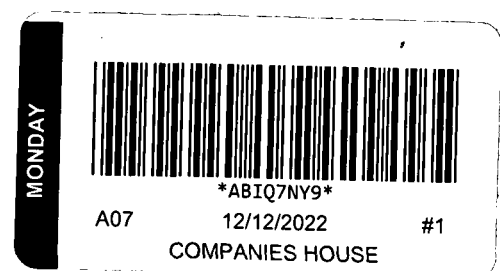


LONDON NORTH EASTERN RAILWAY LIMITED

Annual Report and Financial Statements for the year ended 31 March 2022

Registered number: 04659712



London North Eastern Railway Limited

Contents

	Page
Strategic Report	4
Directors' Report	18
Independent Auditors' Report	32
Income Statement	35
Statement of Comprehensive Income	36
Statement of Financial Position	37
Statement of Changes in Equity	38
Notes to the Financial Statements	39

London North Eastern Railway Limited

Corporate information

Company information for the year ended 31 March 2022

Directors: Richard Harrison (Non-Executive)
Robin Gisby (Non-Executive)
David Home
Suzanne Donnelly
Warrick Dent
Claire Ansley
James Downey

Company Secretary: James Downey

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Registered Number: 04659712

Independent Auditors: PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
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LS1 4DL

London North Eastern Railway Limited

Strategic Report (continued)

For the year ended 31 March 2022

The Directors present their strategic report for the year ended 31 March 2022.

REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

London North Eastern Railway Limited (LNER) operates as a publicly owned train company through a services agreement originally awarded on 24 June 2018 by the Secretary of State for Transport. A revised contract was agreed in June 2020 for LNER to operate trains and stations across the East Coast Main Line until 24 June 2023. The services agreement includes an optional extension of two years and in June 2022 the Secretary of State provided confirmation to the Directors that the extension would be exercised and therefore the contract will continue through to 23 June 2025. This provides certainty over the length of the service agreement period associated with the IFRS 16 lease liabilities and right of use assets and the going concern assumption applied within the financial statements (note 1). LNER is incorporated and domiciled in the United Kingdom.

Throughout 2021/22, we have continued to navigate our way through the Covid-19 pandemic, supporting Government guidance on travel and responding when restrictions have been introduced or eased, taking into account different levels of restriction in place between England and Scotland. Whilst the advice has varied and now been largely removed, there has been some form of a measure in place for much of the past year either asking the public to reduce the number and length of their journeys, or to make essential journeys only. Last year we noted that the long-distance nature of most travel undertaken on our services in normal times meant that this restriction had a greater effect on LNER than on other train operating companies. However, during 2021/22 the gradual easing of restrictions and the appetite of customers to travel again after a significant period of lockdown, alongside a number of business-led initiatives, has meant that passenger numbers have more than quadrupled. During the year we have consistently seen the strongest increase in passenger numbers across all UK operators.

As restrictions have eased, we have continued to work to maintain strong control measures in line with government guidance to reassure our customers and our staff of the safety and cleanliness of our trains and offices. We have gradually increased our timetable back to a position whereby we started running 100 per cent of our pre-Covid-19 services in early 2022.

LNER has made bold, innovative and data-led decisions that have combined to support revenue growth in the year. These have included utilising our systems to maximise the level of socially-distanced seats available on our services, integrated brand campaigns and a seat sale that helped maintain the momentum of leisure revenue growth beyond the school holidays. We implemented a business/peak yield price testing strategy to test the balance of yield and demand to maximise revenue and focused on effective customer marketing and communications to reinforce safety and confidence. LNER also led the industry with the launch of a series of onboard experience events, designed to develop new products that will attract more people back to rail. We have seen a strong, resilient recovery of our leisure market, and with corporate offices now re-opening around the UK we have begun to see a recovery, albeit slower, in the business market.

Strong collaboration across a number of departments has driven our efforts to innovate our offer. We have been able to put tickets on sale earlier than traditional timescales and have revolutionised our on-board catering offer with the introduction of *Let's Eat at Your Seat* in Standard Class and the introduction of a better, more consistent seven-day First Class catering offer with the introduction of the *Deli, Dish and Dine* menus in January 2022.

London North Eastern Railway Limited Strategic Report (continued)

For the year ended 31 March 2022

To support us in withstanding the drop in customer revenue, we have received nearly £250m in subsidy revenue this year, which is more than £200m less than we had forecast due to the growth in passenger revenue and continued cost control. The decisions we have made over the past two years combined with strong growth in passenger revenue is allowing us to look forward to a point when we can return to making premium payments to the government.

Our focus is to recover from the pandemic in the short-term and transform our services for customers for the long-term. Whilst the road to recovery will be tough, we are confident that LNER can lead the industry in emerging from the pandemic with innovative and agile solutions to help the industry improve. Our aim is to be making a profit and paying a service agreement premium as soon as possible, enabling us to invest in our route and the wider national railway. Decisive action has also been taken throughout the crisis to focus on costs. This has included the setting of robust savings targets which have continued to be exceeded, demonstrating management's commitment to cost control and to be a good and efficient operator. Due to swift actions taken we realised just under £200m of one off cost savings during the core pandemic period and have committed to generating additional efficiencies over the coming years.

In 2021 we conducted independent research, in conjunction with Steer, which demonstrated that LNER delivers over £2bn of value to the UK per year. This includes £835m of value direct to the economy, £610m of benefits to our customers and £225m of benefits to wider society, all while driving down UK emissions by over 170,000 tonnes of carbon a year, from journeys that would have otherwise been taken by plane or car.

Every £1 spent running and investing in LNER's services generates at least £2 in economic value, plus an additional £0.83 of value for wider societal impacts. This benefit is felt particularly in the north of England, where our economic impact is almost twice that delivered to London and the south east of England. According to this same analysis, the value we deliver to the country would rise by up to £2.2bn by running the additional services we aim to over the coming years which, again, mainly benefit the north of England as well as Scotland. The Steer assessment applies standard methodology known as Economic Impact Assessment to measure how benefits may be generated.

We have demonstrated our commitment to delivering value to our route through a number of means including driving improvements in our digital experience, putting social value at the heart of our procurement and the launch of the LNER Green Guide. In December 2021 we were proud to re-introduce direct services from Middlesbrough to London for the first time in over 30 years.

LNER's industry-leading operations are based on operational excellence and nailing the basics. We have worked in partnership with Network Rail as well as joint initiatives with Hitachi, who maintain our fleet, to deliver strong operational performance metrics. The biggest challenge to this during the year was the impact on fleet availability, following the identification of cracks in the bogie bolster area of the Azuma fleet. We have worked closely with industry partners to respond to this and have helped shape the repair and rectification plan that Hitachi is implementing.

During the year the DfT published the Williams-Shapps Plan for Rail. LNER has been closely engaging with the Great British Railway Transition Team, the DfT and other industry stakeholders to identify how we can support the progression of the commitments in the white paper. The DfT has also published information about the new Passenger Service Contracts that will be put in place. We continue to engage with the DfT over the timescales for this plan and the delivery on our own service agreement.

London North Eastern Railway Limited Strategic Report (continued)

For the year ended 31 March 2022

Our people are at the heart of LNER and have enabled us to weather the past 12 months, providing the confidence and drive that we need to succeed. We are incredibly thankful for their dedication and passion and are committed to working in partnership with our people to deliver a truly exceptional experience for our customers and have a positive impact on our communities and the environment long into the future.

OPERATIONAL REVIEW

Statement by the directors in performance of their statutory duties in accordance with s172(1) Companies Act 2006

LNER is focused on delivering our Vision, which is to be the most loved, progressive and responsible way to travel, for generations to come. Meeting this Vision requires us to attract more customers to make more journeys, more often, including more customers shifting travel mode to rail, while delivering the services that our communities need. In turn, this will deliver a financially sustainable railway, a strong economy and communities and will protect the environment.

As we enter a post-Covid world, we continue to work hard to ensure the values of employees, customers, communities, industry and national stakeholders guide our direction, as evidenced by our six long-term priorities:

- Safety and performance – recognising the national commitment to run one of the safest railways in the world, and customers' priority for our train services to run on time.
- Game changers – embedding a culture of innovation throughout our business to ensure we are focused on what our customers and communities want from rail travel, now and in the future.
- Financial sustainability – ensuring we are delivering value to both our customers and taxpayers, recognising the Government's priority for revenue to be maximised and efficiencies achieved, and customers' priority for value for money travel that competes with road and air.
- Legendary customer experience – putting the customer at the heart of everything we do, resulting in increased satisfaction in National Rail Passenger Survey results, and helping to grow the East Coast's economy and protect its environment by encouraging more people to use rail over other modes.
- Our people – ensuring we are striving to attract, develop, keep safe and retain the very best people who have a crucial role in delivering our business plan and creating value.
- Responsible business and partnerships – recognising that our successful delivery is based on our cultivating of the strong stakeholder partnerships we need, within the rail industry and without, to have a positive and sustainable impact, from our performance to our environmental impact.

Ensuring the business is working in the interests of our colleagues

Our people are key to our success. They help us deliver an excellent service to our existing customers and attract new customers by maintaining our high standards and great experience. Our people drive our purpose 'to put heart into every journey' which generates more journeys and therefore more success, benefiting our communities and the wider UK economy. We know that if we want our colleagues to look after our customers then we must look after them, and equally put heart into their career journey with us.

London North Eastern Railway Limited Strategic Report (continued)

For the year ended 31 March 2022

We promote a culture of equal opportunity, inclusion, diversity and belonging – an environment free from discrimination, working in partnership with our colleagues across the business, within our industry and like-minded external partners to continually listen and improve. It is critical that we have the structures and systems in place that help everyone achieve their potential and to ensure we are creating rich opportunities for all.

We are committed to supporting colleagues' holistic health and wellbeing and over the course of the financial year we have continued a strong focus on mental health.

We are undertaking ergonomic assessments to ensure the muscular skeletal health of our people is supported, as this type of injury becomes more prevalent with age and we are experiencing an aging workforce.

We remain committed to creating an equal, inclusive, and diverse workforce that is representative of the communities we serve. Our culture of inclusion promotes workplace diversity and belonging enabling everyone to feel they can be their authentic self, always feel comfortable in all interactions, and always have visible opportunities to achieve their full potential.

Our relationship with suppliers and rail industry partners

We have worked very closely with industry partners this year, particularly Network Rail, to seek new and efficient ways of helping the industry recover from the pandemic.

Through our East Coast Partnership (ECP) Charter for 2022/23, we look to expand our joint activities with Network Rail beyond the original remit of operations and performance – looking at how we can align to drive further customer experience improvements whilst delivering efficiencies in areas such as recruitment, accommodation and training.

In the area of operations, the ECP continues to drive significant improvements in our On Time performance through much closer collaborative working. During 2021/22 seven out of every ten station calls for LNER services were made on time, against a backdrop of significant increases in customer numbers as Covid restrictions have been eased.

In terms of other key suppliers, we have delivered joint initiatives with Hitachi, providers of our fleet, to maintain strong operational performance metrics. The supply chain is currently being challenged by many external factors and we are continuing to work closely with our suppliers to assess risk to supply and to mitigate cost increases being experienced across the supply base. Our 'LNER Future Labs' programme continues to identify innovative ways that new suppliers can help solve business challenges and to keep ahead of the industry when it comes to technology, ideas and thinking.

Our relationship with customers, stakeholders and business partners

We keep the business aligned with customer expectations through several means, from structuring the whole business to put customers at its heart to regularly capturing customer and stakeholder insight. Our Customer Proposition Group aligns the views of stakeholders from Customer Experience, Commercial and Digital to guide the business's Customer Experience approach at a strategic level. We also use a wide range of measurements to closely follow customer wants, identifying the key drivers of satisfaction across the customer journey and measuring performance in these areas via our Voice of the Customer programme. Our plan is to align this work with outputs from the new Wavelength survey when it is fully in flight, to ensure that we use all the customer insight available to LNER to drive positive change and eliminate pain points.

London North Eastern Railway Limited Strategic Report (continued)

For the year ended 31 March 2022

With regards to community stakeholders, from political representatives to local authorities and chambers of commerce, we have continued to run a calendar of regular engagement sessions, offering all our stakeholders the opportunity to engage with our plans and priorities in detail.

We have also introduced a newsletter, personalised to our audiences in England and Scotland, as well as hosting and attending regular meetings, forums, events and Parliamentary sessions to keep stakeholders abreast of changes to our services and other important updates from across the business. Alongside this, we engage closely with stakeholders within and outside the rail industry on key rail projects on our route, to understand and shape plans for the future, notably timetable changes and Government decisions on investment.

We engage regularly with the All Party Parliamentary Group for Rail in the North and Consortium of East Coast Main Line Authorities (ECMA) which is a cross-party group of Councils, Combined Authorities and Scottish Regional Transport Partnerships throughout the area served by the East Coast Main Line. Each has a responsibility for enabling economic growth in their own sections of the line – the backbone of the UK economy. ECMA works to secure investment, improve the passenger experience, improve capacity and reliability and shorten journey times on the East Coast Main Line – we are fully aligned to these aspirations and our forthcoming transformational timetable will seek to deliver these aspirations that are so important to our stakeholders.

Engaging with partners to support our communities, protect the environment and deliver our Responsible Business aspirations

Our Responsible Business strategy “Love the Journey” aims to ensure that as well as doing the job of a train operator we are also taking consideration of the impact we have on the environment, each other, and our communities, and finding ways to improve in those areas.

Love the Journey identifies three key areas where we can and will bring about positive change. These are:

- Places with Heart: helping to create thriving communities up and down our line.
- People with Heart: putting the wellbeing of our people and customers at the heart of our business.
- Business with Heart: doing everything we can to minimise our environmental impact, today and in the future.

These strategic pillars have been defined by consulting our customers, colleagues and considering external initiatives like the RSSB Sustainable Development Principles and United Nations Sustainable Development Goals. They are underpinned by a commitment to getting the basics right. Our focus on Brilliant Basics covers everything from the safety of our colleagues and customers to our approach to modern slavery and the gender pay gap.

The areas we have identified and work on, with our partners, are Mental Health, Education and Employability, Diversity and Inclusion, and Environment and Sustainable Travel.

