Merseyrail Electrics 2002 Limited

Report and Financial Statements

4 January 2020

Company no. 04356933

Corporate information

Directors
A Heath
D Booth
J English
P Strachan
C Harris
J Whitehurst
J Heron
E Jestin
D Kaye

Secretary
Serco Corporate Services Limited

Auditors
Ernst & Young LLP
20 Chapel Street
Liverpool L3 9AG

Bankers
National Westminster Bank
Liverpool

Solicitors
Burges Salmon Solicitors
Narrow Quay House
Narrow Quay
Bristol BS1 4AH

Registered Office
Rail House
Lord Nelson Street
Liverpool
Merseyside L1 1JF

Strategic report

The directors present their Strategic report and the financial statements for the 52 weeks ended 4 January 2020.

Principal activity and review of the business

In 2003, Merseyrail was awarded a 25-year concession to provide rail services on behalf of Merseytravel, the local transport authority in the Liverpool city region. Now in the second half of the concession, the length of the contract has enabled Merseyrail to take a long-term perspective on investment in and development of rail passenger services. We strive to exceed the expectations of not only the people of Merseyside, but also the wider public transport community. This is in line with the philosophy of our two 50 per cent shareholders, Serco Group plc and Abellio.

Merseyrail is an urban network of vital importance to the transport infrastructure and local economy of the Liverpool city region. It is one of the most intensively used networks in the UK, with over 600 train services daily from Monday to Saturday and 340 on Sundays. 110,000 passenger journeys are made on Merseyrail each weekday, and there are 30 million passenger journeys every year. Approximately 56 per cent of our journeys are made for leisure purposes.

The network is bisected by the River Mersey and incorporates 120km of track, 10.5km of which are underground. Of the 68 stations, 67 are managed by Merseyrail and five are sub-surface. There are terminus stations at Southport, Ormskirk, Kirkby and Hunts Cross on the Northern line and New Brighton, West Kirby, Chester, and Ellesmere Port on the Wirral line. The business currently operates a fleet of 59 class 507/508 electric trains, which are just over forty years old.

The directors are satisfied with the performance of the company during the period. Turnover was £175.1m which was an increase of 8.6 per cent on the previous period (52 weeks ended 5 January 2019 – £161.2m).

At 4 January 2020, the cash balance was £39.9m (52 weeks ended 5 January 2019 – £34.3m). The liquidity position has remained strong throughout the period.

In 2019 Merseyrail worked with various parties to continue the ongoing investment into our network through a combination of station improvements (National Station Improvement Programme (NSIP), Merseytravel, Network Rail and Access for All (AFA). During the year we worked closely with Network on building a new lift at Meols station as well as undertaking other major projects including canopy renewals and fire alarm upgrades to the underground network. We have sought and secured additional funding with Merseytravel and Network Rail to design four new lifts at other stations on the Merseyrail network (Hillside, Birkenhead Park, St Michaels & Hunts Cross).

Merseyrail was the most punctual rail operator on the UK rail network in 2019, celebrating their most punctual year ever with a PPM score of 96.36%.

The results of the spring 2019 National Rail Passenger Survey (NRPS) showed that Merseyrail has some of the most satisfied passengers in the UK after achieving a score of 91%; the highest of all the franchise operators.

Merseyrail was named the Greatest Place to Work at the National Rail Awards in September 2019, recognising its commitment to continuous improvement, along with mental health awareness and women in rail initiatives.

The first of the new fleet of state-of-the-art trains commissioned by Merseytravel arrived in Liverpool in January 2020, following successful testing in Germany. We are now receiving 777 units onto the Merseyrail network on a regular frequency for testing and commissioning.

A programme of platform upgrade work was completed in 2019 to prepare the network for the new trains. Further work is continuing in 2020 to extend platforms and carry out signalling works.

The Employee Engagement Survey provided a valuable opportunity for staff to share their opinions. 2019 saw an impressive engagement rate of 77%. This was a pleasing result following challenges throughout the year such as platform upgrade work, a high volume of passengers for the Liverpool FC Champions League parade and a record-breaking 76,000 using Merseyrail during the Grand National festival.

Equality and diversity are key at Merseyrail, and this is reflected in initiatives such as the Women in Merseyrail group and being headline sponsors of the inaugural Liverpool Pride Awards.

Strategic report (continued)

Merseyrail raised approximately £41,000 for its charity of the year, Alder Hey Children's Charity in 2019. The rail operator also engaged with over 9,700 children through school liaisons and education hubs across the region. There are now 52 station community partnerships across the network with over 100 volunteers.

Post year end, Merseyrail have been dealing with the impacts of the COVID-19 pandemic on the business. On 23rd March 2020, the Government introduced widespread social distancing and lockdown procedures for the UK. Train usage was severely affected with a reduction in passengers of around 90% on the Merseyrail network during the early period of lockdown, compared to the same period in 2019.

Since the start of the COVID-19 pandemic, the directors have closely monitored the results of the company and the impact the pandemic has had on UK public transport and the wider economy. Whilst the impact of COVID-19 evolves we have considered several scenarios and the impacts on passenger revenue, costs, profits and cash flow. Since the start of the national lockdown for the UK, passenger revenue has fallen dramatically. This started to recover slightly from mid-2020 with the easing of the national lockdown, however passenger revenue is still much lower than what it was in 2019, and the directors continue to monitor passenger revenue on a daily basis. This has been particularly important as further Government guidance is issued, and localised and national lockdowns continue to impact the local economy and the future passenger trends.

Although passenger numbers have increased following on from the easing of the initial UK lockdown restriction, the company is expecting passenger revenue to be considerably lower in 2020 than in 2019. The fall in Passenger revenue is having a significant impact on the results of 2020, which is being carefully monitored. Although the Company did not furlough any employees, there have been strict cash saving measures implemented in order to counter some of P&L impacts of COVID-19 as well as preserving cash reserves.

At the date of signing these financial statements the UK is in a further national lockdown and we expect passenger numbers to fall again. Our forecasting has taken this into account.

For further information see the going concern section within the Directors' report.

Strategic report (continued)

S172 statement

The Directors of the Company, as those of all UK companies must act in accordance with a set of general duties. These duties are detailed in section 172 of the Companies Act 2006 which is summarised as follows:

'A director of a company must act in the way he considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to-

- the likely consequences of any decision in the long-term:
- the interests of the company's employees,
- the need to foster the company's business relationships with suppliers, customers and others,
- the impact of the company's operations on the community and the environment,
- the desirability of the company maintaining a reputation for high standards of business conduct, and
- the need to act fairly as between members of the company.'

The Board of directors regularly reviews the business's principal suppliers, customers, and others and how we engage with them.

The Board is comprised of 9 directors of which 6 are from Merseyrail's shareholders Serco and Abellio.

The other directors include the Managing director, the Finance and Transformation director and the People director of Merseyrail.

In addition to a scheduled programme of monthly Board meetings, the Merseyrail Team of Directors (TOD) meet weekly, during which there is feedback from various business areas, with particular focus on specific stakeholder groups.

Key stakeholders are:

- Shareholders – Abellio and Serco
- Merseytravel
- Key suppliers – Network Rail and Stadler
- Office of Rail Regulator (ORR)
- Customers
- Local Community
- Our People

Prior to the monthly Board meeting the TOD hold a Business review meeting, the results of which are fed back to the wider Board.

The outcome of stakeholder engagement generally, as fed back to the Board via the channels referred to above and below, influences the formulation and ongoing review of the long-term strategy and financial planning to ensure that our approach continues to deliver sustainable returns and promotes reputational reward. The Directors aim to take the needs and priorities of each stakeholder group into account as part of their decision-making processes, recognising that the pertinence of a particular stakeholder group may vary depending upon the matter under discussion.

The following paragraphs summarise how the Directors' fulfil their duties and engage with each of the key stakeholder groups:

Risk Management

In order to comply with the Railways and Other Guided Transport Systems (safety) regulations (ROGs), as a Mainline operator, Merseyrail are certified to operate units on the mainline network under a current safety certificate and safety authorisation which is endorsed by the Office of the Rail Regulator (ORR). As a Company we document all of our risk management arrangements for operating safely on the mainline network within the safety certificate, which is supported by the relevant elements of the safety management system. Where there are substantial changes to way in which Merseyrail operates, an amendment application is made to the ORR which ensures that any notable changes are recorded, and the contents of the safety certificate remains valid and up to date.

Strategic report (continued)

We remain alert to changes in its risk profile through various mechanisms including risk assessment, safety validation of change, major risk reviews and periodic review of the business risk register.

Risks are owned by management and therefore they are responsible for ensuring that relevant controls are designed, implemented and periodically tested to ensure that the control design effectiveness remains valid, whether the risk remains, has been terminated and / or whether new risks require new controls putting in place.

On a quarterly basis the business risk register is issued to the Team of Directors for review and update. Responses are received and the relevant updates made to the register including risk score, profile, and mitigation. The risk register also forms part of the monthly board packs.

Through all mediums of evaluating risk in the business there are suitable and sufficient techniques available which allow for controls to be identified and risks to be qualified/quantified.

