transition to IFRS 9 took place on 1 April 2018 and the Group has adopted the standard using the full retrospective approach.

IFRS 9 introduced three key changes when compared to IAS 39 relating to: new requirements for the classification and measurement of financial assets and financial liabilities; a new model for recognising provisions for impairment of financial assets based on expected credit losses; and revised hedge accounting treatment by aligning hedge accounting more closely to risk management objectives.

Upon adoption of IFRS 9, there has been no change in the classification of financial assets or liabilities. The Group has not entered into any hedge arrangements and the impact of using the expected credit loss model on the financial statements is immaterial. The Group has concluded that IFRS 9 has an immaterial impact on the financial statements and accordingly no adjustment to the opening Statement of Financial Position as at 1 April 2018 has been recognised.

ii. IFRS 15 'Revenue from Contracts with Customers'

IFRS 15 'Revenue from Contracts with Customers' has become effective for the Group from the period beginning 1 April 2018.

1 Accounting policies (continued)

q) Accounting standards adopted in the year (continued)

ii. IFRS 15 'Revenue from Contracts with Customers' (continued)

The standard replaces IAS 18 'Revenue', IAS 11 'Construction contracts' and related interpretations. Transition to IFRS 15 took place on 1 April 2018 and the Group has adopted the standard using the full retrospective approach.

The standard introduces a five-step approach to the timing and recognition of revenue, based on performance obligations in customer contracts. Under IFRS 15, revenue should only be recognised when a customer obtains control of goods or services and has the ability to direct the use and obtain the benefits from the goods or services. It applies to all contracts with customers, except those in the scope of other standards.

The Group assessed in detail the impact of IFRS 15 on the revenue and income streams and concluded that IFRS 15 had an immaterial impact on the existing accounting policies for revenue recognition.

Accordingly, no adjustment to the opening Statement of Financial Position at 1 April 2018 has been recognised. Under IFRS 15 Delay Repay customer compensation, which is compensation paid to customers who have experienced a delay of more than 30 minutes on their journey, is treated as a reduction in passenger income rather than as an operating cost.

r) Accounting standards to be adopted in the following accounting period

IFRS16 leases replaces IAS17 leases and eliminates the classification of leases as either operating leases or finance leases and instead, introduces a single lessee accounting model. Applying this model, a lessee is required to recognise assets and liabilities, for all contracts that meet the criteria of the standard with a term of more than twelve months, unless the underlying asset is of low value, and depreciation of lease assets separately from interest.

The Directors expect the application of IFRS16 to have a material impact on the financial statements. As there is too much uncertainty to be able to calculate the impact of IFRS 16 in relation to the new fleet deliveries in 2019/20, existing rolling stock as at 1st of April 2019 will increase liabilities by an estimate of £90- 100m. The commitments for these leases are included in the operating lease commitments note. The principle applied is that the term of the leases will run to the practical end of the current service period.

The asset is depreciated over the term of the lease and the liability is presented and accounted for as a borrowing at amortised cost. This means that operating lease expense, which used to be charged on a straight-line basis over the lease term, will be re-presented as depreciation and finance cost. The timing of the charge will also change as, under IFRS 16, it will be frontloaded (as the total finance charge over the life of the lease will be weighted towards the earlier stages of the lease term when the liability is higher).

The adoption of IFRS 16 will have no impact on the Group's cash flows except to present cash outflows as financing, instead of operating in relation to the interest portion of the payments.

2 Revenue

All revenue originates in the United Kingdom.

The Directors consider that the whole of the activities of the Group constitute a single class of business consisting of passenger and other related operating income as disclosed in the income statement.

Revenue, excluding value added tax (VAT) where applicable, is comprised of:

	Year ended 31 March 2019	Period 1 February 2017 to 31 March 2018
	£000	£000
Passenger revenue	**636,586**	-
Delay Repay	**(13,840)**	-
Passenger income	**622,746**	-
Other operating income	**58,019**	-
Total revenue	**680,765**	-

Other operating income comprises of car park income, commercial property income, railway station access income, maintenance income, fuel sales, on board catering income and commissions receivable.