We address these issues and receive constant feedback from our stakeholders through a variety of ways, from the provision of funds through our Customer and Community Investment Fund, with the projects selected by our customers and colleagues; we support colleague and customer engagement with our charity partner, the Campaign Against Living Miserably (CALM), by creating fundraising opportunities, enabling customers to donate their Delay Repay to CALM and by running training sessions for colleagues; and we work across the business to deliver education and employability sessions, for young people and disadvantaged groups, and sponsor events to drive inclusivity.

London North Eastern Railway Limited

Strategic Report (continued)

For the year ended 31 March 2022

Being a responsible business also underpins our environmental management, with our impact being a key metric reviewed by the directors. Our Environmental Sustainability Strategy is guided through application of our ISO 14001 and ISO 50001 certified energy and environmental management system, and strengthened through our partnerships with Network Rail, industry groups, station tenants, cleaners, and colleagues.

This approach has driven us to increase our recycling segregation, achieve zero waste to landfill for our managed waste and to reduce our passenger km carbon footprint significantly thanks to the completed introduction of our bi-mode Azuma trains.

Our relationships help us to maintain high standards of business conduct

Our customers and partners are central to our business success and, through the activities outlined above, we strive to build and maintain a strong brand reputation and grow our business for the long term. LNER issues a Supplier Code of Conduct to its key suppliers outlining how it aspires to manage its long-term supplier relationships. Supplier performance is reviewed and monitored by a Business Lead and procurement specialist. In addition to commercial aspects, LNER has also introduced corporate social responsibility measures, such as including Social Value measures in tender evaluations, which has to date delivered just over £9m in local economic value to communities along the LNER supply chain, as well as auditing and monitoring suppliers from a Modern Slavery aspect. LNER is subject to the Utilities Contract Regulations, contracts over the relevant thresholds are advertised in the government website Find a Tender (FTS).

Key Performance Indicators

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

Employee Engagement

LNER operates an 'always on' listening programme which enables us to understand the experience our employees are having with us. This programme includes an annual engagement survey, and a follow up pulse survey conducted six months later to review progress supported by a quarterly ENAS check. Results from the annual 'Speak from the Heart' survey conducted in October saw the overall company engagement index of 71 per cent. The information we obtain from our always on listening channels we utilise to drive our employee experience improvement strategies ensuring we stay an employer of choice, drive internal advancement and retain our top talent.

Safety

Safety is at the heart of our approach to running the railway. Our Executive Safety, Sustainability and Security Board reviews a variety of KPIs to ensure effective monitoring of safety performance and that a proactive approach to safety is adopted by all employees. In general, LNER met and exceeded most of its targets, although some areas proved challenging based on the uncertainty surrounding coming out of the pandemic:

	2022 Moving annual average (MAA)	2021 Moving annual average (MAA)
Passenger major injuries per 1 million passenger journeys	0.26	0.39
Workforce lost time accidents per 1,000 employees	0.74	0.25
Employee physical assaults per 1,000 employees	1.32	0.38

London North Eastern Railway Limited Strategic Report (continued)

For the year ended 31 March 2022

This year there were six RIDDOR (Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013) reportable customer accidents compared to zero recorded incidents in the previous year and two in the pre-Covid year 2020. The customer risk equates to a FWI (Fatality and Weighted Injury) MAA of 0.091 per million train miles per annum (2021: 0.041). The increase has been driven by passenger numbers having increased this year on the previous year and a change in passenger dynamic from regular commuter passengers to more leisure travellers who are less accustomed to the railway. For staff accidents there were 15 RIDDOR reportable employee accidents during the reporting year compared to 10 the previous year (26 in pre-Covid year 2020), and the risk associated with this equating to FWI MAA of 0.087 per 1000 employees per annum (2021: 0.040). These figures have also increased as a result of the number of services running this year being considerably higher than the previous year. However, these figures are considerably lower than the year pre-pandemic (26 RIDDOR reportable employee accidents)

During the reporting year there have been 48 LNER employees who have been physically assaulted (2021: 15). This is an increase on the prior year but significantly lower than the 80 incidents reported in the pre-Covid 2020 year. The classification for this differs to those of the police in that any physical contact is recorded as a physical assault. The highest individual causes were related to ticket enforcement and/or dealing with customers reported to be under the influence of alcohol or drugs (44 per cent of all physical assaults) (2021: 67 per cent). Most of the reported physical assaults were minor in nature, with 14 resulting in a physical injury (2021: one), but thankfully none of these were serious or resulted in any time lost for the employee being at work. Our approach to dealing with this risk is twofold, prevention and prosecution. Prevention through training of staff on conflict resolution, a clear policy on not putting yourself at risk and implementing local initiatives (such as dry trains and stations) that focus on areas where there is increased risk of conflict. It is our policy that we will prosecute and press for heavy penalties when offenders are apprehended. All stations and trains have CCTV which is accessible to the British Transport Police (BTP) for the pursuit of evidence in such events. All physical assaults are investigated internally.

LNER has supported rail industry campaigns to promote reporting of instances of sexual harassment and we have additionally added content to our customer facing security web pages with direct links to report offences to BTP and Crimestoppers. Sexual Harassment awareness has now been fully incorporated into all internal training processes with content delivered in all customer facing front line staff and Drivers team briefing days. The same content is also delivered to all new starters on joining the company during induction and in the longer term will form part of the wider safeguarding on rail training content. Other workstreams linked to sexual harassment and specifically relating to both the Station environment and customer communications and messaging are ongoing including joint working with Northern Trains and Southeastern Trains.

Train Performance

LNER's primary measure of performance is 'On Time', which measures punctuality, within one minute of scheduled arrival time, at all station calling points on a train's journey, rather than just at the final destination.

At the start of 2021/22 our On Time punctuality was 79.3 per cent, which is an all-time high for long distance passenger operations on the East Coast route. This was driven to a large extent by the effects of the Covid pandemic, with lockdown restrictions only starting to be relaxed from 12 April 2021. As such, during much of the year, and particularly during summer 2021 we saw a large increase in passenger journeys, with more trains, and therefore more interactions on the network than we saw during the first part of 2021. As a result, we have seen some decline in On Time punctuality during 2021/22, but to a lesser extent than we originally forecast. At the end of this year, On Time stands at 70.3 per cent, which remains comfortably ahead of our target for the year of 60.0 per cent.

London North Eastern Railway Limited Strategic Report (continued)

For the year ended 31 March 2022

We still also track the Public Performance Measure (PPM), which remains widely used throughout the UK rail industry. This is a composite measure of punctuality within ten minutes of scheduled time at the terminating station, and also incorporates cancellations. By this measure, our PPM during 2021/22 was 87.6 per cent, a fall from the high of 92.4 per cent achieved 12 months earlier, but again ahead of our original target for the year of 87.0 per cent.

Aside from the obvious impacts from the pandemic on passenger ridership and network usage, a large part of the improvement in punctuality over the past two years has been driven by the enhanced performance of our new Azuma trains. With these operating initially in the running times of the older trains they are replacing, early arrivals at intermediate stations increased from just 28 per cent in 2019/20 to 56 per cent over the past year.

However, this is only part of the story, and our continued focus across the business on managing the detail of performance as part of our 'Keeping Safe, Keeping Time' initiative is reaping benefits. For example, dwell time compliance at stations has improved by nearly 15 per cent over the past two years, a considerable achievement considering that towards the end of 2021/22 we are carrying similar passenger numbers to before the pandemic began in early 2020.

Revenue

Passenger Revenue for the year ended 31 March 2022 was £469.6 million (2021: £104.8 million) which reflects ticket revenue earned from passenger services net of Delay Repay costs. Passenger revenue has continued to be affected by the Covid-19 restrictions however the overall position in 2022 has been one of recovery. The year started with revenue at less than 30 per cent of pre-Covid levels in periods 1 and 2 as we emerged from the January-March lockdown, and the effects of the vaccine roll out boosted traveller confidence. Revenue picked up as we approached the summer driven by strong leisure travel demand as Covid restrictions eased and uncertainty over foreign travel meant more people holidayed in the UK. Journeys peaked at 99 per cent of pre-Covid levels in period 6 with leisure higher at 126 per cent.

Despite the strong return of leisure, business travel has taken longer to recover as the effects of work from home messaging and corporate travel policies undermined demand. Business had been slower to respond to restrictions changing but did start to see stronger growth when schools went back in period 6. This pushed revenue to 76 per cent of pre-Covid levels by period 8. However, the increase in Covid cases over the Autumn caused by the Omicron variant saw all types of travel collapse in period 10. The expected lockdown in January did not materialise and travel recovered quicker than expected with both travel types regaining pre-Omicron revenue levels by period 12. At the year end, revenue was around 80 per cent of pre-Covid levels.

The outlook for 2023 will be affected by the extent of the business travel recovery. Leisure remains buoyant, but growth may be suppressed by capacity constraints around weekends and holidays as well as pressure on disposable income from inflation. Fares reform and revenue management strategies will maximise the revenue potential here.

Other income streams have followed the pattern of our passenger revenue, with income from commercial properties, on board catering and car parking all recovering due to the increased number of passengers.

The company received just under £250m in subsidy from the DfT, compared to just over £600m in the previous year. It is expected that subsidy will be required as part of our business recovery during the next couple of years.

Bringing Technology into UK Rail

This financial year saw Digital and Innovation at LNER continue to work at pace and deliver industry-leading retail and digital best in class experiences across the entire passenger journey. Over the year £6.2m of capital was invested in a portfolio of projects delivered within the eco-system. Projects included the industry first Horizon project to extend the booking horizon, the implementation of Flexi-Season, significant enhancements to our industry-leading mobile app (e.g., Live journey info and Change of Journey), our web (e.g., Smart Cards), phase 2 of LNER Perks - our own loyalty proposition, supporting Let's Eat At Your Seat (LEAYS), and proof of concepts around the future of our Ticket Vending Machines (TVMs).

Alongside this we've also continued to evolve our Rapid Innovation (e.g., Digital Avatar project), Data Science and Machine Learning offerings enabling us to innovate at pace with a fail fast or scale fast approach. This also included the second incarnation of Future Labs which is a key innovation incubator working with leading external innovators to solve problems in Rail.

In the coming year, we will be building on this to further digital innovation for the rail industry whilst delivering cost efficiencies, enhancing self-service, adding customer value, and increasing farebox and ancillary revenue. There is also a real focus on transformative business and technological change to enhance our backend systems and employee experience.

Customer Advocacy

LNER reported a Net Advocacy Score (NAS) of 42.3 for the year up to P12*, 4.1pts above the end of year target, 8.4pts below results for 2020/21 NAS and 27pts above the 2019/20 NAS. Disrupted NAS, which measures NAS during times of disruption to the railway, was 8.5, 5.5pts above target, and Non-Disrupted NAS was 47, 6.7pts above target. Cleanliness and tidiness of carriages has been consistently one of the highest scoring metrics over the year along with ease of booking seat reservation and metrics linked to availability and friendliness of staff. The launch of the 'Dine' complimentary catering offering in First Class in January saw satisfaction with availability, variety and quality of food and drink metrics reach the highest scores since the start of LNER:

*In mid-February 2022, LNER launched its new post journey survey (previously known as 'NAS') as part of its new Voice of the Customer programme. Net Advocacy will continue to be measured to track customer loyalty, but customer satisfaction will be tracked and reported on using a new metric of CSAT (overall customer satisfaction). Results from the new survey saw CSAT and NAS drop in P12, largely driven by disruption caused by storms. P13 scores recovered and are reporting in line with the previous survey, demonstrating that changes to the survey and methodology have not impacted outputs.

Customer Loyalty

LNER Perks was designed to both reward customers for travelling with LNER and deliver a more comprehensive understanding of customer travel behaviours to enable an improved customer service offering. Despite the impact of travel restrictions, 320,000 members have signed up since launch and £1.3m credit has been awarded to members.

Since launch, LNER has used first party customer data to personalise member communications and rewards based on a range of customer behaviours and attributes, including their class of travel, reasons for travel, and whether they are using the app already.

London North Eastern Railway Limited
Strategic Report (continued)
For the year ended 31 March 2022

Working with our suppliers

LNER issues a Supplier Code of Conduct to its key suppliers outlining how it aspires to manage its long-term supplier relationships and all suppliers must sign up to this before contracting with LNER.

Depending on contract value, complexity and risk, key business and critical contracts are regularly reviewed for performance and have both a Contract Manager from the relevant Directorate, as well as a Procurement Lead assigned to it. In addition to commercial aspects, LNER also measures and tracks Social Value in all appropriate tender evaluations above £100,000 or where required within the Utilities Contract Regulations (UCR) requirements. The tracked and delivered benefits to the local economy are just over £9m from the contracts awarded. LNER also continues to monitor suppliers from a Modern Slavery perspective.

As an organisation that is subject to the UCR, contracts over the relevant threshold are advertised in Find a Tender Portal (FTS) or through a UCR compliant government framework agreement such as the Crown Commercial services frameworks. Further to this we uphold the principles of proportionality, transparency and equal treatment to ensure best value is achieved with the most suitable suppliers for any project. Any suppliers who work on LNER stations will be requested to be Rail industry supplier qualified to the relevant qualification category. As a minimum level of assurance, we expect our suppliers to ensure they meet the provisions of the Ethical Trading Initiative (ETI) Base Code or similar standards and that they are monitored by independent third parties.

This includes our suppliers' own first and second tier suppliers (with the aim of including third tier suppliers over time) and checks that provisions are in place in relation to paying Living Wages. We adopt a risk-based approach with our supply base to ensure significant direct labour contracts, such as our Catering and Cleaning suppliers, pay at least the National (and London) Living Wage to their employees and supply chain. This is specified in the commercial contract and audited on a regular basis.

The supply chain is currently being challenged by many external factors, including the events in Ukraine, and we are continuing to work closely with our suppliers to mitigate cost increases being experienced across the supply base. We have reviewed some of the risks and challenges we face and we are acting in a responsible way to make sure that the suppliers continue to deliver value for money whilst maintaining a quality service to keep LNER safe, secure and sustainable.

We have been conducting early and proactive preliminary market engagements in more projects during the last 12 months enabling sustainability and saving strategies through life cycle costing to evolve in many of the station enhancement projects we have been undertaking.

Certain disclosures regarding Corporate Governance and arrangements and business relationships with suppliers, customers and others, have been made in the Strategic report.