Our People

Merseyrail is committed to being a responsible business. Our behaviour is aligned with the expectations of our employees, stakeholders, customers, communities, and society. For our business to succeed we need to manage our people's performance and develop them to create an environment that produces highly motivated, high performing and highly satisfied employees whilst ensuring we operate as efficiently as possible.

Equality and diversity are key at Merseyrail, and this is reflected in initiatives such as the Women in Merseyrail group and being headline sponsors of the inaugural Liverpool Pride Awards.

We must also ensure we share common values that inform and guide our behaviour, so we achieve goals in the right way.

The Employee Engagement Survey provides a valuable opportunity for staff to share their opinions. In 2019 there was an 84% response rate with an impressive engagement rate of 77%. We have responded to this survey by agreeing and implementing several business-wide and functional plans.

Merseyrail was named the Greatest Place to Work at the National Rail Awards in September 2019, recognising its commitment to continuous improvement, along with mental health awareness and women in rail initiatives.

We continuously endeavour to engage and involve our employees at every opportunity as our people are important to us.

This includes recording and sharing a monthly MD Business update video, holding monthly snapshot briefs and functional team meetings and bi-annual director 'blitz' of the network – everywhere in a day. Also, Directors and Senior Management attend customer service conferences, the annual management conference and the Merseyrail achievement awards.

For more details on this approach see the Employees' engagement section of the Director's report.

Business Relationships

Merseyrail's strategy focuses on exceeding the expectations of our customers and delivering a sustainable and successful business.

To exceed our customer's expectations, we must not be complacent. Delivery of excellent service day in, day out is core, but we also proactively engage and actively listen to our customers.

Merseyrail was the most punctual rail operator on the UK rail network in 2019, celebrating their most punctual year ever with a PPM score of 96.36%.

The results of the spring 2019 National Rail Passenger Survey (NRPS) also showed that Merseyrail has some of the most satisfied passengers in the UK after achieving a score of 91%; the highest of all the franchise operators.

Merseyrail will continue to strive to be a good partner and through driving innovation, growth, and efficiency, we will support Merseytravel in delivering an affordable rail proposition. In line with our

Strategic report (continued)

client's own ambitions, we will continue to proactively engage with the Liverpool City Region Combined Authority's Long-Term Rail Strategy, driving forward with expansion and enhancement of the network. Our proactive partnership approach is also critical to our success in many other areas too, notably with Network Rail, Stadler and other strategic suppliers and stakeholders.

Our partnership with Stadler and Merseytravel has seen the new fleet project gathering pace with delivery of the first unit of the 777 trains to our network for testing in January of 2020. This testing is expected to continue throughout the year.

Merseyrail also continues to work closely with Network Rail in maintaining and upgrading our infrastructure. This includes a programme of platform upgrade works in advance of the new trains' arrival. Another key project that commenced in 2019 and continues through 2020 is the Access for All scheme.

We regularly engage with stakeholders to obtain their feedback and points of view to foster the Company's relationships and ensure we have good working partnerships.

We hold frequent meetings with Stadler, Network Rail and Merseytravel to discuss projects and their progress.

For more details on this approach see the Stakeholders' interest section of the Director's report.

Community and Environment

The Company's approach is to use our position of strength to create positive change for the people and communities with which we interact. We want to leverage our expertise and enable colleagues to support the communities around us.

Merseyrail raised approximately £41,000 for its charity of the year, Alder Hey Children's Charity in 2019.

The charity of the year for 2020 is James Place, a local suicide prevention charity and the annual stakeholder event took place in January 2020. As with previous years, this event brought together key partners in Merseyrail's Corporate and Social Responsibility strategy.

Throughout 2019 we have worked with local schools, The Schools Parliament, Community Rail Lancashire, the Big Trust, Elevate Education Partnership and Changing Horizons to deliver rail safety, employability & careers sessions to the children in the City Region. As a result of this we have engaged with 9,714 Young People both in mainstream and special educational needs schools.

We now have 52 station community partnerships or projects with over 100 volunteers. Our volunteers have contributed to creating an enjoyable outdoor environment at stations, which has included everything from flower beds to edible gardens.

We continue our commitment to working in partnership with community groups, schools, colleges and charities to support local community initiatives and it's these people and organisations who enable us to deliver such a range of beneficial projects in their areas, and make our stations an integral part of the community.

As directors we keep the local community informed by means of social media.

Shareholders

The Board is committed to communicating effectively with shareholders and understanding their views and acting fairly between the different members. It is important to us that the shareholders understand our strategy and objectives, so we engage regularly with our shareholders to explain our strategy, listen to feedback, and answer issues or queries raised.

As mentioned above this is achieved by regular Board, Audit Committee and shareholder meetings and communication between the different parties.

Long term Decisions

Throughout 2020 Merseyrail will continue, in partnership with Merseytravel and others, to make improvements to the network and service, to enable the challenges of the coming year to be met. The

Strategic report (continued)

directors of the businesses attend a quarterly strategy group to discuss proposals and provide a progress update.

The New Fleet project is gathering pace and has continued to do so through 2020. There is a Strategic Program Board involving the directors and the directors of Stadler, Merseytravel and Network Rail which meets regularly to discuss the new fleet plans and progress.

The Future Ticketing programme is expected to continue throughout 2020. Merseyrail remains committed to upgrading our customer ticketing proposition and continues to analyse a suite of additional options to take the project forward. We are looking at modernising ticketing and implementing contactless ticketing. In developing our Future ticketing programme our customers were surveyed to incorporate their point of view.

Merseyrail also continues to work closely with Network Rail in maintaining and upgrading our infrastructure. There are regular meetings with Network Rail to discuss key projects on the Network and progress such as The Access for All scheme, which commenced in 2019 and will continue throughout 2020.

Principal risks and uncertainties

The principal risks and uncertainties facing the company are broadly grouped as market, credit, liquidity and interest rate risk:

Market Risk

The 25-year concession grants Merseyrail some stability, enabling us to take a long-term view on investment. However, the local nature of the service does mean that Merseyrail is very reliant on the regional economy. Retaining and increasing patronage remains a priority, and the Merseyrail leadership team are closely monitoring all relevant business KPIs which includes operational, commercial and finance, customer, and people KPIs, to ensure that any necessary remedial action is taken in response to changing economic conditions. We continue to work with local and national organisations to ensure that services meet and exceed the expectations of our stakeholder. Looking ahead, Merseyrail will be working in partnership with Merseytravel and other funders to:

- Introduce the fleet of new 777 trains to replace the Class 507/508 rolling stock units.
- Modernise the way passengers pay for their rail journeys through smart ticketing systems.
- Embrace further devolution opportunities, particularly with respect to responsibilities for station operation, maintenance, renewal and enhancement.
- Identify and deliver increased passenger growth, to underpin Merseytravel's long term rail strategy and bring further economic benefits to the city region.
- To invest in the development of our leadership/management culture, empowering our people to contribute effectively to the changes facing the network in coming years.

Credit Risk

The company has limited credit risk with most of our debtors being other companies operating within the rail industry.

Liquidity Risk

The business has a low liquidity risk as it receives contracted payments from Merseytravel for the duration of the concession.

Interest Risk

The company has positive cash reserves and no borrowings so has minimal interest rate risk.

Brexit Risk

The company has considered the impact of Brexit and have determined that there are three possible main areas of risk for Merseyrail – disruption to the supply chain, effect on current fleet maintenance and a general economic downturn.

To mitigate these risks Merseyrail are undertaking various actions:

Strategic report (continued)

- Reviewing the situation with suppliers as although most suppliers are UK based reliance on imports further up the supply chain could present challenges. This is particularly applicable to our fleet maintainer and assurances are being sought from Stadler.
- The effect on the economy will continue to be monitored through our forecasting process and revenue management group.

Climate Control Risk

The company has considered the impact of Climate Change and have determined there are three main potential risks for Merseyrail:

- Significant disruption to services or loss of network because of climate change such as weather and temperature changes (e.g. coastal and river flooding, heat restrictions, extreme ice)
- Disruption to the supply chain including fleet maintainer because of climate change
- Reduction in passenger numbers due to effects of climate change including service disruption and passenger comfort

Merseyrail are and will continue to work with key stakeholders to understand their climate change mitigation measures and how Merseyrail can support these. These include Network Rail who are responsible for the infrastructure, Merseytravel who have led on the procurement of the new fleet and Stadler as the current fleet and new fleet maintainer. In addition, Merseyrail will continue to monitor the climate change risk and identify any adaptation measures reporting to the Merseyrail Sustainability Strategy Group.

COVID 19 Risk

The company has considered the impact of the pandemic and have determined that there are 6 possible areas of risk for Merseyrail:

- Disruption to supply chain (due to absenteeism or inability to provide services/equipment),
- Increased staff absence,
- Loss of patronage,
- Inability to operate full complement of services
- Ability to operate within operational and financial covenants associated with the franchise agreement. (for further details please see the Going concern section)
- Maintaining sufficient liquidity (for further details please see the Going concern section)

To mitigate these risks Merseyrail are undertaking various actions:

- Reviewing and updating pandemic risk assessment/register to capture the changes in threat level to the business and identify where potential mitigations are required.
- Finance are constantly reviewing costs and looking for savings with budget holders
- Continuing freeze on discretionary spend
- Continuing to ensure suppliers are not paid early
- Talking to major suppliers about potentially delaying payment
- Enhancing levels of communication to various functions to ensure that employees understand the action that they need to take and how to escalate concerns to their line manager
- Increased levels of health and safety processes including cleaning and the provision of PPE equipment
- Liaison with Network Rail and Stadler to identify and capture the controls that they have implemented in order to factor them into Merseyrail's arrangements.