3 Operating profit

	Year ended 31 March 2019	Period 1 February 2017 to 31 March 2018
Operating profit is stated after charging/(crediting):	**£000**	£000
Franchise premium	**128,368**	-
Staff Costs (note 5)	**133,088**	-
Depreciation (note 9)	**3,313**	-
Amortisation of intangible assets (note 8)	**8,340**	-
Inventories recognised as expenses	**19,351**	-
Operating lease rentals		
- Fixed track access	**45,133**	-
- Land and buildings	**3,591**	-
- Rolling stock costs	**63,495**	-
- Plant and machinery	**1,178**	-
- Other	**4,704**	-
Variable Access Charges	**49,826**	-
Auditors' remuneration – audit fees	**97**	-
Auditors' remuneration – non audit services		
- other compliance reporting	**19**	-

4 Directors' remuneration

	Year ended 31 March 2019	Period 1 February 2017 to 31 March 2018
	£000	£000
Emoluments in respect of qualifying services to the Company	325	-

The emoluments of the highest paid Director were £150,000, relating to the period 24 June 2018 to 31 March 2019 (annual equivalent £195,000) (2018: £nil).

5 Staff costs

	Year ended 31 March 2019	Period 1 February 2017 to 31 March 2018
	£000	£000
Wages and salaries	107,638	-
Social security costs	10,066	-
Other pension costs	15,383	-
	133,088	-

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

	Year ended 31 March 2019	Period 1 February 2017 to 31 March 2018
Managerial and administrative	504	-
Operational	2,531	-
	3,035	-

6 Finance income and charges

	Year ended 31 March 2019	Period 1 February 2017 to 31 March 2018
	£000	£000
Finance income		
Bank interest	294	-
Pension interest	676	-
Total finance income	970	-

7 Tax on profit

a) Tax recognised in the income statement

	Year ended 31 March 2019	Period 1 February 2017 to 31 March 2018
	£000	£000
Current taxation:		
Current tax on profits for the year	11,734	-
	11,734	-
Current year	604	-
Effect of changes in tax rates	(64)	
Total deferred tax (note 15)	540	-
Total tax charge reported in the income statement	12,274	-

b) Tax relating to items charged or credited outside of the income statement

	Year ended 31 March 2019	Period 1 February 2017 to 31 March 2018
	£000	£000
Equity items:		
Deferred tax current year charge/(credit) *	5,465	-
Other comprehensive income items:		
Deferred tax current year charge/(credit)	4	
Tax reported outside of the income statement	5,469	-

* This charge brings the deferred tax provision onto the Statement of Financial Position as part of the transfer of the pension scheme onto LNER's Statement of Financial Position.

c) Factors affecting total tax charge for the current period

The tax assessed for the year is higher (2018: nil) than the standard effective rate of corporation tax in the UK of 19% (2018: 19%). The current tax charge is made up as follows:

	Year ended 31 March 2019	Period 1 February 2017 to 31 March 2018
	£000	£000
Profit before taxation	53,500	-
Profit multiplied by standard rate of corporation tax in the UK of 19% (2018: 19.25%)	10,165	-

7 Tax on profit (continued)

c) Factors affecting total tax charge for the current period (continued)

	355	-
Expenses not deductible		
Losses	**0**	-
Tax rate changes	**(64)**	-
Trade transfer	**2,597**	-
Exempt amounts	**(779)**	-
Total tax charge for the year reported in the income statement	**12,274**	-

d) Factors that may affect future tax charges

The main rate of corporation tax reduced from 20% to 19% effective from 1 April 2017. The Finance Act 2016, substantively enacted on 6 September 2016, includes legislation that will further reduce the main rate of corporation tax to 17%, effective from 1 April 2020.