FINANCIAL REVIEW

The Company generated an operating profit for the year of £30.1 million (2021 restated: £49.2 million) after £248.2 million received from the Department for Transport as service agreement subsidy (2021: £601.8 million), and operating loss before service agreement subsidy was £218.1 million (2021 restated: loss £552.6 million).

London North Eastern Railway Limited Strategic Report (continued)

For the year ended 31 March 2022

Revenue for the year ended 31 March 2022 was £758.5 million (2021: £729.8 million) which reflects ticket revenue earned from passenger services net of Delay Repay costs, the service agreement subsidy and other revenue comprising of car parking revenue, commercial property revenue, railway station access revenue, maintenance revenue, fuel sales, on board catering revenue and commissions received.

The operating expenditure reported in the year was £728.4 million (2021 restated: £680.7 million) with a profit before taxation of £5.1 million (2021 restated: £13.0 million). Profit after tax in the year was £3.2 million (2021 restated: 9.7 million).

At 31 March 2022 the Company had net assets of £31.7 million (2021 restated: £28.5 million) including right of use assets £365.7 million (2021: £271.6 million) and lease liabilities £382.4 million (2021: £291.1 million). At year end the right of use assets and lease liabilities were remeasured as a result of the expected LNER service term increase from June 2023 to June 2025.

The comparative year has been restated following a change in accounting for the defined benefit pension scheme, see note 1 for details.

Principal risks and uncertainties

There are a number of key risks and uncertainties that could have an impact on the Company's performance and the achievement of our objectives, not least of which has been the unprecedented ongoing business disruption caused by the coronavirus (Covid-19) outbreak. Even with the removal of restrictions, the impact of Covid-19 throughout the past 12 months represents a continued risk and is likely to give rise to high levels of uncertainty for some time in terms of passenger volumes and travel patterns. The risk of new variants and waves remains high which could lead to the reintroduction of travel restrictions.

The LNER budget for 2022/23 assumes that Business travel will increase during the year. Recovery in this sector has picked up at the end of 2022, but there is still some uncertainty over where the normal level will be. The leisure market is highly concentrated on weekend travel and if fares reform is delayed then options to increase weekend yield will be lost. Additionally, increased confidence in foreign travel may suppress summer leisure travel. Related to this, increased flights on Anglo-Scottish routes may slow growth on this important market.

Inflationary pressures are expected to affect leisure travel as rising prices reduce disposable income for discretionary rail travel. The cost-of-living impact is a risk to LNER's recovery, whilst high inflation is putting pressure on the cost of goods and services that LNER require to operate. The events in Ukraine continue to put pressure on our supply chain and the prices we pay for regular commodities.

The Company is exposed to a suite of additional external and internal risk factors. The business is reliant on passenger numbers which in turn are impacted by external risk factors such as the continuing changes brought about by regulatory, economic and competitor activity. Under the terms of the Services Agreement, the Company falls under the regulation of the Department for Transport, and the Office of Rail and Road. Laws and regulations are subject to alteration and amendment and the costs of compliance with new legislation and regulations, including those in relation to the health and safety of our people and passengers, may have an adverse impact on the Company's financial performance. To mitigate the risk from such changes the Company proactively engages in both Government and industry groups. Furthermore, given the service offering LNER provides, the ongoing impacts to our supply chain represent a

London North Eastern Railway Limited Strategic Report (continued)

For the year ended 31 March 2022

significant risk to our operation. Brexit, Covid and the ongoing crisis in the Ukraine have exacerbated an already challenging area and the issues we face in relation to our catering supply chain in particular, is a key risk our teams are applying appropriate levels of focus on.

As at the balance sheet date neither the 2016 nor 2019 triennial valuation of the Rail Pension Scheme had been signed off. LNER continues to actively participate in work alongside the Rail Delivery Group, the Trustees of the scheme, the Pension Regulator and the Department for Transport on the 2016 and 2019 valuations. Until such time as more up to date valuations are agreed, the accounting position will continue to be based on the 2013 valuation.

The method of Pension accounting applied in the financial statements has changed this year from the previous 'Franchise Adjustment' method to the 'Income Statement Franchise Adjustment' method, see note 1 for definitions. This amends the accounting to be in line with the method that the Southeastern franchise has previously adopted, and to that which is now adopted by the majority of train operating companies. The new approach provides more reliable and relevant information to the readers of the financial statements and is not sensitive to the key accounting judgement around the duration of the services agreement. The comparative year is restated for this change in accounting policy. It should be noted that whilst the comparative year costs have decreased on restatement, there is no cash implication of the restatement as the subsidy received remains unchanged. This is as agreed by DfT.

Our most significant emerging risk is the impact to services from industrial relations. Since the year end the RMT, ASLEF and TSSA trade unions have called strikes across the rail industry in Britain. These included the employees of LNER, NTL and Southeastern, as well as Network Rail the infrastructure provider and other train operating companies. Regrettably at the date of signing the financial statements, we anticipate further industrial action. We are working to try to resolve this situation for the benefit of our passengers, our employees, and the company and its shareholder.

Other internal risks include the failure of internal controls and operational performance issues. The Company operates established formal and robust internal processes to ensure systems and controls are operating effectively, and that the quality and integrity of information driving the business is reliable, enabling Directors to monitor and challenge the performance of the company, and make informed decisions. The Company also has an established Internal Audit function who follow a programme of work which has been developed through a risk-based analysis of our operations and aligned to our strategic objectives. Our Internal Audit team aims to be at the forefront of strategic and technological developments throughout the business to proactively identify emerging risks so that, as a business, we can manage these as effectively and efficiently as possible.

The threats posed to all organisations through cyber criminality continue to increase, with criminals attempting to exploit human or security vulnerabilities to gain access to passwords, data or misappropriate monies. To mitigate our exposure to this risk the Company has a dedicated, well resourced, in-house Information Security team in place.

This team of suitably qualified professionals collaborate with all areas of the business to ensure that best practice is followed in respect of information security and that appropriate controls are in operation to address this key business risk area. In addition to the various applications and information security awareness programs, LNER has achieved ISO27001 certification to ensure a baseline level of information security is established across the company.

The retention and recruitment of key personnel is essential to ensure the Company has the appropriate correct level of expertise and industry knowledge. The recruitment market is increasingly candidate led and the opportunities created within the Great British Railways Transition Team have created some resourcing pressures for the organisation due to

London North Eastern Railway Limited Strategic Report (continued)

For the year ended 31 March 2022

several secondments. To mitigate this risk, the Company undertakes efficiency and effectiveness reviews to optimise organisational design and secure a sound base for development of future workforce capability.

Corporate Governance Statement

LNER did not adopt a formal Code of Governance as the parent company, DfT OLR Holdings Limited, has an internally generated Governance code which covers all the main areas of governance appropriate to an entity of LNER's size and purpose.

LNER is a subsidiary of DfT OLR Holdings Limited having joined the group in June 2018. LNER is governed by the LNER Board which is chaired by a Non-Executive Director and comprises two other Non-Executive Directors along with the nine members of the LNER Executive team.

The Board is accountable for the overall leadership of the organisation, setting the company's strategy, values and standards ensuring accountability and shaping the culture of the organisation. The Board has delegated authority to three Board Committees to discharge its duties effectively and these Committees escalate items to the Board where Board decision making, and direction is required.

The Board defines the direction of LNER, setting policy and strategy regarding future development and provides oversight and challenge of the day-to-day operation of LNER, ensuring adequate systems and processes are maintained to measure and monitor LNER's effectiveness, efficiency and economy as well as the quality of its safety, service delivery and governance arrangements.

The Board met nine times during the financial year, approximately once every four weeks. As standing meeting items, the Board discussed safety, the company's performance against its Key Performance Indicators, and the on-going operational and commercial implications of the Covid pandemic.

The three Board sub-committees and their duties are as follows:

Audit and Risk Committee – the Committee oversees the adequacy and effective operation of the organisation's overall governance and system of internal control. This includes Risk Management plus Financial, Operational and Compliance controls. The Committee also reviews and reports on these along with the related assurances that underpin the delivery of the organisation's objectives that are provided by the activities performed by specialists within the business, predominantly the Internal Audit function and the Information Security team.

Remuneration Committee - the Committee recommends to the Board of Directors the process for the selection, appointment, termination, compensation and benefits of Executive Directors and the senior management bonus scheme. The Committee also monitors and evaluates the performance of the Executive Directors subject to the advice of the Managing Director.

Security, Safety, Health and Environment Committee – the Committee reviews the operation of the management system and its maturity within LNER, reviews the internal audit plan and any external audit reports and assesses whether management is setting an appropriate 'culture of internal control and risk management' within the Company in relation to health, safety, security, and environment.

London North Eastern Railway Limited Strategic Report (continued)

For the year ended 31 March 2022

The Board reviews the Strategic and Corporate Risk Registers at least annually, drawing on recommendations from the Audit Committee. These are supplemented by 'deep dive' sessions focussed on the mitigations in place against specific key risks from the Registers.

The themes covered by Deep Dive sessions undertaken in the last 12 months include the risks and mitigations in place regarding Industrial Action and the threat of acts of terrorism (both physical acts of terror and cyber related activities).

Clear terms of reference are in place for all our Board committees with appropriate non-executive representation on each committee to provide relevant independent challenge. Governance arrangements are clearly defined with delegated authorities in place for individual directors to be accountable for directorate decision making. Strategic papers are submitted to Board where approval is required at higher levels of delegated authority.

The Board actively seeks long-term sustainable success for the company and promote opportunities where LNER can lead the way, whether by innovating and bringing new technology into the railway or overseeing strong risk management processes.


Clear and defined risk management arrangements are in place and considered at each Audit and Risk Committee with reporting to the LNER Board. Our Audit and Risk Committee play a pivotal role in evaluating our risk management processes, as well as directing our response to factors that threaten our performance or exploring opportunities for us to improve further. Our risk management framework and our business resilience arrangement are in place to respond quickly to events that impact the Company, mobilising key resources to put in recovery plans. This has most recently been seen during our ongoing response to Covid-19 and the associated business recovery work.

LNER Directors ensure that the business engages closely with a wide range of stakeholders to ensure our strategy and priorities are focused on delivering for our colleagues, customers and the communities we serve, in the towns and cities across the East Coast. We have a dedicated stakeholder team within the wider communications division which creates engagement opportunities with media, political, local authority, user groups and business representatives, sharing regular updates, responding to enquiries, hosting engagement events; and involving them in celebratory moments, such as the launching of services to new destinations, including Middlesbrough.

Our Commercial team builds close relationships with businesses along our route, to ensure we are providing the products and support they need and creating opportunities to enhance our presence in our priority markets.

Finally, our Internal Communications team provides a direct and two-way channel between our Directors, Business Leadership Team, managers, and the wider business, with regular essential updates, opportunities for colleagues to share their views and celebrate achievements, and events and digital tools to bring the business together to focus on shared priorities.

On behalf of the Board



James Downey
Finance Director

15 August 2022
Registered Office: East Coast House, 25 Skeldergate, York, YO1 6DH

London North Eastern Railway Limited

Directors' Report

For the year ended 31 March 2022

The Directors present their report together with the audited financial statements for the year ended 31 March 2022.

Principal activities

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

Results and dividends

The results for the year ended 31 March 2022 are set out in the Income Statement on page 35. The results for the year have been discussed in the strategic report on page 13. A dividend of £nil was paid (2021: £nil). The Directors do not recommend a further dividend for the year (2021: £nil).

Future developments

The future developments for the company are shown in the Strategic Report starting on page 4.

Health and safety

The safety of employees and customers has been of prime importance and working with partners such as British Transport Police, Network Rail and other key stakeholders, the Company has put in place initiatives that will ensure, as far as is reasonably practicable, the health, safety and welfare of its staff and our customers. We continue to have a strong relationship with the Office of Rail and Road (ORR), the Safety Regulator of Britain's Railways. The Company's 2021/22 Safety & Environment Plan set risk-based and targeted objectives which would maintain, and further improve, the safety and environmental performance delivered in 2020/2021. This year has been challenging due to the unpredictable nature of the Covid-19 pandemic. The direct result of substantially reduced customer volume has been a concurrent reduction in customer and colleague accident actuals and a corresponding reduction in Fatalities and Weighted Injuries (FWI). As customer numbers return and employee activity increases, we have seen corresponding rises in accident actual and FWI measures. However, measures still continue to perform below pre-pandemic levels despite an almost normal return to activity. Much work has been done throughout the pandemic to engage on Safe Systems of Work (SSOWs) and look again at station and on train design in ways that we have not utilised before. Engagement on SSOWs is high and a culture of compliance persists. Recent Safety Culture/Climate Studies indicate an engaged workforce keen to share feedback on unsafe acts and conditions and we are taking forward action to build upon these very strong foundations in the 2022/23 Safety and Environment Plan.

Environment

Being a responsible business underpins LNER business values which includes managing our impact on the environment. In accordance with the requirements of the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations SI 2018/1155, as an unquoted company our energy consumption and associated greenhouse gas (GHG) emissions for the reporting year is summarised below:

Our reporting boundary includes activities associated with the operation of:

- Stations where LNER are Station Facility Operator, our headquarters in York, three Network Rail locations where we are tenants, our customer solutions centre in Gosforth where we are tenants of Virgin Money and Aberdeen Clayhills Maintenance Depot.

London North Eastern Railway Limited
 Directors' Report (continued)
 For the year ended 31 March 2022

- Fleet in service including Azuma Class 800/801 and IC225

Data has been collected and emission calculated in accordance with the Greenhouse Gas Protocol Corporate Accounting and Reporting Standard.

LNER data*	Scope	2020/21 Total	2021/22 Total	2020/21 Carbon tCO2e ³	2021/22 Carbon tCO2e ³
Energy¹					
Total gas kWh ²	1	3,529,481	3,472,033	733	745
Total non-traction electricity kWh ²	2	9,943,916	10,607,688	2,865	3090
Traction electricity (EC4T) kWh ⁴	2	268,540,394	299,388,163	77,375	87,212
Traction diesel (litres)	1	3,277,347	5,456,010	11,111	18,502
Fuel consumed in company road vehicles (diesel litres) ⁶	1	133	245	0.42	0.77
Mileage claims personal vehicles (miles) ⁵	3	24,590	29,202	8.3	9.8
Expense claims fuel for business travel (diesel litres) ⁶	1	637	1,225	2	3.8
	TOTAL			92,095	109,563
Other environmental parameters					
Total Waste (tonnes) ⁷		422	1013		
Waste % recycled ⁷		26.2%	23.2%		
Total water (m ³) ⁸		65,967	65,526		
Diesel generator (litres)			6,016		19
Intensity ratios					
Carbon emissions per £million turnover ⁹				126 tCO2e	144 tCO2e
Carbon emissions per passenger kilometre (traction data only)				92 gCO2e	26 gCO2e
Vehicle litres & miles conversion to kWh					
Fuel consumed in company road vehicles (diesel litres converted to kWh) ⁶		1,429	2,637		
Mileage claims personal vehicles (miles converted to kWh)		21,834	25,928		
Expense claims fuel for business travel (diesel litres converted to kWh) ⁶		6,843	13,159		
Total kWh		317,250,140	372,118,072		

*Improvements in data collection methodology and updates to missing data have resulted in amendments to 2020/21 data presented above.