Strategic report (continued)

Approved by the Board on 23rd November 2020 and signed on its behalf by:

E Jestin

Director

E Jestin

Company registration no. 04356933

Registered No. 04356933

Directors' report

The directors present their report and financial statements for the 52 weeks ended 4 January 2020.

Results and dividends

The profit for the period after taxation amounted to £14.3m (52 weeks ended 5 January 2019 – profit of £14.3m). The directors recommended and approved a final dividend £15.2m (52 weeks ended 5 January 2019 – £16.5m).

Future developments

Throughout 2020 Merseyrail will continue, in partnership with Merseytravel and others, to make improvements to the network and service, to enable the challenges of the coming year to be met. COVID-19 has had a significant impact on the results and cash flow for the Company and has provided challenges for the whole business. Passenger revenue has fallen since April 2020 due to the UK national lockdown and local restrictions occurring across Merseyside, which means passenger revenue is still considerably below the original budgeted amounts. In order to mitigate against the fall in passenger revenue, the Company has put in severe cost reductions to reduce the impact on EBIT and cash flows. Looking ahead to 2021, the Company is expecting that passenger revenue will not fully recover, therefore has put in longer term cost saving plans and is monitoring the revenue and cash results daily.

The New Fleet project is gathering pace and has continued to do so through 2020. We are now receiving 777 units onto the Merseyrail network on a regular frequency and testing and commissioning has continued despite Covid-19 restrictions.

Merseytravel have also instructed Stadler to commence trials of a unit with supplementary battery power to enable 777 services to be extended off the current Merseyrail network. This trial is due to commence in the spring of 2021.

Merseyrail will continue its commitment to reaching a resolution with the RMT through negotiated discussions regarding the duties of the second person on the new trains. Discussions are continuing with the train drivers' union, ASLEF, to reach a negotiated agreement regarding changes to the driver's role with the introduction of new fleet.

The Future Ticketing programme is expected to continue throughout 2020. Merseyrail remains committed to upgrading our customer ticketing proposition and continues to analyse a suite of additional options to take the project forward. Platform Validators are expected to be manufactured and installed in last quarter of 2020 and we continue to collaborate with 3rd parties to enable us to introduce this pioneering technology.

Merseyrail also continues to work closely with Network Rail in maintaining and upgrading our infrastructure. One of the key projects that commenced in 2019 and will continue through 2020 is the Access for All scheme. We currently have 44 stations on the network that are fully disabled access compliant and funding to make an additional 4 compliant.

Events since the balance sheet date

Non adjusting events

COVID-19

Subsequent to the balance sheet date, Merseyrail have been dealing with the impacts of the COVID-19 pandemic on the business. On 23rd March 2020, the Government introduced widespread social distancing and lockdown procedures for the UK. Train usage was severely affected with a reduction in passengers of around 90% on the Merseyrail network during the early period of lockdown, compared to the same period in 2019. Although passenger numbers have increased following on from the easing of these restrictions, the company is expecting that passenger revenue will be considerably lower than in 2019. The fall in Passenger revenue is having a significant impact on the results of 2020, which is being carefully monitored. Although the Company did not furlough any employees, nor implement any tax deferrals, there have been strict cash saving measures in order to counter some of P&L impacts of COVID-19 as well as preserving cash reserves.

The directors have not considered any assets to be impaired from the COVID-19 pandemic, nor have they identified any onerous contracts, and will continue to monitor this as the impacts of COVID-19 continue to unfold.

Directors' report (continued)

The directors consider that the effects of COVID-19 are a non-adjusting post balance sheet event. The directors have reached this conclusion on the basis that the World Health Organisation ("WHO") announced COVID-19 as a global health emergency on 30th January, did not declare it a global pandemic until 11th March and it wasn't until 23rd March when the UK Government announced a nationwide lockdown. All of these key events, most notably the UK Government imposed lockdown, are not conditions that existed at the balance sheet date.

For further details please see the Going concern disclosure below.

Dividends

In the period since the period end the directors have approved dividends of £3,078k as at 4th March 2020.

Going concern

The Directors have continued to adopt the going concern basis in preparing these financial statements after assessing the financial forecasts of the company for a period of 12 months from the date of approval of these financial statements and considering a range of sensitivities for plausible downside scenarios as a result of the COVID-19 pandemic and its impact on both UK public transport and the wider economy.

The 25-year Concession Agreement with Merseytravel grants Merseyrail some stability and provides a significant subsidy payment in the form of frequent contract payments. However, the local nature of the train service does mean that Merseyrail is very reliant on the state of the regional economy. Whilst passenger revenue represents only 33% of 2019 revenues, it is the key variable when assessing going concern, as other revenue streams are largely fixed or generate minimal contribution. During the initial lockdown passenger revenue levels fell by 77% in April 2020 compared to 2019 levels and had recovered to a 44% reduction of the levels of 2019 by September 2020.

In assessing the going concern basis of preparation for the financial statements management have carried out a robust assessment of the principal risks and uncertainties facing the Company, which could impact the business model, focussing, specifically on:

COVID-19

- The uncertainty of the consequences and duration of the COVID-19 pandemic and mitigation strategies being mandated by the UK government; the adverse financial impact already being experienced by the Company, customer financial pressures, disruption to suppliers and the impact on employees caused by COVID-19.
- The ongoing reviews, the volatility of global economic conditions and impact of a recession as a consequence of the COVID-19 pandemic.
- The Company's ability to maintain its liquidity position and covenants given the potential impacts of COVID-19.

Other Ongoing matters

- The Company's current financial position and prospects.
- The regulatory changes taking place in the rail industry.
- The long-term impact of technological changes and the introduction of the new fleet.

In assessing the Going Concern assumption for these financial statements, management have prepared cash flow and profit P&L forecasts to consider the impact that COVID-19 is having on the future business. Cash and passenger revenue are monitored on a daily basis and current events are being used to forecast the 2020 and 2021 results, including the cash balances. A base case cash flow forecast was prepared in September 2020 using the results from the first 9 months of the year and updating the forecast for the expected outturn and recovery of passenger revenue.

As forecasting is inherently difficult in the current environment, management have then applied a number of sensitivities to the base case, which apply reductions to passenger revenue over the immediate 12 months of the going concern period, with a gradual recovery back to 72% of 2019 levels at the end of 2021. The main sensitivity takes revenue back as low as was experienced in the initial lockdown, with a gradual recovery then expected again. Further sensitivities have been run but are considered unlikely given the first lockdown was a full UK lockdown and more severe than the current one being implemented.

Directors' report (continued)

The cost base is relatively fixed at circa £150m per annum. Of the cost base 70% of costs are contractual and unavoidable, and this includes staff costs.

No dividends have been assumed to be paid in the going concern period.

Merseyrail does not have any external finance or undrawn borrowings. It does, under the franchise agreement, have a number of operational and financial covenants the main one being the liquidity maintenance ratio. This requires that, at each rail period end, the company has adequate funds to meet its forecast financial obligations for the following two periods.

The base case and sensitised cashflows demonstrate that sufficient cash resources exist in all scenarios with minimum cash position £16.5m in the base case and minimum cash position - £8.4m under the main sensitivity. However, it is the liquidity maintenance covenant which is more susceptible to challenge from reduced passenger revenues, having headroom of £2.7m in the base case.

In the sensitised forecast mitigating actions would be needed to ensure sufficient cash resources to meet the liquidity maintenance covenant. Management have identified a number of mitigating actions, predominantly being identified cost savings and working capital management measures such as:

- Removing all new projects in 2021
- Reducing discretionary spend and avoiding cost increases including bonuses
- Delay Accounts Payable spend in 2020 and 2021

Having completed this exercise, and after applying the mitigating actions, which are considered to be entirely within management's control, this enables the covenant to be met in the base case and main sensitivity.

A further mitigating action involves changing supplier payment terms for one particular supplier and provides up to £3.5m headroom in the month initiated which will then reverse upon payment catch up. The supplier is aware of the possibility of payment delays being implemented.

Following this detailed exercise, and considering the results of the base case forecast and sensitivities, the directors are satisfied that the liquidity maintenance requirements will be met for a period of at least 12 months from the date of the approval of these financial statements, therefore there will be no breach of the Concession Agreement with Merseytravel.

As such the directors have concluded that it is appropriate to continue to adopt the going concern basis in preparing these financial statements.

Financial instruments

The financial instruments relate to debtors and creditors and details of these are provided in note 24. No derivative financial instruments are used. This is the same as in the prior year.