8 Intangible assets

	Software costs	Mobilisation costs	Total
	£000	£000	£000
Cost			
At beginning of year	-	-	-
Transferred from ECML	27,175	-	**27,175**
Additions	1,189	9,474	**10,663**
Disposals	(588)	-	**(588)**
At end of year	**27,776**	**9,474**	**37,250**
Accumulated amortisation			
At beginning of year	-	-	-
Amortisation charged to the income statement	5,909	2,431	**8,340**
Disposals	(161)	-	**(161)**
At end of year	**5,748**	**2,431**	**8,179**
Net book value			
At beginning of year	-	-	-
At end of year	**22,029**	**7,043**	**29,071**

9 Tangible assets

	Leasehold land and buildings	Plant and equipment	Total
	£000	£000	£000
Cost			
At beginning of year	-	-	-
Transferred from ECML	5,567	10,375	**15,942**
Additions	1,241	4,858	**6,099**
Disposals	(158)	(840)	**(998)**
At end of year	**6,650**	**14,393**	**21,042**
Accumulated depreciation			
At beginning of year	-	-	-
Depreciation charged to the income statement	459	2,855	**3,314**
Disposals	(12)	(214)	**(226)**
	447	**2,641**	**3,087**
Net book value			
At beginning of year	-	-	-
At end of year	**6,203**	**11,752**	**17,955**

10 Investments

The Group held the following unlisted investments at 31 March 2019:

Name of company	Country of registration	No. of shares held	Class of share	Proportion held
ATOC Limited	UK	1	Ordinary (4p)	5%
Rail Settlement Plan Limited	UK	1	Ordinary (4p)	5%
Rail Staff Travel Limited	UK	1	Ordinary (4p)	5%
NRES Limited	UK	1	Ordinary (£1)	5%

The principal activity of the above companies is to provide a range of services to all UK passenger rail operators, each of which has an equal share in the companies. The investments are held at fair value.

10 Investments (continued)

Details of the Company's subsidiaries as at 31 March 2019 are as follows:

Name of company	Country of registration	No. of shares held	Class of share	Proportion held
London North Eastern Railway Limited	UK	1	Ordinary (£1)	100%
DfT OLR2 Limited	UK	1	Ordinary (£1)	100%
DfT OLR3 Limited	UK	1	Ordinary (£1)	100%
DfT OLR4 Limited	UK	1	Ordinary (£1)	100%
DfT OLR5 Limited	UK	1	Ordinary (£1)	100%
DfT OLR6 Limited	UK	1	Ordinary (£1)	100%
DfT OLR7 Limited	UK	1	Ordinary (£1)	100%

DfT OLR2 Limited has been renamed SE Trains Limited on 22nd May 2019.

The principal activity of LNER is the provision of passenger services on the east coast main line. The investment in LNER is included in LNER Statement of Financial Position at a fair value of £67,929,000.

None of the other subsidiaries had any material activity in the year. These are held at fair value.

11 Inventories

	Group		Company	
	2019	2018	**2019**	2018
	£000	£000	**£000**	£000
Raw materials and consumables	**2,142**	-	-	-

There is no material difference between the replacement value of inventories and their cost.

The cost of stock recognised as an expense and included in operating costs during the period amounted to £19,351,000 (2018: £nil).

12 Trade and other receivables

	Group		Company	
	2019	2018	**2019**	2018
Amounts falling due within one year:	**£000**	£000	**£000**	£000
Trade receivables				
Rail Settlement Plan	**34,779**	-	-	-
Other trade receivables	**11,401**	-	**69**	-
	46,180		**69**	
Amounts owed by group undertakings	-	-	**5,143**	-
Value Added Tax receivable	**8,643**	-	-	8
Prepayments	**28,673**	-	**1**	83
Accrued income	**12,838**	-	**79**	-
Other receivables	-	-	-	28
	96,334	-	**5,291**	119

Amounts due from group undertakings are unsecured and repayable on demand.

13 Trade and other payables

	Group		Company	
	2019	2018	**2019**	2018
	£000	£000	**£000**	£000
Amounts falling due within one year:				
Trade payables	**50,666**	-	**17**	63
Amounts owed to group undertakings	-	-	**41,079**	-
Deferred season ticket income	**5,001**	-	-	-
VAT payable	**852**	-	**852**	-
Other taxation and social security	**3,080**	-	**20**	-
Other payables	**6,422**	-	**36**	115
Accruals	**69,086**	-	**3,741**	1
Deferred income	**30,404**	-	-	-
Corporation tax payable	**7,598**	-	**6**	-
	173,109	-	**45,751**	179
Amounts falling due after more than one year:				
Accruals and deferred income	**94**		-	-

Amounts owed to group undertakings within one year and are repayable on demand.