¹100% of all reported energy consumption and their emissions was located within the UK

²Includes estimated data where metered data is missing. Estimate is a pro rata where data ceases part way through a period. Subsequent periods are calculated from a utility invoice tracker which summarises invoices (estimates and actuals). Some estimated utility data is copied from the previous year's period where no up to date invoice is available.

³Carbon has been calculated using all scopes conversion factors

<https://www.gov.uk/government/collections/government-conversion-factors-for-company-reporting>

London North Eastern Railway Limited Directors' Report (continued)

For the year ended 31 March 2022

⁴Traction data for 2020/21 includes 'wash up' data from Network Rail (NR) which was not available at the original time of reporting, 2021/22 currently does not include this 'wash up' data, this should be reduced due to the switch to metered data. The 2020/21 value has decreased as a result of improved data and moving to metered EC4T billing. EC4T data now includes NR non-journey consumption and regenerative braking which were previously omitted.

⁵Carbon conversion has been calculated from the primary unit in which the data was collected

⁶Litres calculated from recorded fuel costs and average diesel fuel costs in 2021/22 (£1.40/litre)

⁷Does not include non-managed locations (Leeds, Kings Cross and Edinburgh estimated data from Network Rail) and at present confidential paper recycling and facilities management contractor collections are excluded. Includes offsite segregation by our waste contractor at Clayhills depot.

⁸Includes data from actual / estimated invoices and calculations to fill data gaps as a result of missing real time data.

⁹Turnover is inclusive of the DfT subsidy resulting from the impacts of covid. As a result, the normalised emissions per million turn over increases in 2021/22 due to the return of customers and uplift in timetable and associated energy.

Energy Efficiency Action and Environmental Reporting

Traction Energy

The rail year 2021/22 continued to be influenced by the Covid pandemic. Traction energy consumption increased in 2021/22 compared to 2020/21 by 54,249,989 kWh (+17.9%) with electricity accounting for 299,388,163 kWh, 83.6% of traction energy and diesel 58,608,463 kWh an increase of 66.5% on the previous year. While the business has begun an industry-leading recovery from the pandemic with a passenger km increase from 1,010,831,527 km to 4,072,877,026 km in 2021/22, energy consumption and passenger kms travelled continue to be below pandemic levels as timetables were reduced as a result of Covid. We observed an increase in energy consumption as national restrictions were lifted and customers returned however the year was not representative of a 'normal' year's rail operations. Please note traction energy values for 2020/21 have been updated to reflect improved methodology including the switch to metered EC4T billing data and the inclusion of non-journey and regenerative braking kWh as presented within the NR EC4T file.

The business' traction energy consumption in the year was impacted by a number of issues including changes to service levels as a result of Covid, engineering work and the Hitachi class 800 fatigue crack issue.

We continue to identify opportunities to improve traction energy and carbon efficiency through our Traction Energy Group. Current research & project streams include connected driver and traffic advisory systems, alternatives to diesel generator units e.g., batteries, and reducing generator unit preheats (a diesel fired coolant heater). In addition to this the business is developing a suite of analysis tools to identify trends, anomalies and opportunities to deliver future energy efficiencies within our fleet and its operation in 2022. We are currently running a procurement for additional fleet and while some diesel propulsion is likely to be required on non-electrified routes, we are moving more towards battery usage and awarding marks for future full battery conversion.

Non-Traction energy

Non-traction energy represents the electricity and gas used to heat, light and power our stations, offices, engineering depot and includes managed and non-managed utilities. In 2021/22 this increased by 606,324 kWh (+4.5 per cent) in comparison to the previous year. Managed utilities include the supplies that LNER has direct control over or has installed sub-metering to provide accurate reporting where the physical supply is managed by Network Rail. In 2021/22 managed gas and electricity increased by 3.6 per cent, with electricity representing 4,633,620 kWh and gas 2,482,732 kWh. Non-managed utilities include stations managed by Network Rail and supplies where LNER does not have visibility of the meter billing and in 2021/22 accounted for 6,963,369 kWh (gas & electricity) which was a 5.4 per cent increase on the 2020/21 consumption values. Non-managed utilities are subject to the station operator as such does include estimations where data is omitted in 2020/21 and 2021/22.

London North Eastern Railway Limited Directors' Report (continued)

For the year ended 31 March 2022

This increase in energy was expected as Covid restrictions relaxed and our colleagues and customers returned to our locations. To support this increase, tenancies offering products and services reopened, and at some locations new units opened which have increased the energy intensity e.g., York's express supermarket.

Developing on from the 2020/21 energy surveys, the business undertook activities to improve efficiency based on these surveys including adjusting heating control systems at Wakefield Westgate and continuing the remaining non-LED light replacements. Further inspections were completed in the latter part of 2021/22 to identify improvement projects in heating and lighting control systems across the business. Our Estates team delivered a redevelopment of Grantham station carpark which included LED lighting and sensor controls along with a recycled steel felt asphalt.

To improve our understanding of utilities and drive continual improvement it is important that we receive accurate data at an appropriate resolution from our own systems and external parties. We are aware of improvement opportunities and will continue to progress these with the relevant stakeholders. We expanded our non-traction energy group to the wider business and formed the sustainable stations and estates working group. This forum will collaborate on delivering continual improvement regarding the environmental footprint of our estate.

The business continues to maintain ISO 14001 and 50001 and is audited annually against these standards.

Decarbonisation

In alignment with the DfT's Rail Environment Policy and wider industry approach LNER has its own plans to achieve Net Zero Carbon. Using energy more efficiently and reducing consumption are fundamental to reducing carbon emissions, however, rail will not be zero energy, therefore the carbon intensity of the energy we use needs to be addressed.

The business has an established decarbonisation action plan with key stakeholders. The sustainable stations and estates working group will track the delivery of key actions with the Exec Safety Security and Sustainability board being updated on a regular basis.

Waste Management

In 2021/22 as customers returned to the railway and tenancies reopened the volume of waste increased. In comparison to pre-Covid (assumed 2019/20), total waste volumes are approximately 29 per cent lower at 1,013 tonnes in 2021/22. The business achieved a recycling rate of 23.2 per cent in 2021/22, this was largely influenced by Covid and the change in waste characteristics.

We expanded our coffee cup recycling collections to Doncaster, Wakefield and Newcastle this year to help increase the volume of these being collected for recycling within the rail industry.

Our biggest improvement with waste management was the introduction of a waste sorting hub at Newcastle and Doncaster in early 2022. Recycling onboard trains and in public spaces is challenging. Space is restricted and the public do not always use the correct bins. This sorting process has enabled Newcastle to improve its recycling rate from approximately 12 to 30 per cent with further opportunities to segregate more waste. Initiatives in the year include expanding the roll-out of coffee cup recycling to Doncaster, Wakefield and Newcastle, developing the waste sorting process at Newcastle and Doncaster and completing the installation of free water refill points across our estate.

London North Eastern Railway Limited Directors' Report (continued)

For the year ended 31 March 2022

Water

In 2021/22 water consumption increased to 65,526 m³. This value includes LNER managed estates and non-managed locations. In some instances, the availability of real time data is limited meaning estimated values are utilised. We are working with our suppliers to resolve these metering issues. The overall increase in water was to be expected with the increase in usage of our offices, station and depot facilities as customer and colleagues return post Covid. We continue to review the half hourly data to help with leak identification.

Climate-Related Risk and Opportunities

In order to enhance and expand reporting of climate-related financial information the Financial Stability Board developed the Task Force on Climate-related Financial Disclosures (TCFD). This has given rise to a framework supporting businesses to disclose climate-related risks and opportunities through their existing reporting mechanism. As part of our journey to fully understand our climate risks and opportunities, LNER has been working to apply the recommendations of the TCFD to ensure that climate change is appropriately reflected in key areas such as:

- **Governance** - as mentioned in detail below, climate related risks and opportunities already form a key part of our risk management process and there continues to be even great focus placed on this within LNER
- **Risk management** - the environment and climate change is one of the many pillars included as part our established risk management process across the organisation.
- **Business Strategy** - Our corporate vision is clear in its intent for LNER to be the most responsible way to travel. Our strategic objective of responsible business and partnerships is aimed at fulfilling this vision, including by ensuring we have a positive and sustainable impact on our communities and the environment.
- **Business KPIs** – Responsible Business and Partnerships forms a distinct section in our suite of business metrics. This includes areas such as our traction usage and waste recycling percentages.

Although our timeline in relation to TCFD will support full compliance by financial year 2023/24, we are conscious that the benefits of these disclosures extend beyond compliance. One of the key benefits being that the fundamentals of TCFD allow us to fully consider climate change as part of our business decision making process.

For some time, we have recognised climate related risk as part of our Strategic and Corporate Risk Register, especially given its major significance both internally and externally. This follows our standard risk management process in terms of identifying, analysing and mitigating those risks facing our organisation through:

- **Reduction** of the risk
- **Avoidance** of the risk
- **Transference** of the risk
- **Acceptance** of the risk

Within LNER we employ this established risk management process to capture our key risks and opportunities relating to climate change, with the associated risk register maintained by SMEs from across our organisation. The outputs of this are subject to regular and ongoing review and discussion by our Executive Team and the LNER Audit and Risk Committee.

Our profile of risks in this area falls into two key areas, these being the physical risks arising from climate change and those risk inherent in a transition to a low-carbon economy.

London North Eastern Railway Limited Directors' Report (continued)

For the year ended 31 March 2022

Given the nature of LNER's business and the geography of the route on which we operate, physical risks are of a particular concern in respect of specific weather events and longer-term shifts in the climate. That said, the breadth and pace at which stakeholder expectations and the legal, regulatory and political focus are changing means that the transitional risks are becoming equally prevalent to LNER.

Our current view of the main themes around these risks and opportunities is laid out below:

Tax Risks – either increased taxation based on our carbon footprint or changes in taxation policy that impact on the organisation.

Policy and Legal Risks – ranging from LNER's (and our key third parties) ability to report on climate related factors, increased litigation and regulation and significant movements in insurance premiums.

Supply Chain Risks – these risks include the price and availability of products/services in our supply chain plus the financial impact to our supply chain of a more robust regulatory landscape in relation to climate related issues.

Technology Risks – these cover the financial impact of customers moving to alternative modes of travel and the financial risks inherent with investing in lower emission technology.

Reputational Risks – risk of stakeholder's, both internal and external, perception of LNER due to the awareness of our approach to sustainability.

Operational Risks – likelihood of chronic or acute risks disrupting our services, our managed properties, our people and/or our critical supply chain partners.

Rather than a pure focus on risks, we continue to build on the financial opportunities that climate change enables for LNER, from reductions in operating costs through capitalising on greater energy efficiencies right through to attracting customers to rail on the basis of our strong environmental credential.

During the course of the next 24 months, we will be working with key stakeholders to evaluate the potential impact on the business of various climate scenarios. To enable a truly holistic perspective we intend to work with key third parties such as our colleagues within Network Rail to consider the impact at an industry level rather than siloed in relation to LNER.

In preparing our financial statements LNER has considered the impact of climate change. This has not resulted in any material changes to our reporting judgements or estimates. We do not believe that climate change will have a meaningful impact on the viability of the business in the medium term.

London North Eastern Railway Limited

Directors' Report (continued)

For the year ended 31 March 2022

Directors

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

Richard Harrison

Robin Gisby

David Horne

Suzanne Donnelly

John Doughty Resigned 13 July 2022

Warrick Dent

James Downey

Sally Rose Appointed 3 November 2021, resigned 13 July 2022

Karen Lewis Resigned 23 February 2022

Claire Ansley Appointed 23 March 2022

No Director had any interest in the share capital of the Company during the financial year (2021: nil).

The Company entered no significant contract or arrangement during the year in which any Director had a material interest.

Company Secretary

The Company Secretary is James Downey.

Employees

Delivering a supportive and positive employee experience is critical to us at LNER. We are committed to having an inclusive, healthy and engaging working environment for everyone as this will foster a happier, more fulfilled workforce, driving excellent customer experience and loyalty. Through each stage of our LNER 'Employee Journey' we will design positive interactions which make us a 'great place to work'. Our aims are to continue to focus on delivering a plan that creates an inclusive, connected and diverse workforce that is fully representative of the communities we serve. The pandemic has disproportionately affected diverse populations and we have a strong role to play by ensuring diversity, equality and inclusion. This includes educating our colleagues, understanding the realities of diverse experiences, and taking proactive steps to equalise the playing field. We are committed to providing employment opportunities to young people from diverse backgrounds as well as reducing training operating expenditure. This will be done whilst developing our workforce by maximising government funding. During 2021, we are supporting the government Kickstart programme and providing job placements for young people (18 – 24) who are currently receiving Universal Credit and are at risk of long-term unemployment.

We have stated that people are instrumental in the continual realisation of the LNER Vision and therefore we will continuously strive to find better ways to attract, develop and retain the very best people. People perform at their best when they're able to achieve what's important to them both inside and outside of work. We want to maximise productivity through flexibility, collaboration and accountability.

London North Eastern Railway Limited Directors' Report (continued)

For the year ended 31 March 2022

We will create programmes and policies (such as our brand-new homeworking policy) that focus further in driving a culture that is virtuous, flexible and agile, inclusive and growth focused and committed to supporting holistic wellbeing that promotes energy and good physical, mental and financial health for all.

Employee Representation Measurements

Across the company there are 58% male and 42% female employees (2021: 58%:42%). The directorates with the greatest gender imbalance are Safety and Operations (84% male) and Engineering (78% male). There are 59% male managers and 41% female managers with this ratio remaining static in comparison to last year. Across the organisation most employees are on full time contracts (86%) compared to part time contracts (14%).