Directors

The directors who served the company during the period were as follows:

A Heath	
D Booth	
J Bowen	(resigned 31 January 2020)
C Harris	
J Heron	
A Meadows	(resigned 7 October 2020)
P Strachan	
J English	
J Whitehurst	
E Jestin	(appointed 17 June 2020)
D Kaye	(appointed 7 October 2020)

Directors' report (continued)

Indemnity provision for directors

During the year, the company had third party indemnity insurance for the directors and officers. This insurance remains in force as at the date of approving the Directors' report. This is the same as in the prior year.

Political and charitable contributions

During the period, the company made charitable donations and sponsorship payments of £74,023 (52 weeks ended 5 January 2019 – £101,675) principally to local charities and groups serving the communities in which the company operates.

Stakeholder interests

It is important to Merseyrail that we foster the Company's business relationships with suppliers, customers and others and that we consider the effect on all stakeholders of principal business decisions taken by the company.

We regularly engage with Network Rail, Stadler and other strategic suppliers and stakeholders to this end.

Examples of what we currently do to engage with stakeholders and obtain their feedback and points of view are:

- Annual stakeholder reception
- Annual stakeholder survey
- Frequent meetings with our key suppliers Merseytravel, Stadler and Network Rail
- Work with local companies and small medium enterprises to provide guidance and support to enable them to work with us
- Simplifying vendor accreditation documentation to make it easier for new suppliers to engage with us
- Bi-annual customer surveys
- Passenger forums

Employee Engagement

Employee Engagement is very important at Merseyrail. In 2019 we introduced a new improved employee engagement survey to monitor and review our employees' engagement levels. Our first survey via the mobile first platform was held in November 2019; we received an 84% response rate with a 77% engagement score. We endeavour to engage and involve our employees at every opportunity as our people are important to us.

Examples of what we currently do regarding visibility and frontline engagement are:

- We record and share a monthly MD Business update video
- We hold monthly snapshot briefs and functional team meetings
- Twice yearly director 'blitz' of the network – everywhere in a day
- All Directors direct reports undertake an engagement tour twice a year
- Managers are out on the line supporting during service disruption and events
- The use of a variety of communications channels; Merseyrail Facebook page, The Loop, Signal Briefing, Team Meetings and Snapshot Briefs
- All managers carry out 'time on the line' sessions
- Director and Senior Management attendance at customer service conferences
- Annual management conference
- Regular Business Update sessions
- Annual Merseyrail Achievement Awards (staff awards in line with our values)
- To further support employees during COVID-19 we created and shared employee eLearning courses including: Mental Health Awareness, Stress Management. Dealing with COVID -19 Anxiety, Mindfulness, and Inclusion training

Examples of how employees are involved in the business and decision making

Directors' report (continued)

- Uniform working group (refreshed and updated late 2019) to ensure our guidelines were more inclusive and our employees were supported and empowered to bring their best self to work
- Revenue Accelerator Squad
- Employee forums, workshops, and champion meetings (Women in Merseyrail, Diversity Forum and LGBTQ+ & Allies Network)
- Involvement in upgrade and refurbishment work across the network

Employee involvement and disabled employees

The company gives full and fair consideration to applications for employment from disabled people having regards to their aptitudes and abilities. Efforts are made to continue the employment of those who become disabled during their employment, and training, career development and promotion is, as far as possible, identical for all employees in accordance with their skills and abilities.

The company also has a policy of communicating and consulting with its managers and employees to ensure their active involvement.

Disclosure of information to the auditors

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

Auditors

Pursuant to section 487 of the Companies Act 2006, Ernst & Young LLP will be deemed to be re-appointed as auditors.

On behalf of the Board

E Jestin

Director

E Jestin
23rd November 2020

Company registration no. 04356933

Directors' responsibilities statement

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

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

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

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

Independent Auditor's Report to the members of Merseyrail Electrics 2002 Limited

Opinion

We have audited the financial statements of Merseyrail Electrics 2002 Limited for the 52 weeks ended 4 January 2020 which comprise the Statement of comprehensive income, the Statement of changes in equity, the Statement of financial position and the related notes 1 to 25, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 4 January 2020 and of its profit for the 52 weeks then ended:
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

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

Emphasis of Matter – disclosure of impact of Covid-19

We draw attention to Note 1 and 23 of the financial statements, which describe the economic consequences the company is facing as a result of Covid-19, the associated impact on trading and the going concern consideration thereof. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

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

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

Independent Auditor's Report to the members of Merseyrail Electrics 2002 Limited (continued)

Other information

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

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

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

Responsibilities of directors

As explained more fully in the Directors' responsibilities statement set out on page 15, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Independent Auditor's Report to the members of Merseyrail Electrics 2002 Limited (continued)

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

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

Ernst & Young LLP

Jennifer Hazlehurst (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

Liverpool

24 November 2020

Statement of comprehensive Income

for the period ended 4 January 2020

	Notes	*52 weeks ended 4 January 2020 £000*	*52 weeks ended 5 January 2019 £000*
Turnover	2	175,122	161,212
Cost of sales		(157,594)	(143,421)
Operating profit	3	17,528	17,791
Interest receivable and similar income	6	142	105
Interest payable and similar charges	7	0	(1)
Other finance income	20	43	86
Profit on ordinary activities before taxation		17,713	17,981
Tax	8	(3,404)	(3,658)
Profit for the financial period	18	14,309	14,323
Other comprehensive income			
Actuarial gain relating to pension scheme	20	3,177	2,796
Deferred tax attributable to actuarial gain		(604)	(531)
Other comprehensive income		2,573	2,265
Total comprehensive income for the period		16,882	16,588

Statement of changes in equity

for the period ended 4 January 2020

	Called-up capital	*Profit and loss account*	*Share-holders equity*
	£000	*£000*	*£000*
At 7 January 2018	–	12,342	12,342
Profit for the period	–	14,323	14,323
Other comprehensive income	–	2,265	2,265
Total comprehensive income for the year	–	16,588	16,588
Equity dividends paid (note 9)	–	(16,476)	(16,476)
At 5 January 2019	–	12,454	12,454

	Called-up capital	*Profit and loss account*	*Share-holders equity*
	£000	*£000*	*£000*
At 6 January 2019	–	12,454	12,454
Profit for the period	–	14,309	14,444
Other comprehensive income	–	2,573	2,573
Total comprehensive income for the year	–	16,882	16,882
Equity dividends paid (note 9)	–	(15,218)	(15,218)
At 4 January 2020	–	14,118	14,118

Statement of financial position

at 4 January 2020

	Notes	£000	2020 £000	£000	2019 £000
Fixed assets					
Intangible assets	10		1,347		1,503
Tangible assets	11		3,207		3,807
Investments	12		–		–
Deferred tax asset	8		323		328
			4,877		5,638
Current assets					
Stocks	13	88		114	
Debtors	14	15,012		11,347	
Cash at bank and in hand		39,901		34,301	
		55,001		45,762	
Creditors: amounts falling due within one year	15	(45,702)		(38,888)	
Net current assets			9,299		6,874
Total assets less current liabilities			14,176		12,512
Accruals and deferred income					
Deferred government grants			(58)		(58)
Net assets before pension liability			14,118		12,454
Pensions	20		–		–
Net assets			14,118		12,454
Capital and reserves					
Called-up share capital	16		–		–
Profit and loss account	17		14,118		12,454
Shareholders' funds	18		14,118		12,454

The financial statements of Merseyrail Electrics 2002 Limited were approved by the Board of Directors on 23rd November 2020.

E Jestin

Director

E Jestin

Company registration no. 04356933

Notes to the financial statements

at 4 January 2020

1. Accounting policies

Statement of compliance

Merseyrail Electrics 2002 Limited is a limited liability company incorporated in England. The Registered Office is Rail House, Lord Nelson Street, Liverpool L1 1JF.

The Company's financial statements have been prepared in compliance with FRS 102 as it applies to the financial statements of the Company for the 52 weeks ended 4 January 2020. This is the same as in the prior year.

Basis of preparation

The financial statements of Merseyrail Electrics 2002 Limited were approved for issue by the Board of Directors on 23rd November 2020. The financial statements are prepared in accordance with applicable accounting standards. The financial statements are prepared in sterling which is the functional currency of the company and rounded to the nearest £000.

Judgements and Key sources of estimation uncertainty

Judgements and Estimates

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates. The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements.

Pension and other post-employment benefits

The cost of the defined benefit pension plans are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and the long-term nature of these plans, such estimates are subject to significant uncertainty. In determining the appropriate discount rate, management works closely with the actuaries to establish the rate which best represents the company's views. The mortality rate is based on publicly available UK mortality tables. Future salary increases and pension increases are based on expected UK future inflation rates. Further details are given in note 20.

Goodwill and intangible assets

The company establishes a reliable estimate of the useful life of goodwill and intangible assets arising on business acquisitions. This estimate is based on a variety of factors such as the life of the franchise and any legal, regulatory or contractual provisions that can limit useful life.

Taxation

Management estimation is required to determine the amount of deferred tax assets that can be recognised, based upon likely timing and level of future taxable profits together with an assessment of the effect of future tax planning strategies. Further details are given in note 8.