14 Provisions

	Group		Company	
	2019	2018	**2019**	2018
	£000	£000	**£000**	£000
Insurance claims (a)	**237**	-	-	-
Deferred tax (note 15)	**6,009**	-	-	-
	6,246	-	-	-

a) Insurance claims

	Group		Company	
	2019	2018	**2019**	2018
			£000	£000
At start of year	-	-	-	-
Charged to the income statement	**254**	-	-	-
Unused amounts reversed	-	-	-	-
Utilised in year	**(17)**	-	-	-
Provision at end of year	**237**	-	-	-

The £237,000 (2018: nil) provision relates to customer and employee claims against LNER for compensation for injuries occurring whilst on East Coast property. Payments are expected to be made in respect of these claims as they are settled, which is typically within 5 years of origination, but the nature of the settlement process makes the timing of these payments uncertain. Estimates of claim values are based on actuarial reviews and prior claims history.

15 Deferred Tax

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and where the deferred taxes relate to the same fiscal authority. The amounts are as follows:

Deferred tax liabilities:	Group		Company	
	2019	2018	**2019**	2018
	£000	£000	**£000**	£000
Fixed assets	**1,237**	-	-	-
Defined benefit pension	**4,772**	-	-	-
Deferred tax provision	**6,009**	-	-	-

15 Deferred Tax (continued)

The movement in deferred tax during the year was:

	Group		Company	
	2019	2018	**2019**	2018
	£000	£000	**£000**	£000
At beginning of year	**-**			
Charge to income statement (note 7a)	**540**			
Charge to equity (note 7b) *	**5,465**	-	-	-
Charge to OCI (note 7b)	**4**	-	-	-
Deferred tax provision	**6,009**	-	-	-

* This charge brings the deferred tax provision onto the Statement of Financial Position as part of the transfer of the pension scheme onto LNER's Statement of Financial Position.

16 Called up share capital

	Group and Company	Group and Company
	2019	2018
	£	£
Issued share capital unpaid		
Ordinary shares of £1 each	**1**	1

17 Reserves

A reconciliation of the movements in reserves is shown in the Consolidated and Company Statements of Changes in Equity on page 30.

The balance held in the retained earnings reserve includes the accumulated retained profits of the Group.

The capital contribution represents the LNER defined benefit pension asset as at 24 June 2018 and associated deferred tax.

18 Capital commitments

	Group		Company	
	2019	2018	**2019**	2018
	£000	£000	**£000**	£000
Contracted	**6,649**	-	-	-
Authorised but not contracted	**19,660**	-	-	-

19 Transfer of East Coast Main Line Company Limited assets and liabilities

On 24th June 2018, East Coast Main Line Company Limited ceased operations on the East Coast main line and London North East Railway began operating under a service agreement with the Department for Transport. The franchise assets and liabilities were transferred. The net consideration received by LNER was £8,891,558.

The book values of the assets and liabilities were taken from the management accounts of East Coast Main Line Company Limited at the date of transfer, with certain assets and liabilities that are excluded from the franchise transfer agreement not taken into account.

	Transfer value
	£000
Fixed assets – Intangibles	27,175
Fixed assets – Tangible	15,942
Inventories	4,909
Trade receivables	177
RSP debtors	500
Prepayments	4,260
Accrued income	1,192
Cash in hand	194
Other payables	(9,957)
Accruals	(16,426)
Deferred income	(36,857)
Net liabilities	(8,891)
Total cash settlement during the year	(8,891)

19 Transfer of East Coast Main Line Company Limited assets and liabilities (continued)

The pension scheme asset calculated at the transfer date was not part of the transfer scheme with East Coast Main Line Company Limited. This is shown as a capital contribution directly from ECML to LNER in the Consolidated Statement of Changes in Equity on page 30 as the pension was transferred as part of the service agreement with the DfT. The DfT is a related party and the transfer of the scheme has therefore been accounted for as a capital contribution in equity.