Ethnicity: we are focused on improving the ethnicity demographic within our workforce to one that fully represents the communities across our route. 85% of the employees identify themselves as white, 9% identify as from an ethnic minority background, 3% is unknown and 3% prefer not to say.

Currently 9% (2021: 9%) of our colleagues are from an ethnic minority background, against a UK population of 13% according to the 2011 census and we acknowledge that more work is required to ensure greater representation across our business. We measure our representation by job role/level, as well as based on location, to compare with ONS data and understand how representative we are of the communities we serve. This enables us to own our opportunities and create focused initiatives to drive change, in particular amongst our higher paid roles, such as train drivers.

While a lot of our activity has been impacted by Covid-19, we continued to drive forward our inclusion agenda and remained passionate about making a difference for both our colleagues and customers. Over the past 12 months we have worked with organisations such as Business in the Community (BITC) to enhance our strategy, from signing the Race at Work Charter to BITC leading on some focused listening with our colleagues from ethnic minority backgrounds, exploring potential barriers to entering careers in rail and progression once in the business. We also work as part of Rail Industry Unites, a cross industry rail group on equality, diversity and inclusion, and ran a series of events across Black History Month and into November to drive conversation and learning across the industry. Our People Team is committed to delivering our Equality, Diversity, and Inclusion agenda, working closely with business leaders to create targeted attraction and development initiatives that improve representation and foster a caring and supportive culture. We continue to develop and inspire our leaders to 'own' our journey as part of our values, in which all leaders are expected to nurture a culture of inclusion. We will achieve this through raising awareness and educating our teams in relation to the impact of diversity of thought, bias and privilege.

Our EDI strategy has clear measures and during the year we worked hard on trusted disclosure so that we could be clear of our baseline. We have a strong data profile when it comes to the age, ethnicity and gender of our colleague base. Our disclosure in relation to LGBT+ representation is at 62% and we continue to have opportunities with data disclosure in regard to other characteristics, in particular disability. We are currently working with the Rail Delivery Group, Diversity and Inclusion strand to explore our EDI data sets across the industry. Our aim is to ensure, wherever possible, we are asking the same questions with the same options for colleagues to select from. This will allow us to compare our metrics more easily. Alongside this activity we are also looking to future proof our EDI data, as we know reducing unclassified data can be challenging, by considering what other questions we may want to add. The aim is to agree on some industry wide diversity data collection questions and then work on an industry wide campaign to support data disclosure.

London North Eastern Railway Limited Directors' Report (continued)

For the year ended 31 March 2022

At LNER we have a proposal around additional questions in relation to social mobility and caring responsibility already in place and are supporting the work within the RDG to align where possible on activity. It is not possible to mandate completion of diversity data given employees are under no legal obligation to provide it, however we feel that working with RDG and the broader industry we will be able to run a cross industry campaign that supports in engaging colleagues on this topic and improve data disclosure. Outside of this campaign we will continue to use opportunities to encourage colleagues to update their data, for instance in our activity to mark World Religion Day we promoted colleagues sharing this information with us which led to an increase of data disclosure of 2% and we also had similar success recently in regard to pronoun sharing.

As well as the actions previously mentioned, some of the initiatives launched over the past year include:

- Created and embedded our Equality Impact Assessment (EQiA) process for all colleague and customer impacting activity to ensure all new project work has an EDI lens upfront so that we are being proactive and not reactive when it comes to our inclusion agenda. The review of EQiAs takes place every two weeks via a steering group.
- Launched reciprocal mentoring programme focusing on developing the understanding of our senior leaders in relation to equality, diversity and inclusion. Initial launch of the scheme linked each member of our directorate team to a colleague with lived experience of a particular characteristic (44% ethnic minority, 56% female), where possible this also aligned to the area of sponsorship the director has to our EDI agenda. The scheme was six months in length and involved exploring both experiences of colleagues and customers at LNER. The outputs of the listening have led to a number of initiatives such as the creation of a Gender Identity toolkit to support colleagues transitioning, developing a Parents and Carers network and some focused investment in our disability and ethnicity agenda.
- Funded specific activity to help improve our EDI including a Disability Culture Audit, conducted by Enhance the UK and focus ethnicity listening groups exploring attraction and development hosted by Business in the Community. The outputs of which are informing our strategy in 22/23.
- Developed and delivered LNER-Inclusion Journey training to all new starters at LNER, with a fixed slot now at every Welcome To, as part of onboarding process.
- Worked as part of our East Coast Partnership to create a Never Mind the Gap work placement, in support with Women in Rail, for women who are currently on a career break. This programme will involve individuals spending a week at Network Rail and LNER to promote careers in our industry. Applications went live with the launch of the programme in May – anticipating more cohorts across the year.
- The Community team launched our first ever digital work experience programme, targeting diverse populations which included social mobility. The first cohort of 179 included 28% female representation, 34% from an ethnic minority background, 24% had received free school meals, 4% had caring responsibility and 13% with special educational needs. Two more programmes are planned for 2022
- Created an EDI brand to underpin all our inclusion work 'Being You at LNER' which will enable us to engage with colleagues more clearly on this agenda.
- Delivered a variety of webinars in collaboration with others TOC/FOC and Network Rail across the industry as part of Rail Industry Unites, enabling us to collaborate more effectively and provide opportunities for our colleagues to engage with broader networks.

London North Eastern Railway Limited Directors' Report (continued)

For the year ended 31 March 2022

We have an in-house occupational health and wellbeing department, medically led by our Chief Medical Officer to ensure holistic clinical excellence and engagement across industry and within the occupational health profession. We have developed a mental health strategy that hopes to influence every stage of the employee LNER journey. To further emphasise our commitment to the proactive wellbeing agenda, we are adding to our team a dedicated wellbeing manager to ensure delivery of our strategy.

In early 2020, we were accepted onto the Education and Skills Funding Council (ESFA) Register of Approved Training Providers as an Employer Provider. This has allowed us to deliver training aligned to agreed Apprenticeship Standards. This approach not only provides the trainee (learner) with an industry recognised qualification, but it also allows us to access levy funding for learners living/working in England, which keeps base costs down for the business.

During the financial year 2021/22, 19 Apprentice Train Drivers and 28 Apprentice Train Managers commenced their apprenticeships accessing over £500,000 of Apprenticeship Levy funding. LNER continues to utilise the levy drawn down to reinvest in further upskilling of our teams to deliver exceptional services and products to our customers.

Within our Armed Forces Covenant, signed in April 2020, we recognise the value serving personnel, reservists, veterans and military families bring to our business. This includes seeking to support our employees who choose to be members of the Reserve forces and being flexible to accommodate their deployment and training needs.

We are committed to ensuring that our colleagues are provided with every opportunity to access any development or training required to be successful in their role or a role they aspire to. We continue to work hard to ensure that the learning experience and opportunities are the best available in our industry. We work in partnership with the very best training providers and education establishments in both England and Scotland, to access development opportunities for our colleagues. During the fiscal year 2021/22, a total of 37 colleagues had commenced funded learning with third party training providers/education establishments.

Statements of the company's policies during the year in respect of disabled persons.

Employment

LNER welcomes all applications regardless of any protected characteristic, status, trade union affiliation or other irrelevant factor. We are actively seeking to build a more diverse workforce which is inclusive of people from all backgrounds. We hold inclusive employers 'bronze' status and are working to achieve 'silver' status by 2023. We offer workplace adjustments (where possible) at recruitment stages and through employment.

Should a colleague become disabled which is recognised through the Equality Act (2010) through their employment at LNER, the business will ensure they are actively supported through our Health and Wellbeing team and accommodations made through Reasonable Adjustments. Our in-house Health and Wellbeing team offer an industry leading service and are able to tailor their advice through their knowledge of our business (including individual job roles) and support colleagues in sustaining their employment with us. LNER supports colleagues with accessing support through any external agency (including Access to Work).

Training, development and promotion opportunities

All colleagues are treated fairly regardless of their disability (or other personal characteristic) status, this includes during training, career development and promotional opportunities.

London North Eastern Railway Limited Directors' Report (continued)

For the year ended 31 March 2022

We aim to meet the access requirements of all our colleagues (which include BSL interpreters, larger fonts, coloured papers, additional time) where appropriate to give everyone the opportunity to perform at their best regardless of any individual requirements. All decisions on career development and promotions are treated on merit and suitability for a role, and no disability status (or other irrelevant factor) are taken into consideration.

Community Engagement

Charitable and political donations

LNER made charitable donations totalling £24,300 during the year ending 31 March 2022 (2021: £24,300) to the Railway Mission Chaplaincy, and not including projects funded through its Customer and Community Investment Fund.

LNER provided £301,427 through the Customer and Community Investment Fund during the year ending 31 March 2022 (2021: £419,424), representing a six-month running of the scheme including for charitable projects, such as:

- **Helping Young People with Disabilities Keep Fit & Healthy** used the funding to purchase outdoor gym equipment, for young people with disabilities at Henshaws College, which lacked a provision for outdoor exercise. Many of the students face challenges keeping healthy and lacked opportunities to engage in physical activity. The outdoor gym will address this need, by supporting both physical and mental health.
- **Young Enterprise critical skills and enterprising mindsets project** delivered employability and financial education programmes in secondary schools situated in underserved communities along the LNER route. The education programmes provide meaningful opportunities for young people, to build critical skills and develop an enterprising mindset, along with key employability skill such as communication, financial capability, resilience and teamwork.
- **Domestic Abuse Counselling and Workshops** helped women overcome the mental and emotional harm caused by abuse. One-to-one counselling will help women to understand their experiences, overcome anxiety, build their self-esteem and confidence. The psychoeducational workshops give women the knowledge and skills to help them cope and move forward, allows them to engage with empathetic others with whom they can share experiences, understand they are not alone, and build networks. This project has supported women across several boroughs and the City of London.

There were no political donations made in the year (2021: £nil).

We recorded 665 volunteer hours, equating to £10,695 social value by LNER colleagues, with most of these supporting employer engagement sessions as part of our educational outreach activities. These have been a blend of virtual and in-person events.

While there has still been some uncertainty in moving back to in-person events, £83,148 has been raised for our charity partner the Campaign Against Living Miserably (CALM) to support their work in preventing suicide. Fundraising has largely been from customers continuing to support the charity through Delay Repay donations, which continues to show strong engagement, particularly in times when disruption is due to a person being hit by a train, given the strong link to the charity's work in this area. The LNER Perks scheme, provides a regular stream of customer donations, while the auctioning of unclaimed lost property, and sales from the LNER merchandise shop have all helped raise funds.

London North Eastern Railway Limited

Directors' Report (continued)

For the year ended 31 March 2022

Charitable ticket donations requests have seen an increase as more in-person events take place. LNER has donated tickets to the value of £18,060 in raffle prize donations, which helped raise £492,654 for a range of charitable causes aligned with LNER's Community Investment Strategy. LNER travel passes with an estimated value of £100,000 were gifted to support Community Rail Partnerships. We also introduced a charitable group travel rate, with applications being made via a dedicated link. This will be added to the website in the coming months.

With the absence of most physical Pride events in 2021, LNER rolled over sponsorship for Doncaster and York into 2022, while supporting Darlington in its first physical Pride event. We are currently looking at options to continue our support for Pride in 2022.

LNER has continued to take part in digital employer engagement sessions through regional partners, helping to promote employability skills amongst young people and raise aspirations to help the prevention of NEET. We have also taken part in more in-person sessions, such as job fairs and station activity, as well as hosting a careers insight day with national charity, Speakers for Schools.

This year saw the launch of LNER's Tomorrow's Talent, in partnership with Springpod, which provides a digital work inspiration/experience platform for young people aged 14-18. The programme has a mix of text learning, activities, videos and live webinars. Over two pilot programmes, 296 students from across the route have enrolled in the programme.

To support the East Coast Partnership, we have worked with Network Rail on both the careers insight day, and the live element of Tomorrow's Talent to help showcase partnership working, and careers in the wider industry to inspire young people into rail.

Financial Risk Management

Regular reviews are undertaken of the realisable value of assets and liabilities, and cash flow forecasts are produced to ensure the Company can meet its external liabilities as they fall due.

The Company's activities exposed it to a variety of financial risks. Price risk was managed by the Company having a solid understanding of the markets that it operated within and setting appropriate fares for each of these markets. A proportion of its fares are fixed prices which are set annually and are subject to regulatory approval. Credit risk was managed by cash being held by large high street financial institutions with satisfactory credit ratings, furthermore all significant receivable balances are managed to ensure that the credit quality of the counterparty is satisfactory. Liquidity risk is controlled by the Company ensuring that there is a sufficient mixture of long-term and short-term debt finance to meet planned operations. Cash flow risk is managed by cash flow budgeting and forecasting and availability of long-term debt facilities if required.

London North Eastern Railway Limited

Directors' Report (continued)

For the year ended 31 March 2022

Statement of directors' responsibilities in respect of the financial statements

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

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

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

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

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

The directors 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.

Going Concern

As noted in the Strategic Report, the going concern basis is deemed appropriate as our business will continue and is central to the recovery of the country economically and socially. The Government has continually underlined the important role the rail industry has played during the Covid19 pandemic and that it is central to the Government's strategy for recovery.

LNER is 100% owned by DfT OLR Holdings Limited whose ultimate parent undertaking and controlling party is the Secretary of State for Transport and is underwritten by the financial security of the UK government.

LNER operates as a publicly owned train company through a services agreement originally awarded on 24 June 2018 by the Secretary of State for Transport. A revised contract was agreed in June 2020 for LNER to operate trains and stations across the East Coast Main Line until 24 June 2023. The services agreement includes an optional extension of two years and in June 2022 the Secretary of State provided confirmation to the Directors that the extension would be exercised and therefore the contract will continue through to 23 June 2025. The government is contractually bound to support LNER for the length of the service period.

Under the Service Agreement, LNER is subject to fixed payments in the form of a franchise premium paid to, or service agreement subsidy received from, the Department for Transport. Under the terms of the Service Agreement the company is entitled to earn a pre-defined margin, and the service agreement subsidy or franchise premium is calculated

London North Eastern Railway Limited
Directors' Report (continued)

For the year ended 31 March 2022

so as to deliver this margin. It is calculated with direct reference to profits for each annual accounting period, and there is no clawback mechanism for payments received, or linkage between calculations from one annual period to the next.