Accrued Income

CP6 Settlements

Network Rail is funded under 5 year Control Periods (CP). At the start of each Control Period the level of charges levied by Network Rail is determined by the Office of Rail and Road (ORR), based on the expenditure requirements of Network Rail for the following 5 years. From April 2019 Merseyrail moved into control period 6. Discussions are ongoing between Merseyrail and Merseytravel as to the level of compensation that should be received in respect of our Network Rail fixed track access charges (FTAC) in respect of various control periods.

Merseyrail are currently receiving an interim adjustment, which reduces our expected CP6 franchise revenues whilst discussions are ongoing with Merseytravel, however it is unclear whether further revenues

Notes to the financial statements

at 4 January 2020

1. Accounting policies (continued)

Judgements and Estimates (continued)

Accrued income (continued)

CP6 Settlements (continued)

will be agreed as such no accrued income in respect of this aspect of CP6 has been recognised within the accounts.

Wirral Loop

During 2020 Merseyrail have continued to have regular discussions with Network Rail in relation to the claim for revenue losses relating to the Wirral Loop closure and the claim has now been concluded for 2019. A commercial settlement was agreed between both parties with Network Rail having agreed £0.4m compensation.

Provisions

Provisions are recognised when the group has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

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

As noted above, from April 2019 Merseyrail moved into control period 6 ("CP6"). Discussions are ongoing between Merseyrail and Merseytravel as to the level of compensation that should have been received in respect of our Network Rail fixed track access charges (FTAC) in respect of various control periods. The directors have considered any associated risk, after taking legal advice, to be remote.

Going concern

The Directors have continued to adopt the going concern basis in preparing these financial statements after assessing the financial forecasts of the company for a period of 12 months from the date of approval of these financial statements and considering a range of sensitivities for plausible downside scenarios as a result of the COVID-19 pandemic and its impact on both UK public transport and the wider economy.

The 25-year Concession Agreement with Merseytravel grants Merseyrail some stability and provides a significant subsidy payment in the form of frequent contract payments. However, the local nature of the train service does mean that Merseyrail is very reliant on the state of the regional economy. Whilst passenger revenue represents only 33% of 2019 revenues, it is the key variable when assessing going concern, as other revenue streams are largely fixed or generate minimal contribution. During the initial lockdown passenger revenue levels fell by 77% in April 2020 compared to 2019 levels and had recovered to a 44% reduction of the levels of 2019 by September 2020.

In assessing the going concern basis of preparation for the financial statements management have carried out a robust assessment of the principal risks and uncertainties facing the Company, which could impact the business model, focussing, specifically on:

COVID-19

- The uncertainty of the consequences and duration of the COVID-19 pandemic and mitigation strategies being mandated by the UK government; the adverse financial impact already being experienced by the Company, customer financial pressures, disruption to suppliers and the impact on employees caused by COVID-19.
- The ongoing reviews, the volatility of global economic conditions and impact of a recession as a consequence of the COVID-19 pandemic.
- The Company's ability to maintain its liquidity position and covenants given the potential impacts of COVID-19.

Notes to the financial statements

at 4 January 2020

1. Accounting policies (continued)

Going concern (continued)

Other Ongoing matters

- The Company's current financial position and prospects.
- The regulatory changes taking place in the rail industry.
- The long-term impact of technological changes and the introduction of the new fleet.

In assessing the Going Concern assumption for these financial statements, management have prepared cash flow and profit P&L forecasts to consider the impact that COVID-19 is having on the future business. Cash and passenger revenue are monitored on a daily basis and current events are being used to forecast the 2020 and 2021 results, including the cash balances. A base case cash flow forecast was prepared in September 2020 using the results from the first 9 months of the year and updating the forecast for the expected outturn and recovery of passenger revenue.

As forecasting is inherently difficult in the current environment, management have then applied a number of sensitivities to the base case, which apply reductions to passenger revenue over the immediate 12 months of the going concern period, with a gradual recovery back to 72% of 2019 levels at the end of 2021. The main sensitivity takes revenue back as low as was experienced in the initial lockdown, with a gradual recovery then expected again. Further sensitivities have been run but are considered unlikely given the first lockdown was a full UK lockdown and more severe than the current one being implemented.

The cost base is relatively fixed at circa £150m per annum. Of the cost base 70% of costs are contractual and unavoidable, and this includes staff costs.

No dividends have been assumed to be paid in the going concern period.

Merseyrail does not have any external finance or undrawn borrowings. It does, under the franchise agreement, have a number of operational and financial covenants the main one being the liquidity maintenance ratio. This requires that, at each rail period end, the company has adequate funds to meet its forecast financial obligations for the following two periods.

The base case and sensitised cashflows demonstrate that sufficient cash resources exist in all scenarios with minimum cash position £16.5m in the base case and minimum cash position - £8.4m under the main sensitivity. However, it is the liquidity maintenance covenant which is more susceptible to challenge from reduced passenger revenues, having headroom of £2.7m in the base case.

In the sensitised forecast mitigating actions would be needed to ensure sufficient cash resources to meet the liquidity maintenance covenant. Management have identified a number of mitigating actions, predominantly being identified cost savings and working capital management measures such as:

- Removing all new projects in 2021
- Reducing discretionary spend and avoiding cost increases including bonuses
- Delay Accounts Payable spend in 2020 and 2021

Having completed this exercise, and after applying the mitigating actions, which are considered to be entirely within management's control, this enables the covenant to be met in the base case and main sensitivity.

A further mitigating action involves changing supplier payment terms for one particular supplier and provides up to £3.5m headroom in the month initiated which will then reverse upon payment catch up. The supplier is aware of the possibility of payment delays being implemented.

Following this detailed exercise, and considering the results of the base case forecast and sensitivities, the directors are satisfied that the liquidity maintenance requirements will be met for a period of at least 12 months from the date of the approval of these financial statements, therefore there will be no breach of the Concession Agreement with Merseytravel.

As such the directors have concluded that it is appropriate to continue to adopt the going concern basis in preparing these financial statements.

Notes to the financial statements

at 4 January 2020

1. Accounting policies (continued)

Statement of cash flows

The company has elected to take advantage of the reduced disclosures for subsidiaries under FRS102 (FRS 102 paragraph 1.11 and 1.12) and has opted out of including a cash flow statement in its financial statements as it is a wholly owned subsidiary of Merseyrail Services Holding Company Limited, a company incorporated in the United Kingdom, which has included a group statement of cash flows in its financial statements.

Goodwill

Positive goodwill acquired on a business is capitalised, classified as a finance intangible on the statement of financial position and amortised on a straight-line basis over its useful life. The directors regard 25 years as a reasonable maximum for the estimated useful life of goodwill since it coincides with the life of the rail concession (25 years).

Intangible fixed assets

Other intangible fixed assets are capitalised at cost in the year they are incurred and amortised over their useful economic lives. The concession costs incurred in the period ended 3 January 2004 (note 10) are amortised over the life of the concession (25 years).

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

Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment.

Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset on a straight-line basis over its estimated useful life at the following annual rate:

Leasehold land and buildings	–	2%-10% per annum
Plant and machinery, motor vehicles and fixtures and fittings	–	4%-50% per annum

Assets under construction are not depreciated until the asset has been brought into operation.

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

Turnover

Turnover consists of rendering of services and goods for resale. Rendering of services includes passenger income, concession payments and ancillary services.

Passenger income represents agreed amounts attributed to the company by the income allocation systems of the Railway Settlement Plan Limited with revenue being recognised as journeys are undertaken.

Concession payments relate to amounts received from Merseytravel under the Concession Agreement to operate Merseyrail trains and is recognised as per the Concession Agreement between the two parties.

The provision of ancillary services to external parties is recognised only when it can be measured reliably and it is probable that economic benefits will flow to the company as the service is delivered.\

Stock

Goods for resale relates to the stock sold in the M to Go shops.

Long term contracts

Contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred. Profit on long term contracts is only taken at the stage near enough to completion for that profit to be reasonably certain.

Notes to the financial statements

at 4 January 2020

1. Accounting policies (continued)

Stocks

Stock is stated at the lower of cost and net realisable value. Cost includes materials and consumable goods. Provision is made for obsolete, slow-moving and defective items where appropriate.

Grants

Grants are recognised when it is reasonable to expect that the grants will be received and that all related conditions will be met, usually on submission of a valid claim for payment.

Capital grants and other contributions received towards the cost of tangible fixed assets are included as deferred income in the balance sheet and credited to the income statement over the expected useful life of

Grants (continued)

the asset. Revenue grants are credited to the income statement to match off with the expenditure to which they relate.

Current taxation

Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous periods.

Deferred taxation

Deferred tax is recognised in respect of all timing differences which are differences between taxable profits and total comprehensive income that arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements, except that:

- where there are differences between amounts that can be deducted for tax for assets (other than goodwill) and liabilities compared with the amounts that are recognised for those assets and liabilities in a business acquisition a deferred tax liability/(asset) shall be recognised. The amount attributed to goodwill is adjusted by the amount of the deferred tax recognised; and
- unrelieved tax losses and other deferred tax assets are recognised only to the extent that the directors consider that it probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Short-term debtors and creditors

Debtors and creditors with no stated interest rate and receivable or payable within one year are recorded at transaction price. Any losses arising from impairment are recognised in the income statement in other operating expenses.