20 Operating lease commitments

The Group has contracts with Network Rail for access to the railway (track access) infrastructure, leasing of stations and depots. The Group also leases rolling stock, ticket barriers and IT equipment.

The Group has the following annual commitments due under non-cancellable operating leases which expire as follows:

	2019			2018		
	Within one year	Between one & five years	Five years and over	Within one year	Between one & five years	Five years and over
	£000	£000	£000	£000	£000	£000
Fixed track access	50,399	57,628	-	-	-	-
Rolling stock	232,568	331,749	-	-	-	-
Land and buildings	4,135	5,062	-	-	-	-
Plant and machinery	512	310	-	-	-	-
Other	6,135	7,547	-	-	-	-
	293,749	402,297	-	-	-	-

The Company has no annual commitment due under operating leases.

21 Retirement benefit obligations

Information about the Scheme and the Group's accounting policies

The Company's subsidiary, LNER, operates a final salary pension scheme and is part of the Railways Pension Scheme, but its assets and liabilities are identified separately from the remainder of the Scheme.

The Section is a shared cost arrangement whereby LNER is only responsible for a share of the cost. The figures reported below therefore represent only LNER's share of the cost, except that the tables reconciling the Section's Defined Benefit Obligations (DBO) and assets from the start to the end of the year are presented before the deduction of the members' share of the defined benefit cost, or the surplus or deficit. This is for simplicity of presentation and for consistency with the DBO and assets quoted in the table showing the pension scheme liability or asset at the end of the year.

The Section is open to new members.

Employer contributions for the period ended 31 March 2019 are 14.91%, 13.41% and 12.24% of Section Pay for Category 60 Members, Category 62 Members and Category 64 Members respectively. These rates are expected to continue until 30 June 2019.

The discounted mean term of the Section's DBO was 23 years based on the preliminary results of the valuation as at 31 December 2016.

The Group is exposed to a number of risks relating to the Section including assumptions not being borne out in practice. The most significant risks are as follows:

- Asset volatility: There is the risk that a fall in asset values is not matched by a corresponding reduction in the value placed on the Section's DBO. The Section holds a proportion of growth assets, which are expected to outperform corporate and government bond yields in the long-term but gives exposure to volatility and risk in the short-term.
- Change in bond yields: A decrease in corporate bond yields will increase the value placed on the Section's DBO, although this will be partially offset by an increase in the value of the Section's corporate bond holdings.
- Inflation risk: The majority of the Section's DBO is linked to inflation where higher inflation will lead to a higher value being placed on the DBO. Some of the Section's assets are either unaffected by inflation or loosely correlated with inflation (e.g. growth assets), meaning that an increase in inflation will generally increase the deficit.
- Life expectancy: An increase in life expectancy will lead to an increased value being placed on the Section DBO. Future mortality rates cannot be predicted with certainty.
- Contribution rate: The Scheme Rules give the Scheme Actuary the power to set the contribution rates for LNER if no agreement can be reached between the Trustee and LNER.

21 Retirement benefit obligations (continued)

Membership data:

	31 March 2019	24 June 2018
Active members	**2,842**	3,199
Deferred members	**3,855**	3,371
Pensioner members (including dependants)	**1,955**	1,859

Asset Data:

	31 March 2019	24 June 2018
	£000	£000
Growth assets	**542,155**	532,630
Government bonds	**12,477**	8,914
Non-Government bonds	**29,113**	20,799
Other assets	**1,181**	1,391
Total asset value	**584,926**	563,734

Summary of assumptions:

	31 March 2019	24 June 2018
	% pa	% pa
Discount rate	**2.35**	2.55
Price inflation (RPI measure)	**3.20**	3.10
Increases to deferred pensions (CPI measure)	**2.20**	2.10
Pension increases (CPI measure)	**2.20**	2.10
Salary increases	**3.20**	3.10

21 Retirement benefit obligations (continued)

The assumed average expectation of life in years at age 65 is as follows (before postcode based adjustments for males):

	31 March 2019	24 June 2018
Male currently aged 65	**20.9**	21.4
Male currently aged 45	**22.6**	23.1
Female currently aged 65	**22.4**	22.9
Female currently aged 45	**24.3**	24.8