Detailed cash forecasts are prepared and shared with the DfT regularly to demonstrate that the Company has sufficient liquidity to meet its liabilities as they fall due.

Indemnification of directors and officers

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

This was in force during the financial year, and at the date of the approval of the financial statements, and there was no utilisation of the insurance/indemnification during the financial year.

Directors' statement of disclosure of information to auditors

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

Independent Auditors

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

The financial statements on pages 35 to 69 were approved by the Board of Directors on 15 August 2022 and signed on its behalf by



James Downey
Finance Director

15 August 2022

Registered Office: East Coast House, 25 Skeldergate, York, YO1 6DH, United Kingdom

Independent auditors' report to the members of London North Eastern Railway Limited

Report on the audit of the financial statements

Opinion

In our opinion, London North Eastern Railway Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Statement of Financial Position as at 31 March 2022; the Income Statement, Statement of Comprehensive Income and Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

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

Other than those disclosed in note 3, we have provided no non-audit services to the company in the period under audit.

Conclusions relating to going concern

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

- reviewing management forecasts, including key assumptions, for the period to 23 June 2025;
- reviewing the service agreement and post year end communication from the Secretary of State to the directors confirming the committed and contracted support provided by the DfT to 23 June 2025;
- confirming our understanding of the Railways Act 1993 and the obligation for the entity to operate the passenger rail service; and
- review of the funding deed available to the parent company and the ability for the company to access this funding.

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

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

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

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

Independent auditors' report to the members of London North Eastern Railway Limited (continued)

Reporting on other information

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

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

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

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

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 March 2022 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

Independent auditors' report to the members of London North Eastern Railway Limited (continued)

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

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to the Railways Act 1993, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006, employment and tax legislations. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to improve the financial results and management bias in significant judgements and accounting estimates. Audit procedures performed by the engagement team included:

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

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

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

Use of this report

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

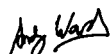
Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.



Andy Ward (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds
15 August 2022

London North Eastern Railway Limited
Income Statement

For the year ended 31 March 2022

		2022	Restated 2021
	Note	£000	£000
Revenue			
Passenger revenue	2	469,595	104,796
Other revenue	2	288,937	625,016
Total Revenue		758,532	729,812
Other operating costs		(728,408)	(680,659)
Operating profit	3	30,124	49,153
Finance income	6	87	29
Finance costs	6	(25,108)	(36,228)
Profit before taxation		5,103	12,954
Tax on profit	7	(1,889)	(3,297)
Profit for the financial year		3,214	9,657

The Income Statement has been prepared on the basis that all operations are continuing operations.

See note 1 for details of restatement to comparatives.

The accompanying notes form an integral part of this Income Statement.

London North Eastern Railway Limited
Statement of Comprehensive Income
For the year ended 31 March 2022

	2022	Restated 2021
	£000	£000
Profit for the financial year	3,214	9,657
Total comprehensive income for the year	<u>3,214</u>	<u>9,657</u>

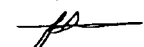
See note 1 for details of restatement to comparatives.

London North Eastern Railway Limited
Statement of Financial Position
As at 31 March 2022

		2022	Restated 2021
	Note	£000	£000
ASSETS			
Non-current assets			
Intangible assets	8	18,007	24,640
Tangible assets	9	405,812	308,862
Deferred tax assets	15	-	155
Investments	10	-	-
		<u>423,819</u>	<u>333,657</u>
Current assets			
Inventories	11	1,315	1,399
Trade and other receivables: amounts falling due within one year	12	85,121	45,342
Cash at bank and in hand		<u>111,881</u>	<u>74,565</u>
		<u>198,317</u>	<u>121,306</u>
Total assets		<u>622,136</u>	<u>454,963</u>
LIABILITIES			
Current liabilities			
Trade and other payables	13	(199,653)	(129,143)
Lease liabilities	19	<u>(111,081)</u>	<u>(122,567)</u>
Net current liabilities		(112,417)	(130,404)
Non-current liabilities			
Trade and other payables	13	(7,033)	(5,418)
Deferred tax liabilities	15	(362)	-
Provisions for liabilities	14	(944)	(762)
Lease liabilities	19	<u>(271,349)</u>	<u>(168,573)</u>
		<u>(279,688)</u>	<u>(174,753)</u>
Total liabilities		<u>(590,422)</u>	<u>(426,463)</u>
Net Assets		<u>31,714</u>	<u>28,500</u>
EQUITY			
Called up share capital	16	-	-
Retained earnings	17	<u>31,714</u>	<u>28,500</u>
Total shareholders' funds		<u>31,714</u>	<u>28,500</u>

See note 1 for details of restatement to comparatives.

The accompanying notes form an integral part of this Statement of Financial Position. The financial statements on pages 35 to 69 were approved by the board of Directors on 15 August 2022 and were signed on its behalf by



James Downey, Finance Director

15 August 2022, Registered number: 04659712

London North Eastern Railway Limited
Statement of Changes in Equity
For the year ended 31 March 2022

	Called up share capital	Restated Capital contribution	Restated Retained earnings	Restated Total shareholder funds
	£000	£000	£000	£000
As at 31 March 2020 (previously reported)	-	26,039	26,261	52,300
Restatement adjustments	-	(26,039)	(7,418)	(33,457)
As at 31 March 2020 (restated)	-	-	18,843	18,843
As at 1 April 2020 (restated)	-	-	18,843	18,843
Profit for the financial year (restated)	-	-	9,657	9,657
Total comprehensive income for the year	-	-	9,657	9,657
As at 31 March 2021	-	-	28,500	28,500
As at 1 April 2021	-	-	28,500	28,500
Profit for the financial year	-	-	3,214	3,214
Total comprehensive income for the year	-	-	3,214	3,214
As at 31 March 2022	-	-	31,714	31,714

See note 1 for details of restatement to comparatives.

London North Eastern Railway Limited

Notes to the Financial Statements (continued)

For the year ended 31 March 2022

1 Accounting policies

The Company is a private limited company, limited by shares and registered in England. The address of the Company's registered office is shown on page 3 and a description of the Company's principal activities are set out on page 18. The Company was incorporated in 2003 and is domiciled in the United Kingdom.

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

a) Basis of preparation

LNER operates as a publicly owned train company through a services agreement originally awarded on 24 June 2018 by the Secretary of State for Transport. A revised contract was agreed in June 2020 for LNER to operate trains and stations across the East Coast Main Line until 24 June 2023. The services agreement includes an optional extension of two years and in June 2022 the Secretary of State provided confirmation to the Directors that the extension would be exercised and therefore the contract will continue through to 23 June 2025. This provides certainty over the length of the service agreement period associated with the IFRS 16 lease liabilities and right of use assets and the going concern assumption applied within the financial statements (note 1).

Amounts in these financial statements are presented in sterling, rounded to the nearest thousand (£000) unless otherwise indicated.

These financial statements have been prepared under the historic cost convention in accordance with United Kingdom Accounting Standards, in particular Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101) and the Companies Act 2006 (the Act) as applicable to companies using FRS 101. FRS 101 sets out a reduced disclosure framework for a "qualifying entity" as defined in the standard which addresses the financial reporting requirements and disclosure exemptions in the individual financial statements of qualifying entities that otherwise apply the recognition, measurement and disclosure requirements of international accounting standards in conformity with the requirements of the Companies Act 2006. The Company is a qualifying entity (see note 22).

There are no amendments to accounting standards, or IFRIC interpretations that are effective for the year ended 31 March 2022 that have a material impact on the Company's financial statements.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- IFRS 7, Financial Instruments: Disclosures
- Paragraphs 10(d), 10(f), 16, 38A-D, 40A-D, 111 and 134-136 of IAS 1, Presentation of financial statements
- IAS 7, Statement of Cash Flows
- The requirements of IAS 24, Related Party Disclosures, to disclose related party transactions entered into between two or more members of a group
- Paragraph 73(e) of IAS 16, Property, Plant and Equipment
- Paragraph 118(e) of IAS 38, Intangible Assets
- Paragraphs 91 to 99 of IFRS 13, Fair Value Measurement
- Paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customer

London North Eastern Railway Limited

Notes to the Financial Statements (continued)

For the year ended 31 March 2022

1 Accounting policies (continued)

a) Basis of preparation (continued)

Going Concern

The basis for preparation for these financial statements has been on a going concern basis which is deemed appropriate as our business will continue and is central to the recovery of the country economically and socially. The Government has continually underlined the important role the rail industry has played during the Covid19 pandemic and that it is central to the Government's strategy for recovery.

LNER is 100% owned by DfT OLR Holdings Limited whose ultimate parent undertaking and controlling party is the Secretary of State for Transport and is underwritten by the financial security of the UK government.

LNER operates as a publicly owned train company through a services agreement originally awarded on 24 June 2018 by the Secretary of State for Transport. A revised contract was agreed in June 2020 for LNER to operate trains and stations across the East Coast Main Line until 24 June 2023. The services agreement includes an optional extension of two years and in June 2022 the Secretary of State provided confirmation to the Directors that the extension would be exercised and therefore the contract will continue through to 23 June 2025. The government is contractually bound to support LNER for the length of the service period.

Under the Service Agreement, LNER is subject to fixed payments in the form of a franchise premium paid to, or service agreement subsidy received from, the Department for Transport. Under the terms of the Service Agreement the company is entitled to earn a pre-defined margin, and the service agreement subsidy or franchise premium is calculated so as to deliver this margin. It is calculated with direct reference to profits for each annual accounting period, and there is no clawback mechanism for payments received, or linkage between calculations from one annual period to the next.

Detailed cash forecasts are prepared and shared with the DfT regularly to demonstrate that the Company has sufficient liquidity to meet its liabilities as they fall due.

b) Revenue

Passenger revenue represents amounts agreed as attributed to the Company by the revenue allocation systems of the Rail Settlement Plan ("RSP"), mainly in respect of passenger receipts. Revenue is attributed based principally on models of certain aspects of passengers' travel patterns and, to a lesser extent, from allocations agreed for specific revenue flows.

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

London North Eastern Railway Limited
Notes to the Financial Statements (continued)

For the year ended 31 March 2022

1 Accounting policies (continued)

b) Revenue (continued)

Procedures exist to allow operators to challenge the appropriateness of revenue allocation. Revenue is only recognised when it is highly probable that a significant reversal will not occur.

Delay Repay customer compensation, which is compensation paid to customers who have experienced a delay of more than 30 minutes on their journey, is treated as a reduction in passenger revenue in line with IFRS 15 Revenue from Contracts with Customers.

Other revenue is generated in the course of the Company's ordinary activities and is derived from car park revenue, commercial property revenue, railway station access revenue, maintenance revenue, fuel sales, on board catering revenue and commissions receivable. Revenue is recognised when a customer obtains control of goods or services and has the ability to direct the use and obtain the benefits from the goods or services. Revenue from services is recognised on the basis of agreed rates and is recognised over time over the period the services are rendered. Commission revenue is recognised on an accrual basis in accordance with the substance of the relevant agreements.

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

c) Service agreement premium/subsidy

Under the Service Agreement, LNER is subject to fixed payments in the form of a franchise premium paid to, or service agreement subsidy received from, the Department for Transport. Under the terms of the Service Agreement the company is entitled to earn a pre-defined margin, and the service agreement subsidy or franchise premium is calculated so as to deliver this margin.

It is calculated with direct reference to profits for each annual accounting period, and there is no clawback mechanism for payments received, or linkage between calculations from one annual period to the next. As such, the unit of account is deemed to be each annual reporting period, and amounts paid or received in each annual period are recognised as income or costs within that period in full.

In annual periods where a subsidy payment is received from the Department for Transport this is considered to be a government grant and is therefore accounted for as such. As the grant is considered to be to compensate for lost revenues, this is presented within the revenue section on the income statement to most closely show the substance of the arrangement, however it is not IFRS 15 revenue from a contract with a customer.

In annual periods where a franchise premium payment is made to the Department for Transport this is considered to be an operating levy, and the payments are therefore presented within operating costs but shown as a separate line on the face of the income statement to assist with understanding of the impact of these amounts on the financial performance of the entity.

London North Eastern Railway Limited
Notes to the Financial Statements (continued)

For the year ended 31 March 2022

1 Accounting policies (continued)

d) Performance incentive payments/reimbursements

The Company pays track access charges to Network Rail, who in return provide access to rail tracks and undertake maintenance on these tracks to ensure that they are in a suitable condition for operation of rail services. Track access charges include elements of fixed, variable, and other charges as shown in the operating profit note. Further adjustments, known as performance incentive payments, are made to this charge depending on availability of the line, which can either be additional charges payable to Network Rail or reimbursement from Network Rail depending on the cause of the access issue.

Performance incentive payments/reimbursements made to or received from Network Rail by the Company in respect of rail operational performance are recognised in the same period that the performance relates to and are classified within operating costs. These are adjustments to the fixed, variable and other access charges for planned or unplanned disruption on the line and can be either reimbursement of or further payments for overall track access costs. Management's judgement is that the treatment of net presentation within operating costs is appropriate as the substance of the performance incentive payments is that they are part of the variable pricing mechanism for the overall track access charges being expensed through operating costs for the year.

In the balance sheet, receivables and payables arising from each individual claim related to performance incentives are presented as other receivables, gross from amounts due to Network Rail from the Company which are presented as accruals as the offsetting criteria are not met given that the Company settles these on a gross basis for individual performance incentive payments made / received.

e) Taxation

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

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

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

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

f) Deferred tax

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

London North Eastern Railway Limited
Notes to the Financial Statements (continued)

For the year ended 31 March 2022

1 Accounting policies (continued)

g) Dividends and Share Capital

The Company accounts for dividends in the Statement of Changes in Equity when approved by the Board and paid during the year. Ordinary shares are classified as equity.

h) Tangible assets

Tangible assets are stated at historic cost less accumulated depreciation. Depreciation is provided on a straight-line basis to write off the cost less estimated residual value of fixed assets over their expected useful economic lives as follows:

Leasehold improvements	3 - 10 years
Plant and equipment	3 - 10 years

Right of use assets	Expected LNER service term
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Work in progress assets are not depreciated until they are available for use and on completion are transferred to the appropriate asset class.