Accrued Income

The Company recognises accrued income in relation to ongoing claims in line with agreed industry standard processes. In determining the amount to recognise, management utilise all available information in relation to the claim, and, if appropriate, seek external guidance from industry experts.

Leasing and hire purchase commitments

Assets held under finance leases and hire purchase contracts, which are those where substantially all the risks and rewards of ownership of the asset have passed to the company, are capitalised in the balance sheet and are depreciated over their useful lives. A corresponding liability is recognised for the lower of the fair value of the leased asset and the present value of the minimum lease payments in the balance sheet.

The interest element of the rental obligations is charged to the income statement over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding.

Notes to the financial statements

at 4 January 2020

1. Accounting policies (continued)

Leasing and hire purchase commitments (continued)

Rentals paid under operating leases are charged to income statement on a straight-line basis over the lease term.

Pensions

The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method, which attributes entitlement to benefits to the current period (to determine current service cost) and to the current and prior periods (to determine the present value of defined benefit obligations) and is based on actuarial advice. When a settlement or a curtailment occur the change in the present value of the scheme liabilities and the fair value of the plan assets reflects the gain or loss which is recognised in the income statement during the period in which it occurs.

The net interest element is determined by multiplying the net defined benefit liability by the discount rate, at the start of the period taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefit payments. The net interest is recognised in profit or loss as other finance revenue or cost.

Re-measurements, comprising actuarial gains and losses, the effect of the asset ceiling and the return on the net defined benefit liability (excluding amounts included in net interest) are recognised immediately in other comprehensive income in the period in which they occur. Re-measurements are not reclassified to profit and loss in subsequent periods.

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

The defined benefit pension scheme is funded, with the assets held separately from those of the company, in separate trustee administered funds. Pension scheme assets are measured at bid value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. Subject to the franchise adjustment, any resulting defined benefit asset or liability is presented separately after other net assets on the face of the balance sheet.

Finance costs

Finance costs of financial liabilities are recognised in the income statement over the term of such instruments at a constant rate on the carrying amount.

2. Turnover and segmental analysis

All turnovers originate in the United Kingdom and derive from passenger income and other services.

Area of activity

	52 weeks ended 4 January 2020	*52 weeks ended 5 January 2019*
	£000	*£000*
Continuing operations:		
Total sales of goods	1,929	2,051
Rendering of services	173,528	159,161
Sales to third parties	175,457	161,212

Notes to the financial statements

at 4 January 2020

3. Operating profit

This is stated after charging / (crediting):

		52 weeks ended 4 January 2020 £000	52 weeks ended 5 January 2019 £000
Auditors' remuneration			
Fees payable to the company's auditors for the audit of the company's annual financial statements		163	89
Fees payable to the company's auditors and their associates for other services to the company			
–	other audit related assurance services	17	16
Loss on disposal of fixed assets		5	2
Profit on sale of investments		–	(20)
Government grants released		(311)	(481)
Depreciation and amortisation –	intangible fixed assets	156	156
–	owned tangible fixed assets	1,170	1,583
Access charges payable to Network Rail		17,276	8,223
Operating lease rentals –	plant and machinery	12,849	12,580
–	land and buildings	9,483	8,947

4. Directors' remuneration

	52 weeks ended 4 January 2020 £000	52 weeks ended 5 January 2019 £000
Remuneration	506	456
Pension contributions	41	45
	547	501
Remuneration of the highest paid director	193	181

The company contributed £18,832 (52 weeks ended 5 January 2019 – £15,672) to the pension scheme of the highest paid director.

The number of directors who were members of the defined benefit pension scheme at the period end was 2 (52 weeks ended 5 January 2019 – 2).

The costs of the directors of non Merseyrail staff's remuneration are borne by related parties.

Notes to the financial statements

at 4 January 2020

5. Staff costs

			52 weeks ended 4 January 2020	*52 weeks ended 5 January 2019*
			£000	*£000*
Wages and salaries			47,070	44,577
Social security costs			4,946	4,834
Pension costs	–	defined benefit schemes	6,079	5,672
Pension costs	–	personal pension schemes	11	18
			58,106	55,101

The staff costs include the directors' salaries details of which are included in Note 4.

The average monthly number of employees during the period, including directors, was made up as follows:

	No.	*No.*
Operational	1,045	1,033
Engineering and maintenance	33	32
Administration and support	95	89
	1,173	1,154

6. Interest receivable and similar income

	52 weeks ended 4 January 2020	*52 weeks ended 5 January 2019*
	£000	*£000*
Bank interest	109	65
Other interest	33	40
	142	105

7. Interest payable and similar charges

	52 weeks ended 4 January 2020	*52 weeks ended 5 January 2019*
	£000	*£000*
Other interest	–	1
	–	1

Notes to the financial statements

at 4 January 2020

8. Tax

(a) Tax on profit on ordinary activities

The tax charge is made up as follows:

	52 weeks ended 4 January 2020 £000	*52 weeks ended 5 January 2019 £000*
Current tax:		
UK corporation tax on the profit for the period	(4,064)	(4,095)
Adjustment in respect of prior periods	61	1
Total current tax	(4,003)	(4,094)
Deferred tax:		
Origination and reversal of timing differences	(9)	(12)
Adjustment in respect of prior periods	4	(83)
Pension cost charge in excess of pension relief	604	531
Deferred tax	599	436
Tax on profit on ordinary activities	(3,404)	(3,658)

(b) Factors affecting the total tax charge for the period

The tax assessed for the period differs from the standard rate of corporation tax in the UK of 19% (52 weeks ended 5 January 2019 – 19%). The differences are explained below:

	52 weeks ended 4 January 2020 £000	*52 weeks ended 5 January 2019 £000*
Profit on ordinary activities before tax	17,713	17,981
Tax on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (52 weeks ended 5 January 2019 – 19%)	(3,365)	(3,416)
Effects of:		
Expenses not deductible for tax purposes	(104)	(159)
Adjustment in respect of prior periods	65	(83)
Total tax charge	(3,404)	(3,658)

Notes to the financial statements

at 4 January 2020

Tax (continued)

(c) Deferred tax

	£000
Deferred tax asset:	
At 6 January 2019	328
Deferred tax credit in the profit and loss account	599
Debited to statement of comprehensive income	(604)
At 4 January 2020	323

	52 weeks ended 4 January 2020	*52 weeks ended 5 January 2019*
	£000	*£000*
Included in fixed assets	323	328

Analysis of deferred tax balance

	52 weeks ended 4 January 2020	*52 weeks ended 5 January 2019*
	£000	*£000*
Depreciation in excess of capital allowances	242	246
Short term timing difference	81	82
Deferred tax asset	323	328

The underlying trade of the Company is profitable and profit forecasts support that it is more likely than not that there will be sufficient future trading profits against which the timing differences giving rise to the deferred tax asset will reverse. This is consistent with the prior year.

(d) Factors that may affect future tax charges

Reductions in the UK corporation tax rate to 19% (effective from 1 April 2017) and to 18% (effective from 1 April 2020) were substantively enacted on 26 October 2015. An additional reduction to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future current tax charge accordingly. The deferred tax asset at 4 January 2020 has been calculated based on the rate of 17% substantively enacted at the balance sheet date.

9. Dividends

	4 January 2020	*5 January 2019*
	£000	*£000*
Equity dividends paid of £7,608,830 per share (5 January 2019 – £8,237,959)	15,218	16,476

Notes to the financial statements

at 4 January 2020

10. Intangible fixed assets

	Concession costs £000	Goodwill £000	Total £000
Cost:			
At 6 January 2019 and 4 January 2020	726	3,190	3,916
Amortisation:			
At 6 January 2019	447	1,966	2,413
Charge for the period	29	127	156
At 4 January 2020	476	2,093	2,569
Net book value:			
At 4 January 2020	250	1,097	1,347
At 6 January 2019	279	1,224	1,503

11. Tangible fixed assets

	Leasehold land and buildings £000	Assets in the course of construction £000	Plant and machinery £000	Fixtures and fittings £000	Total £000
Cost:					
At 6 January 2019	1,114	301	8,998	7,048	17,461
Additions	–	370	151	54	575
Disposals	–	–	(645)	(50)	(695)
Transfers	–	(496)	370	126	–
At 4 January 2020	1,114	175	8,874	7,178	17,341
Accumulated depreciation:					
At 6 January 2019	590	–	7,822	5,242	13,654
Charge for the period	48	–	492	630	1,170
Disposals	–	–	(640)	(50)	(690)
At 4 January 2020	638	–	7,674	5,822	14,134
Net book value:					
At 4 January 2020	476	175	1,200	1,356	3,207
At 6 January 2019	524	301	1,176	1,806	3,807

The cost of assets held by the company under finance leases at 4 January 2020 was £1,863,000. (5 January 2019 – £1,863,000). The accumulated depreciation provided for on those assets at 4 January 2020 was £1,863,000 (5 January 2019 – £1,863,000). The assets are held for continuing use in the business with an annual peppercorn rent made.