Defined benefit asset at end of year and at LNER transfer:

	31 March 2019	24 June 2018
	£000	£000
Defined benefit obligation at end of year		
Active members	**(465,305)**	(488,133)
Deferred members	**(211,526)**	(136,524)
Pensioner members (incl. dependants)	**(233,627)**	(221,877)
Total defined benefit obligation	**(910,458)**	(846,534)
Fair value of assets at end of year	**584,926**	563,734
Adjustment for the members' share of deficit	**130,213**	113,120
Deficit expected to be recovered after end of current service period	**223,392**	201,286
Net defined benefit asset at end of the year	**28,073**	32,146

Reconciliation of net defined benefit asset:

	31 March 2019
	£000
Transferred net defined benefit asset	**32,146**
Employer's share of P&L expense	**(11,608)**
Employers contributions	**7,509**
Total gain recognised in OCI	**26**
Closing net defined benefit asset	**28,073**

21 Retirement benefit obligations (continued)

Profit & Loss (P&L):

	31 March 2019
	£000
Employer's share of service costs	14,360
Employer's share of administration cost	924
Past service cost adjustment	(3,000)
Total employer's share of service cost	12,284
Employer's share of net interest on net defined benefit asset	3,184
Interest on current service period adjustment	(3,860)
Employer's share of P&L expense	11,608

Other comprehensive income (OCI):

	31 March 2019
	£000
Liability loss arising during the year	24,223
Return on plan assets greater than discount rate	(6,543)
Gain on change in current service period adjustment	(17,706)
Total gain recognised in the OCI	(26)

Reconciliation of defined benefit obligation (DBO):

	31 March 2019
	£000
Opening defined benefit obligation	846,534
Service cost	23,769
Interest cost on DBO	16,084
Section amendment	2,700
Gain on DBO – demographic assumptions	(17,178)
Loss on DBO – financial assumptions	57,535
Benefit payments	(11,286)
Curtailment	(7,700)
At end of year	910,458

21 Retirement benefit obligations (continued)

Reconciliation of value of assets:

	31 March 2019
	£000
Opening value of section assets	**563,734**
Interest income on assets	**10,777**
Return on plan assets greater than discount rate	**10,905**
Employer's contributions	**7,509**
Employee contributions	**4,827**
Actual benefit payments	**(11,286)**
Administration costs	**(1,540)**
Closing value of section assets	**584,926**

DBO sensitivity to significant actuarial assumptions:

	Sensitivity	Approximate change in DBO
	£000	£000
Discount rate	**-0.1% p.a.**	+21,300
Price inflation (CPI measure)*	**+0.1% p.a.**	+19,900
Salary increases	**+0.1% p.a.**	+6,600
Life expectancy	**+1 year**	+28,500

*Including consistent increases to RPI, salary growth and RPI/CPI related pension increase assumptions, where applicable.

The sensitivity figures are as at 31 March 2019. Note that these scenarios do not represent upper or lower bounds on what could happen. In addition, the sensitivity figures are based on indicative calculations and therefore may not be sufficiently accurate for use in any actuarial calculations whose results are intended for disclosure in the Group's accounts.

22 Related party disclosures

DfT OLR Holdings Limited is a company wholly owned by the Secretary of State for Transport. At the 31 March 2019, the Company had an outstanding debtor balance of £68,000 (2018: £nil).

The Company's subsidiary, London North Eastern Railway Limited, operates the East Coast main line rail franchise under licence under a Services Agreement with the Department for Transport. Under the Services Agreement London North Eastern Railway is required to pay a financial premium to the Department for Transport, which for the year to the 31 March 2019, amounted to £128,368,000 (2018: £nil).

Capital project funding of £1,621,645 was received by LNER during the year from the Department for Transport (2018: £nil).

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

23 Ultimate parent undertakings

The immediate and ultimate parent undertaking and controlling party is the Secretary of State for Transport.

The financial statements of the Secretary of State for Transport can be obtained from Great Minster House, 33 Horseferry Road, London, SW1 P4DR.