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

i) Intangible assets

Intangible assets are shown at their original historic cost net of amortisation and any provision for impairment. Cost includes the original purchase price of the assets and costs attributable to bringing the asset to its working condition for its intended use.

Amortisation is charged on a straight-line basis over their expected useful economic lives as follows:

IT Software	3 - 5 years
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Work in progress assets are not depreciated until they are available for use and on completion are transferred to the appropriate asset class.

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

j) Right of use assets

Right of use assets comprise rolling stock, offices and other property leases plus depot equipment. At the lease commencement the Company recognises both a right of use asset and a lease liability.

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

- the initial measurement of the lease liability using the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the Company will use the incremental borrowing rate;
- the lease payments made before or after commencement, less the lease incentives received;

London North Eastern Railway Limited
Notes to the Financial Statements (continued)

For the year ended 31 March 2022

1 Accounting policies (continued)

j) Right of use assets (continued)

- an estimate of the costs incurred upon disassembling and eliminating the underlying asset, including restoring the underlying asset to the condition required by the terms of the lease.

After the commencement date the Company measures its right of use assets using a cost model. Right of use assets are depreciated over the shorter of the lease term and the practical end of the current service period and are presented as part of tangible assets in note 9.

Where the expected end of the service period is amended, a reassessment of the lease liability is calculated using the present value of the lease payments payable over the remaining service term. The reassessment adjustment is also added to the right of use asset carrying value. The change is accounted for as a reassessment rather than as a lease modification due to the fact that the extension option is conveyed by the original contract terms. Under this approach the incremental borrowing rate at the point of the reassessment is used. Corresponding lease liabilities are presented and accounted for as current and non-current liabilities in note 19.

The lease liability is initially measured at the present value of future lease payments, discounted using the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the Company will use the incremental borrowing rate. After the commencement date the Company measures its lease liabilities by increasing the carrying amount to reflect the interest on the lease liability, reducing the carrying amount to reflect the lease payments made and reassessing the carrying amount to reflect new measurements or changes in the lease. The discount rate used is updated at the point of reassessment.

The lease term generally comprises non-cancellable period of lease contracts plus periods covered by an option to extend the lease if the Company is reasonably certain to exercise that option.

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

Station access charges are deemed outside the scope of IFRS 16 as it is deemed that Network Rail controls these assets and significant restrictions are in place on the operator, therefore they do not meet the scope of IFRS 16 and are recognised through the Income Statement as incurred in operating costs.

There is an assessment for lease and non-lease elements of rolling stock leases and the non-lease elements (service and maintenance arrangements) do not meet the scope of IFRS 16 as there is no identifiable asset and are recognised through the Income Statement as incurred in operating costs.

The Company has elected to apply the exemption included within IFRS 16 for short term leases (lease terms of less than 12 months) and low value leases (asset values less than £5,000). The lease payments associated with these are recognised as an expense on a straight-line basis over the lease term.

London North Eastern Railway Limited
Notes to the Financial Statements (continued)

For the year ended 31 March 2022

1 Accounting policies (continued)

j) Right of use assets (continued)

The lease liabilities and right of use assets are impacted by the extension of the Services Agreement – see the critical judgment note on page 49 for further details.

k) Inventories

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

l) Grants

Capital grants are credited to deferred grant income and released to operating costs within the Income Statement over the estimated useful economic lives of the related assets to depreciation. Deferred capital grant income is presented and accounted for within current and non-current liabilities in note 13.

m) Cash and cash equivalents

Cash and cash equivalents include cash in hand and deposits held at call with banks.

n) Employee benefits

i. Short term employee benefits

Short term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

ii. Termination benefits

Termination benefits are expensed at the earlier of when the Company can no longer withdraw the offer of those benefits and when the Company recognises costs for a restructuring. If benefits are not expected to be settled wholly within 12 months of the reporting date, then they are discounted.

o) Retirement benefits

The Company contributes to a defined benefit pension scheme within the Railway Pension Scheme (RPS) on behalf of their enrolled employees. The RPS is a shared cost scheme, which means that costs are formally shared 60% employer and 40% employee. The Company is responsible for relevant funding of their section of the RPS during the period of the service agreement, and at the end of the service agreement period the Company will have no liability for any deficit existing in its Franchise Section (other than for contributions due for any period prior to the end of the service period) and shall have no right to benefit from any surplus which may exist in the Franchise Sections.

The trustees complete a full actuarial valuation triennially, but the obligation is updated annually by independent actuaries using the projected unit credit method for financial reporting purposes. The level of contributions paid by the Company is in line with the latest certified schedule of contributions which was signed in 2013. The 2016 and 2019 funding valuations of the RPS have not yet been signed.

London North Eastern Railway Limited

Notes to the Financial Statements (continued)

For the year ended 31 March 2022

1 Accounting policies (continued)

o) Retirement benefits (continued)

The method by which the pension accounting reflects the franchising arrangement has changed this year from the previous Franchise Adjustment Method to the Income Statement Franchise Adjustment Method (as defined below). This has been prompted by a review by the DOHL Group of TOC pension accounting arrangements following the addition of Southeastern Trains to DOHL Group during the year. This amends the accounting policy in the Company to be in line with the method which is now adopted by an increasing number of train operating companies. The new approach is seen as more relevant and reliable for a user of the financial statements as it is not sensitive to the key accounting judgement around the duration of the services agreement whereas the previous policy was. The comparative year's presented are restated for this change in accounting policy, further details on the impact to the financial statements can be found in note 20.

Income Statement Franchise Adjustment Method (newly adopted policy)

The accounting treatment for the terms of the Company's pension scheme is not explicitly considered by IAS 19 Employee Benefits (Revised).

Since the contributions currently committed to being paid are lower than the share of the service cost (for current and future service) that would normally be calculated under IAS 19 (Revised), the Company does not account for uncommitted contributions towards the sections' current or expected future deficits outside the franchise period. This reflects the legal position that some of the existing deficit and some of the service costs in the current year will be funded in future years beyond the term of the current franchise and committed contributions.

As a result, the Company consequently reduces any section deficit balance and reduces any service costs that would give rise to an increase in such deficit through the use of an income statement franchise adjustment. The income statement franchise adjustment reflects the extent to which third parties are expected to contribute towards the cost of the plan as a consequence of the deficit transferring at the end of the franchise, which is deemed, in the directors' view, in line with paragraphs 92-94 of IAS 19 Employee Benefits (Revised).

Franchise Adjustment Method (previous policy)

The Company previously applied a "current service period adjustment" to the amounts recorded in the Statement of Financial Position for the RPS. This represented the remaining element of the service operator's 60% share of the IAS 19 deficit or surplus after determining the amount of any deficits the Company is required to fund (or surplus it is entitled to recover) over the remaining service period.

This adjustment gave rise to a net pension asset, representing the expected excess of the income statement expense under IAS 19 for service cost and net interest over the contributions payable over the remainder of the service agreement. The economic benefit of the asset was expected to be realised through the lower cash contributions over the remaining period of the service agreement, and therefore upon the expiry of the service period, there would be no pension asset (or liability) remaining.

The franchise pension scheme asset / liability was recognised as the net total of the present value of obligations under the scheme minus the fair value of scheme's assets at the reporting date.

London North Eastern Railway Limited
Notes to the Financial Statements (continued)

For the year ended 31 March 2022

1 Accounting policies (continued)

o) Retirement benefits (continued)

The net pension scheme asset calculated at the date the Franchise Sections were transferred to LNER was shown as a capital contribution directly in the statement of changes in equity as the pensions were transferred as part of their service agreement with the DfT. The DfT is a related party and the transfer of the scheme was therefore accounted for as a capital contribution in equity.

Under both policies described above

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

The charges in respect of defined contribution schemes are recognised when they are due.

p) Related parties

The Company discloses transactions with related parties which are not wholly owned within the same group.

q) Provisions

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

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

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

r) Investments

Unlisted equity investments are carried in the Statement of Financial Position at fair value and any changes in fair value are recognised in the Income Statement. Investments in associates are held at cost. Investments in associates are subject to an impairment review if events or changes in circumstances indicate that their carrying value may not be recoverable.

London North Eastern Railway Limited

Notes to the Financial Statements (continued)

For the year ended 31 March 2022

1 Accounting policies (continued)

s) *Financial instruments*

Financial instruments held by the company are trade and certain other receivables, amounts owed from group undertakings, trade and certain other payables, amounts owed to group undertakings and cash.

Financial instruments are initially measured at fair value and subsequently measured at amortised cost using the effective interest method, less loss allowance.

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

t) *Critical estimates and judgements*

Preparation of the financial statements, in accordance with Financial Reporting Standard ("FRS") 101, requires directors to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Actual outcomes could differ from those estimated. The Directors believe that the accounting policies and estimation techniques discussed below represent those that require the greatest exercise of judgement.

The Directors have used their best judgement in determining the estimates and assumptions used in these areas, but a different set of judgements could result in material changes to the Company's reported financial performance and/or financial position.

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

i. *Pensions - estimate*

The determination of the Company's pension benefit obligation disclosures involves estimation uncertainty as it is dependent on the selection by the Directors of certain assumptions used by actuaries in calculating such amounts. Those assumptions include the discount rate, the annual rate of increase in future salary levels and mortality rates. The Directors' assumptions are based on actual historical experience and external data.

While the Directors believe that the assumptions are appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the disclosure of total defined benefit obligations.

The pension assumptions may vary due to actual changes in market conditions following the statement of financial position date, but IAS 19 requires the assumptions to be set based on the market conditions prevailing at the reporting date. The pension assumptions are also affected by judgments the Directors are required to make on matters that cannot be directly observed from market prices such as life expectancies, future pay increases, harder to value assets and the criteria for bonds to be included in the population from which the discount rate is determined. Note 20 provides information on the sensitivity of pension benefit obligations to changes in assumptions however there is no impact to assets or liabilities.

London North Eastern Railway Limited

Notes to the Financial Statements (continued)

For the year ended 31 March 2022

1 Accounting policies (continued)

t) Critical estimates and judgements (continued)

ii. Pensions – judgement

In addition to the critical estimate described above, there is also considered to be critical judgement in relation to the interpretation of IAS 19 p92-94. The interpretation applied reduces any section deficit balance and reduces any service costs that would give rise to an increase in such deficit through the use of the income statement franchise adjustment as described in the accounting policies note. This reflects the extent to which third parties are expected to contribute towards the cost of the plan as a consequence of the deficit transferring at the end of the franchise.

iii. LNER service agreement term assumption – judgement & estimate

London North Eastern Railway Limited (LNER) operates as a publicly owned train company through a services agreement originally awarded on 24 June 2018 by the Secretary of State for Transport. A revised contract was agreed in June 2020 for LNER to operate trains and stations across the East Coast Main Line until 24 June 2023. The services agreement includes an optional extension of two years and in June 2022 the Secretary of State provided confirmation to the Directors that the extension would be exercised and therefore the contract will continue through to 23 June 2025.

As at the balance sheet date the extension had not been formally agreed, but despite not having received the confirmation from the DfT at that point, there was sufficient evidence to believe it was reasonably certain.

The judgement affects these financial statements in respect of reporting for leases under IFRS16 and going concern as follows:

- IFRS16 - At inception of the lease management assesses the lease term. In this assessment management considers options for extension associated with the lease and includes these in the lease term if they are reasonably certain they will be exercised. This judgment over whether extension options will be exercised impacts the lease liabilities and right of use assets recognised on the balance sheet at inception of the lease. The change in judgement to extend the service period by two years to June 2025 leads to a reassessment adjustment of £212,828,000 for both the right of use asset (see note 9) and lease liability (see note 19). This is a reassessment rather than being treated as a lease modification due to the fact that the extension option was conveyed by the original contract terms and is now expected to be taken out to June 2025. Under this approach the incremental borrowing rate at the point of the reassessment is used.
- Going concern - The Services Agreement with the DfT ensures that the Company earns a margin of 1% at Profit before tax on total revenue excluding any subsidy received. The expected service agreement extension to 2025 provides the company with certainty and stability over its operations.

u) Restatement of 2021 Comparatives

The financial statements have been restated to incorporate a change in pension accounting policy from the 'Franchise Adjustment Method' to the 'Income Statement Franchise Adjustment Method' (as defined in the accounting policies note). The change has resulted in net assets as at the 31 March 2021 decreasing by £39,720,000 and £33,457,000 as at the 31 March 2020.

London North Eastern Railway Limited
Notes to the Financial Statements (continued)

For the year ended 31 March 2022

1 Accounting policies (continued)

u) Restatement of 2021 Comparatives (continued)

The Income Statement, Statement of Comprehensive Income, Statement of Financial Position and Statement of Changes in Equity have been restated.

The DfT service agreement subsidy is calculated to deliver a margin in line with the Company's service agreement. It should be noted that whilst the change in pension accounting policy has resulted in a higher restated profit for the year the directors have received confirmation from the DfT that the policy change in respect of pension accounting will not result in a clawback of DfT service agreement subsidy received in the prior year. The impact of this is that profit before tax excluding DfT service agreement subsidy as a proportion of total revenue for the Company in the prior year is higher than would be calculated under the service agreement.

The capital contribution previously recognised included the Company's defined benefit pension asset net of deferred tax at the start of ownership, amounting to £26,039,000. Following the restatement, there was a net defined benefit pension liability net of deferred tax of £1,955,000. The restatement results in this liability being recognised directly in retained earnings at the date ownership was transferred for the Franchise Section.