The cost of assets held by the company financed by a government grant at 4 January 2020 was £2,846,000 (5 January 2019 – £2,846,000). The accumulated depreciation provided for on those assets at 4 January 2020 was £2,357,946 (5 January 2019 – £2,047,000).

Notes to the financial statements

at 4 January 2020

12. Investments

Investments held as fixed assets

Shares in each of the following companies are held by Merseyrail Electrics 2002 Limited:

Company name	*Capital*	*Proportion held*	*Activities*
ATOC Limited	£0.04	5.00%	Contracting arm of ATOC
Rail Staff Travel Limited	£0.04	5.26%	Manages staff travel in the industry on behalf of ATOC
Rail Settlement Plan Limited	£0.04	5.26%	Operates the income allocation and settlement routines on behalf of ATOC
NRES Limited	£1.00	5.26%	Provides rail related information to the public
Train information Services Limited	£1.00	5.26%	Provides the national rail enquiry services

13. Stocks

	4 January 2020	*5 January 2019*
	£000	*£000*
Raw materials and consumables	88	114
	88	114

Stocks recognised as an expense in the period were £151,000 (5 January 2019 – £207,000).

14. Debtors

	4 January 2020	*5 January 2019*
	£000	*£000*
Trade debtors	7,675	4,252
VAT	800	1,018
Other debtors	768	869
Prepayments and accrued income	5,769	5,208
	15,012	11,347

Notes to the financial statements

at 4 January 2020

15. Creditors: amounts falling due within one year

	4 January 2020	*5 January 2019*
	£000	*£000*
Trade creditors	4,924	4,659
Amounts owed to parent undertaking	63	254
Corporation tax payable	1,676	1,965
Other creditors	20,376	20,121
Taxation and social security costs	1,109	1,098
Accruals and deferred income	17,554	10,791
	45,702	38,888

16. Issued share capital

		4 January 2020		*5 January 2019*
Allotted, called up and fully paid	*No.*	*£*	*No.*	*£*
Ordinary shares of £1 each	2	2	2	2

17. Movements on reserves

	Profit and loss account
	£000
At 6 January 2019	12,454
Profit for the financial period	14,309
Dividends paid (note 9)	(15,218)
Actuarial gains and losses (net of deferred tax)	2,573
At 4 January 2020	14,118

18. Reconciliation of shareholders' funds

	4 January 2020	*5 January 2019*
	£000	*£000*
Profit for the financial period	14,309	14,323
Dividends paid (note 9)	(15,218)	(16,476)
Other recognised gains and losses relating to the period (net of deferred tax)	2,573	2,265
Net increase in shareholders' funds	1,664	112
Opening shareholders' funds	12,454	12,342
Closing shareholders' funds	14,118	12,454

Notes to the financial statements

at 4 January 2020

19. Capital commitments

	4 January 2020 £000	5 January 2019 £000
Contracted for but not provided in the financial statements	507	83

20. Pensions

Pension commitments

The company operates a section of the Railways Pension Scheme ("the section"). This provides benefits for employees based on final pensionable pay. The members are expected to meet 40% of the cost of the emerging benefits. The employer made contributions of £3,190,000 (including Brass) in the period (5 January 2019 – £3,104,000). The expected employer contributions for the next financial period are estimated at £3,368,000 (5 January 2019 – £3,217,000).

On 8 July 2010, the UK Minister for Pensions announced the Government's intention to move to using the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI) as the inflation measure for determining the pension increases to be applied to the statutory index-linked features of retirement benefits. The rules of the section refer directly to the relevant legislation, rather than RPI inflation, in respect of increases to deferred pensions and pensions in payment. The Company has therefore allowed for increases to pensions in payment and deferment in line with CPI inflation.

A CPI inflation of 1.9% p.a. has been assumed at 4 January 2020.

A High Court judgment regarding the equalisation of GMP was published on 26 October 2018. The judgment itself related to the Lloyds Banking Group's pension schemes and requirements to equalise scheme benefits, to address the inherent inequality between genders caused by GMP legislation. GMP is the minimum benefit that must be provided by a pension scheme to a member who had been contracted out of the State Earnings-Related Pension Scheme (SERPS) between 6 April 1978 and 5 April 1997. This ruling has implications for all occupational pension schemes; including Merseyrail; that were contracted out of SERPS on a defined benefit basis between 17 May 1990 and 5 April 1997.

The Scheme Actuary has estimated that the impact on the value of the liabilities of the Merseyrail shared Cost Section of the Railways Pension Scheme Group is around 0.2% which is then further reduced by 40% (as the employer is only required to fund 60% of obligations under the scheme rules). This has been deemed immaterial and hence has not been included in the value of the defined benefit obligation at the 2018 year-end.

Actuarial assumptions

The full actuarial valuation at 31 December 2016 was updated to 4 January 2020 and 5 January 2019 by a qualified actuary, using the following assumptions in relation to future experience:

	4 January 2020	*5 January 2019*	*6 January 2018*
Discount rate	2.15%	3.20%	2.90%
Rate of increase in salaries	2.20%	2.70%	2.60%
Rate of increase in deferred pensions	1.90%	2.10%	2.00%
Rate of increase in pensions in payment	1.90%	2.10%	2.00%
Inflation assumption	2.70%	3.20%	3.10%
Long term rate of return expected	2.15%	3.20%	2.90%

In addition to the above rates of increase in salaries, a scale of promotional salary increase is assumed.

Notes to the financial statements

at 4 January 2020

20. Pensions (continued)

The main mortality assumptions used to determine benefit obligations were:

		4 January 2020 Table	*4 January 2020* Multiplier	*5 January 2019* Table	*5 January 2019* Multiplier
Male pensioners	Pension under £10,300 (5 January 2019 - £10,300) pa or pensionable pay under £35,000 pa	S1 normal males heavy	96%	S1 normal males heavy	96%
	Others	S1 normal males	93%	S1 normal males	93%

Male members are segmented into three postcode groups and an adjustment is made to the multipliers accordingly.

Allowance for future improvements in mortality has been made in line with the "core projection" model published by the CMI in 2013, assuming a long-term improvement rate for the period to 4 January 2020 of 1.25% p.a. (5 January 2019 – 1.25% p.a.).

The net asset/ (liability) of the company is summarised as follows:

	4 January 2020 Value £000	*5 January 2019 Value £000*	*6 January 2018 Value £000*	*7 January 2017 Value £000*	*9 January 2016 Value £000*
Total market value of assets	218,615	193,349	192,159	171,128	146,397
Present value of scheme liabilities	(312,310)	(257,027)	(265,506)	(247,426)	(207,152)
Members' share of deficit	37,478	25,471	29,339	30,519	24,302
Franchise adjustment	56,217	38,207	44,008	45,779	36,453
Deficit in scheme	–	–	–	–	–
Related deferred tax asset	–	–	–	–	–
Net pension asset/ (liability)	–	–	–	–	–

The long-term contractual responsibility for the rail pension schemes rests with the Department for Transport. Accordingly, the company balance sheet only recognises the share of surplus or deficit expected to be realised over the life of each franchise. To better reflect the company's limited responsibility for pensions during the length of its franchise, the operating profit only recognises the company's agreed cost for pensions during this period. This is affected by means of a franchise adjustment to the income statement.

Notes to the financial statements

at 4 January 2020

20. Pensions (continued)

Fair value of assets

The assets in the scheme were:

	4 January 2020 %	4 January 2020 Value £000	5 January 2019 %	5 January 2019 Value £000
Equities	64.8	141,608	61.1	118,045
Bonds/Gilts	6.6	14,497	20.5	39,683
Property	9.2	20,128	9.2	17,883
Cash and other	19.4	42,382	9.2	17,738
	100%	218,615	100%	193,349

	4 January 2020 £000	5 January 2019 £000
Amounts included within operating profit:		
Current service cost	5,949	6,010
Brass contributions	130	142
Past service cost (curtailment)	–	(480)
Total included within operating profit	6,079	5,672
Amounts included as other finance (income)/costs:		
Expected return on scheme assets	(3,649)	(3,210)
Interest cost on scheme liabilities	4,829	4,400
Interest on franchise adjustment	(1,223)	(1,276)
Net finance return	(43)	(86)

Taken to other comprehensive income:

	4 January 2020 £000	5 January 2019 £000
Return on plan assets	(24,110)	2,658
Effect of changes in financial assumptions	50,815	(12,491)
Effect of experience adjustments	(2,010)	–
Effect of changes in demographic assumptions	(2,011)	(6,620)
(Gain)/loss from change in members share	(9,074)	6,580
(Gain)/loss on franchise adjustment	(16,787)	7,077
Remeasurement gains and losses recognised in other comprehensive income	(3,177)	(2,796)

Notes to the financial statements

at 4 January 2020

20. Pensions (continued)

	4 January 2020 £000	5 January 2019 £000
Analysis of the change in benefit obligation during the period:		
Benefit obligation at beginning of the period	257,027	265,506
Current service cost – Employer (including Brass)	6,079	6,152
Current service cost – Employee	3,966	4,007
Past service cost (curtailment) – Employer	–	(480)
Past service cost (curtailment) – Employee	–	(320)
Interest cost – Employer	4,829	4,400
Interest cost – Employee	3,219	2,933
Effect of changes in financial assumptions	50,815	(12,491)
Increase/(decrease) due to the effect of any business divestitures	(5,401)	–
Effect of changes in demographic assumptions	(2,011)	(6,620)
Benefits paid (including Brass)	(6,213)	(6,060)
Benefit obligation at end of period	312,310	257,027

	4 January 2020 £000	5 January 2019 £000
Analysis of the change in plan assets during the period:		
Fair value of plan assets at beginning of the period	193,349	192,159
Interest income – Employer	3,649	3,210
Interest income – Employee	2,433	2,140
Return on plan assets	24,110	(2,658)
Administrative expenses paid from plan assets	(551)	(523)
Increase/(decrease) due to the effect of any business divestitures	(3,392)	–
Employer contribution	3,060	2,962
Employer Brass matching contributions	130	142
Member contributions	2,040	1,977
Benefits paid (including Brass)	(6,213)	(6,060)
Fair value of plan assets at end of period	218,615	193,349

The Business divestitures have arisen because during 2019 a bulk transfer payment of c£3.4m was paid out of the Section with respect of the Stadler TUPE transfer, which reduced both the value of the assets and the value of the liabilities.

Following the transfer of the depots to Stadler and the related employees in late 2017 the scheme administrators, RPMI, wrote to members offering the option to transfer their benefits accrued in the Merseyrail Shared Cost Section to the "Stadler Section" or to keep their benefits in the Merseyrail Shared Cost Section. Members were given several months to respond. It is believed that the Trustee had not decided what the default option would be for members who did not respond and hence had to re-write to a number of members following the deadline to respond to the initial communication. This extended communication

Notes to the financial statements

at 4 January 2020

20. Pensions (continued)

exercise continued until early 2019, explaining the delay in the payment being made compared to the transfer of employment status.

Discussions with the Pensions Regulator, and other all stakeholders, in relation to the latest statutory Pensions Act valuation as at 31 December 2016 for all Sections of the Railway Pension Schemes in relation to for the Train Operating Companies are still on going and this process is likely to continue for some months. As a result, the Regulator has asked that these Pensions Act valuations are is not completed until matters are all agreed. Until the valuation is complete, it will not be possible to determine the future investment strategy and cash contribution requirements.

21. Obligations under leases

At 4 January 2020 the company has entered into commercial leases on certain properties, motor vehicles, and all the rolling stock required to operate our rail services. Future minimum rentals payable under non-cancellable operating leases are as follows:

		4 January 2020		*5 January 2019*
	Land and buildings	*Other*	*Land and buildings*	*Other*
	£000	*£000*	*£000*	*£000*
Within one year	2,846	29,869	9,208	14,378
In two to five years	2,108	86,154	4,228	67
Over five years	1,845	–	2,511	–
	6,799	116,023	15,947	14,445

22. Related party transactions

During the year, the company entered into transactions, in the ordinary course of business, with other related parties. The transactions with them are summarised below:

Merseyrail Services Holding Company Ltd

	4 January 2020	*5 January 2019*
	£000	*£000*
Other trading transaction costs	414	1,042

All of the above expenses were payable to Merseyrail Services Holding Company Ltd which owns 100% of the issued share capital of the company. At the period end, the company owed Merseyrail Services Holding Company Ltd £63,000 (5 January 2019 – £254,000). At the period end, the company was owed £nil by Merseyrail Services Holding Company Ltd (5 January 2019 – £nil).

Serco Group plc

	4 January 2020	*5 January 2019*
	£000	*£000*
Executive salaries and expense recharges (including non-directors)	202	178
Dividends paid and proposed	7,609	8,238
Other trading transaction costs	31	63

Notes to the financial statements

at 4 January 2020

22. Related party transactions (continued)

Serco Group plc

All of the above expenses were payable to Serco Group plc and its subsidiaries which are related parties by virtue of Serco Group plc owning 50% of the issued share capital of the company. At the period end, the company owed Serco Group plc £nil (5 January 2019 – £nil). At the period end, the company was owed £nil by Serco Group plc (5 January 2019 – £nil).

NV Nederlandse Spoorwegen

	4 January 2020 £000	*5 January 2019 £000*
Other trading transaction income including salary recharges	(498)	(299)
Executive salaries and expense recharges (including non-directors)	–	121
Dividends paid and proposed	7,609	8,238
Other trading transaction costs	102	190

All of the above expenses/(income) were payable to/(receivable from) NV Nederlandse Spoorwegen and its subsidiaries which are related parties by virtue of NV Nederlandse Spoorwegen owning 50% of the issued share capital of the company. At the period end, the company owed NV Nederlandse Spoorwegen £nil (5 January 2019 – £5,953) At the period end, the company was owed £167,821 by NV Nederlandse Spoorwegen (5 January 2019 – £33,088).

Northern Rail Limited

	4 January 2020 £000	*5 January 2019 £000*
Other trading transaction income including salary recharges	(44)	(64)

All of the above income was receivable from Northern Rail Limited a related party by virtue of the fact that both Northern Rail Limited and Merseyrail Electrics 2002 Limited are joint ventures of the same ultimate controlling parties. At the period end, the company was owed £nil by Northern Rail Limited (5 January 2019 – £3,338).

Abellio Scotrail Limited

	4 January 2020 £000	*5 January 2019 £000*
Other trading transaction income including salary recharges	(3)	(36)

All of the above income was receivable from Abellio Scotrail Limited a related party by virtue of the fact that both Abellio Scotrail Limited and Merseyrail Electrics 2002 Limited have a common ultimate controlling party. At the period end, the company was owed £nil (5 January 2019 – £nil) by Abellio Scotrail Limited.

Notes to the financial statements

at 4 January 2020

22. Related party transactions (continued)

Abellio Greater Anglia Limited

	4 January 2020	*5 January 2019*
	£000	*£000*
Other trading transaction income including salary recharges	–	(45)

All of the above income was receivable from Abellio Greater Anglia Limited a related party by virtue of the fact that both Abellio Greater Anglia Limited and Merseyrail Electrics 2002 Limited have a common ultimate controlling party. At the period end, the company was owed £nil (5 January 2019 – £nil) by Abellio Greater Anglia Limited.

23. Post Balance Sheet Events

Non Adjusting events

COVID-19

Subsequent to the balance sheet date, Merseyrail have been dealing with the impacts of the COVID-19 pandemic on the business. On 23rd March 2020, the Government introduced widespread social distancing and lockdown procedures for the UK. Train usage was severely affected with a reduction in passengers of around 90% on the Merseyrail network during the early period of lockdown, compared to the same period in 2019. Although passenger numbers have increased following on from the easing of these restrictions, the company is expecting that passenger revenue will be considerably lower than in 2019. The fall in Passenger revenue is having a significant impact on the results of 2020, which is being carefully monitored. Although the Company did not furlough any employees, nor implement any tax deferrals, there have been strict cash saving measures in order to counter some of P&L impacts of COVID-19 as well as preserving cash reserves.

The directors have not considered any assets to be impaired from the COVID-19 pandemic, nor have they identified any onerous contracts, and will continue to monitor this as the impacts of COVID-19 continue to unfold.

The directors consider that the effects of COVID-19 are a non-adjusting post balance sheet event. The directors have reached this conclusion on the basis that the World Health Organisation ("WHO") announced COVID-19 as a global health emergency on 30th January, did not declare it a global pandemic until 11th March and it wasn't until 23rd March when the UK Government announced a nationwide lockdown. All of these key events, most notably the UK Government imposed lockdown, are not conditions that existed at the balance sheet date.

For further details please see the Going concern disclosure in note 1.

Dividends

In the period since the period end the directors have approved dividends of £3,078k as at 4th March 2020.

Notes to the financial statements

at 4 January 2020

24. Financial instruments

	4 January 2020 *£000*	*5 January 2019* *£000*
Financial assets that are debt instruments measured at amortised cost		
– other debtors	8,443	5,121
Financial liabilities measured at amortised cost		
– amounts owed to parent undertaking	63	254
– other creditors	20,376	20,121
– trade creditors	4,921	7,063
– accruals excluding deferred income	13,978	6,153

25. Ultimate parent undertaking and controlling party

The immediate parent undertaking of Merseyrail Electrics 2002 Limited is Merseyrail Services Holding Company Limited. Copies of the financial statements are available from Companies House, Crown Way, Maindy, Cardiff, CF4 3UZ.

The ultimate and controlling parties of Merseyrail Electrics 2002 Limited are NV Nederlandse Spoorwegen and Serco Group plc. Copies of the financial statements of NV Nederlandse Spoorwegen are available from Laan Van Puntenburg 100, 3511 ER, Utrecht, Netherlands. Copies of the financial statements of Serco Group plc are available from Serco House, 16 Bartley Wood Business Park, Bartley Way, Hook, Hampshire RG27 9UY. The parent undertaking of the smallest group, which includes the company and for which group financial statements are prepared is Merseyrail Services Holding Company Limited a company incorporated in the UK. Copies of the financial statement of Merseyrail Services Holding Company Limited are available from Companies House, Crown Way, Maindy, Cardiff, CF4 3UZ.