	Previously reported 2021 £000	Adjustment 2021 £000	Restated 2021 £000
Income Statement			
Staff costs: Other pension costs	(20,771)	12,646	(8,125)
Finance income: Pension interest	972	(972)	-
Tax on profit: Total deferred tax	2,334	(2,217)	117
Profit for the financial year	200	9,457	9,657
Statement of Comprehensive Income			
Actuarial gain on retirement benefit obligations	19,407	(19,407)	-
Deferred tax defined benefit pension transferred in	(3,687)	3,687	-
Total items that will not be reclassified to profit	15,720	(15,720)	-
Total comprehensive income for the year	15,920	(6,263)	9,657
Statement of Financial Position			
Retirement Benefit /(Obligation)	49,037	(49,037)	-
Deferred Tax Asset/(Liability)	(9,162)	9,317	155
Net Assets	68,220	(39,720)	28,500
Capital contribution	32,146	(32,146)	-
Deferred tax on capital contribution	(6,107)	6,107	-
Total capital contribution	26,039	(26,039)	-
Retained earnings	42,181	(13,681)	28,500
Total shareholders' funds	68,220	(39,720)	28,500

London North Eastern Railway Limited
Notes to the Financial Statements (continued)

For the year ended 31 March 2022

1 Accounting policies (continued)

u) Restatement of 2021 Comparatives (continued)

Financial Statement 1 April 2020

	Previously reported 2020 £000	Adjustment 2020 £000	Restated 2020 £000
Statement of Financial Position			
Retirement Benefit/(Obligation)	41,304	(41,304)	-
Deferred Tax Asset/(Liability)	(7,847)	7,847	-
Net Assets	52,300	(33,457)	18,843
Capital contribution	32,146	(32,146)	-
Deferred tax on capital contribution	(6,107)	6,107	-
Total capital contribution	26,039	(26,039)	-
Retained earnings	26,261	(7,418)	18,843
Total shareholders' funds	52,300	(33,457)	18,843

Performance incentive reimbursement receivable

The comparative year has also been restated to correct a misclassification of performance incentive reimbursement receivable. The impact of the adjustment is to increase Accruals by £6,765,000 and increase Other receivables by £6,765,000. The opening Statement of Financial Position at the beginning of the comparative period was reported correctly.

The Statement of Financial Position and notes 12 and 13 have been restated.

Lease liabilities

In addition, the Statement of Financial Position has been restated to separately present the IFRS 16 lease liabilities in accordance with paragraph 54(m) of IAS 1. Previously these had been included within Trade and other payables but have been restated to present a separate line on the Statement of Financial Position. Trade and other payables have been decreased by £111,081,000 (current) and £271,349,000 (non-current) and current and non-current lease liabilities have been increased by the same amounts.

London North Eastern Railway Limited
Notes to the Financial Statements (continued)

For the year ended 31 March 2022

2 Revenue

All revenue originates in the United Kingdom.

The Directors consider that the whole of the activities of the Company constitute a single class of business consisting of passenger and other revenue as disclosed in the Income Statement.

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

	2022	2021
	£000	£000
Passenger revenue	479,574	105,991
Delay Repay costs	(9,979)	(1,195)
Total passenger revenue	469,595	104,796
 DfT service agreement subsidy	 248,216	 601,830
Other revenue	40,721	23,186
Total other revenue	288,937	625,016
Total revenue	758,532	729,812

Other revenue comprises of car park revenue, commercial property revenue, railway station access revenue, maintenance revenue, fuel sales, on board catering revenue and commissions receivable. As with the previous year service agreement subsidy was received from the DfT as a result of the impact on turnover of Covid-19. As discussed in the DfT service agreement subsidy accounting policy, this is not IFRS 15 revenue.

3 Operating profit

Operating profit is stated after charging:	2022	2021
	£000	£000
Staff costs (note 5)	153,588	146,744
Depreciation (note 9)	131,039	128,379
Amortisation of intangible assets (note 8)	11,852	9,468
Depreciation of capital grant income	(1,306)	(816)
Loss on disposal of intangible fixed assets	2,195	72
Loss on disposal of tangible fixed assets	422	86
Inventories recognised as expenses	5,749	1,433
Fixed track access	55,622	45,702
Variable access charges	18,362	14,524
Other fixed access charges	6,495	6,569
Performance incentive reimbursement	(47,674)	(16,900)
Rolling stock costs	185,370	192,722
Lease items excluded from IFRS 16 (note 19)	63	72
Traction electricity charge	39,645	30,473
Auditors' remuneration – audit fees	137	110
Auditors' remuneration – non audit services - other compliance reporting	7	7

Rolling stock costs include availability credits of £26,430,000 (2021: £7,136,000).

London North Eastern Railway Limited
Notes to the Financial Statements (continued)

For the year ended 31 March 2022

4 Directors' remuneration

	2022	2021
	£000	£000
Emoluments in respect of qualifying services to the Company	984	954
Company pension contributions	84	82
	<u>1,068</u>	<u>1,036</u>

The increase in emoluments reflects the full year effect in 2022 for one individual who was employed for part of the year ending March 2021.

The emoluments excluding pension contributions of the highest paid Director were £247,000 (2021: £248,000).

The pension contributions of the highest paid Director were £19,000 (2021: £18,000).

The number of directors who were members of pension schemes during the year was as follows:

	2022	2021
	Number	Number
Defined benefit scheme	<u>7</u>	<u>6</u>

The highest paid director accrued defined pension benefits of £78,000 (2021: £73,000) and lump sum benefits of £63,000 (2021: £59,000).

There were £nil contractual payments on termination (2021: £nil).

The following table shows the annual salary ranges for the executive Directors as at 31 March 2022:

Salary range	Number of Directors 2022	Number of Directors 2021
£230,000-235,000	1	1
£140,000-144,999	1	2
£135,000-139,999	2	1
£130,000-134,999	1	2
£115,000-120,000	1	0

The remuneration of Richard Harrison and Robin Gisby is paid by the parent company. Their services to this company are of a non-executive nature and their remuneration is deemed to be wholly attributable to their services to the parent company. Accordingly, the above details include no remuneration in respect of the non-executive directors (2021: none). Sally Rose is paid by Network Rail and no recharge is made to LNER. There is no salary for Sally included within the LNER costs above as the pay received is wholly attributable to services to Network Rail.

5 Staff costs

	2022	Restated 2021
	£000	£000
Wages and salaries	132,580	126,346
Social security costs	12,998	12,273
Other pension costs	<u>8,010</u>	<u>8,125</u>
Total staff costs	<u>153,588</u>	<u>146,744</u>

London North Eastern Railway Limited
Notes to the Financial Statements (continued)
For the year ended 31 March 2022

5 Staff costs (continued)

See note 1 for details of restatement to comparatives.

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

	2022	2021
	Number	Number
Managerial and administrative	480	488
Operational	2,510	2,516
	<u>2,990</u>	<u>3,004</u>

6 Finance income and finance costs

	2022	Restated 2021
	£000	£000
Finance income		
Bank interest	87	19
Corporation tax interest	-	10
	<u>87</u>	<u>29</u>
Finance costs		
Corporation tax interest	(10)	(45)
Interest payable to group undertakings	-	(34)
Interest payable for IFRS 16 lease liabilities	(25,098)	(36,149)
	<u>(25,108)</u>	<u>(36,228)</u>
Net finance charge	<u>(25,021)</u>	<u>(36,199)</u>

See note 1 for details of restatement to comparatives.

The interest rate used for inter-company loans is LIBOR+4%.

7 Tax on profit

a) Tax recognised in the Income Statement

	2022	Restated 2021
	£000	£000
Current taxation:		
Current tax on profits for the year	916	3,249
Group relief payable	644	-
Adjustments in respect of prior periods	(188)	165
	<u>1,372</u>	<u>3,414</u>

London North Eastern Railway Limited
Notes to the Financial Statements (continued)
For the year ended 31 March 2022

7 Tax on profit (continued)

a) Tax recognised in the Income Statement (continued)

Deferred taxation:

	2022	Restated 2021
	£000	£000
Current year	384	147
Adjustments in respect of previous periods	133	(264)
Total deferred tax (note 15)	517	(117)
Total tax charge reported in the Income Statement	1,889	3,297

b) Factors affecting total tax charge

The tax assessed for the year is higher (2021: higher) than the standard effective rate of corporation tax in the UK of 19% (2021: 19%). The tax charge is made up as follows:

	2022	Restated 2021
	£000	£000
Profit before taxation	5,103	12,954
Profit multiplied by standard rate of corporation tax in the UK of 19% (2021: 19%)	970	2,461
Fixed asset differences	786	458
Income not taxable for tax purposes	(124)	-
Expenses not deductible	227	477
Adjustments in respect of previous periods	(188)	165
Adjustments in respect of previous periods – deferred tax	133	(264)
Remeasurement of deferred tax for changes in tax rates	85	-
Total tax charge for the year reported in the Income Statement	1,889	3,297

The standard rate of UK corporation tax is 19% and this took effect from 1 April 2017.

The March 2021 Budget announced an increase in the UK standard rate of corporation tax to 25% from 1 April 2023. The legislation received Royal Assent on 10 June 2021. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

See note 1 for details of restatement to comparatives.

London North Eastern Railway Limited
Notes to the Financial Statements (continued)
For the year ended 31 March 2022

8 Intangible assets

	Software costs	Work in progress	Total
	£000	£000	£000
Cost			
At beginning of year	41,535	4,979	46,514
Additions	-	7,415	7,415
Transfers from WIP	6,074	(6,074)	-
Disposals	<u>(18,344)</u>	<u>-</u>	<u>(18,344)</u>
At end of year	<u>29,265</u>	<u>6,320</u>	<u>35,585</u>
Accumulated amortisation			
At beginning of year	21,874	-	21,874
Amortisation charged to the Income Statement	11,852	-	11,852
Disposals	<u>(16,148)</u>	<u>-</u>	<u>(16,148)</u>
At end of year	<u>17,578</u>	<u>-</u>	<u>17,578</u>
Net book value			
At beginning of year	<u>19,661</u>	<u>4,979</u>	<u>24,640</u>
At end of year	<u>11,687</u>	<u>6,320</u>	<u>18,007</u>

Amortisation of intangible assets is included within other operating costs in the Income Statement.

London North Eastern Railway Limited
Notes to the Financial Statements (continued)
For the year ended 31 March 2022

9 Tangible assets

	Leasehold improvements	Plant and equipment	Right of use assets	Work in progress	Total
	£000	£000	£000	£000	£000
Cost					
At beginning of year	11,448	26,648	474,634	10,904	523,634
Additions	-	-	3,741	11,841	15,582
Transfers from WIP	5,581	6,741	-	(12,322)	-
Remeasurement	-	-	212,828	-	212,828
Disposals	(633)	(3,603)	-	-	(4,236)
At end of year	16,396	29,786	691,203	10,423	747,808
Accumulated depreciation					
At beginning of year	2,019	9,676	203,077	-	214,772
Depreciation charged to Income Statement	1,410	7,156	122,473	-	131,039
Disposals	(283)	(3,532)	-	-	(3,815)
At end of year	3,146	13,300	325,550	-	341,996
Net book value					
At beginning of year	9,429	16,972	271,557	10,904	308,862
At end of year	13,250	16,486	365,653	10,423	405,812
Right of use assets by asset class	Rolling stock	Property leases	Plant and equipment	Total	
	£000	£000	£000	£000	
At beginning of year	262,665	8,401	491	271,557	
Additions	3,741	-	-	3,741	
Remeasurement	208,668	4,041	119	212,828	
Depreciation charged to Income Statement	(118,230)	(3,997)	(246)	(122,473)	
Net book value at end of year	356,844	8,445	364	365,653	

Right of use assets comprise rolling stock, offices, other property leases and depot equipment.

The remeasurement in the year primarily relates to the extension of the service period to June 2025 from the previous end date of June 2023. The change of accounting judgement, as detailed in note 1, has led to an increase in the asset value and recognised liability as at the balance sheet date. The change is accounted for as a reassessment rather than as a lease modification due to the fact that the extension option is conveyed by the original contract terms.

London North Eastern Railway Limited
Notes to the Financial Statements (continued)
For the year ended 31 March 2022

10 Investments

The Company held the following unlisted investments at 31 March 2021:

	Country of registration	No. of shares held	Class of share	Proportion held
ATOC Limited	UK	1	Ordinary (4p)	5%
Rail Settlement Plan	UK	1	Ordinary (4p)	5%
Rail Staff Travel	UK	1	Ordinary (4p)	5%
NRES	UK	1	Ordinary (£1)	5%
West Yorkshire Ticketing Company	UK	1	Ordinary (£1)	0.73%

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

11 Inventories

	2022	2021
	£000	£000
Raw materials and consumables	<u>1,315</u>	<u>1,399</u>

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

The cost of stock recognised as an expense and included in operating costs during the year amounted to £5,749,000 (2021: £1,433,000). The cost of write down of inventories recognised as an expense and included in operating costs during the year amounted to £1,132,000 (2021: £777,000).

12 Trade and other receivables: amounts falling due within one year

	2022	Restated 2021
	£000	£000
Trade receivables:		
Rail Settlement Plan	30,786	4,141
Other trade receivables	<u>9,534</u>	<u>5,913</u>
	40,320	10,054
Amounts owed by group undertakings (note 21)	9,593	18,264
Value added tax receivable	9,411	-
Corporation tax receivable	2,171	-
Prepayments	5,637	6,324
Accrued income	2,563	3,935
Other receivables	<u>15,426</u>	<u>6,765</u>
	<u>85,121</u>	<u>45,342</u>

London North Eastern Railway Limited
Notes to the Financial Statements (continued)
For the year ended 31 March 2022

12 Trade and other receivables: amounts falling due within one year (continued)

Amounts due from group undertakings are unsecured and repayable on demand. The interest rate used for inter-company loans is LIBOR+4%.

Accrued income includes a receipt due from the DfT of £nil (2021: £1,749,000) representing the difference between final amounts due and the forecasted amounts claimed for the DfT service agreement subsidy.

All trade and other receivables at the balance sheet date have been assessed for any expected credit losses. This assessment confirmed any expected credit losses to be immaterial.

See note 1 for details of restatement to comparatives.

13 Trade and other payables

		Restated
	2022	2021
	£000	£000
<i>Amounts falling due within one year:</i>		
Trade payables	104,670	38,742
Deferred capital grant income	1,795	-
Amounts owed to group undertakings (note 21)	1,854	129
Group relief payable to group undertakings (note 21)	726	82
Deferred season ticket revenue	955	458
Other taxation and social security	3,428	3,032
Other payables	10,367	11,949
Accruals	42,528	69,551
Deferred revenue	33,330	3,855
Value Added Tax payable	-	488
Corporation tax payable	-	857
	199,653	129,143
<i>Amounts falling due after more than one year:</i>		
Deferred capital grant income	7,033	5,418

Amounts owed to group undertakings are unsecured and repayable on demand. The interest rate used for inter-company loans is LIBOR+4%.

Trade payables includes a payment due to the DfT of £55,299,000 (2021: £nil) representing the difference between final amounts due and the forecasted amounts claimed for the DfT service agreement subsidy.

Capital grant income relates to funding received for capital expenditure projects primarily for station improvements.

London North Eastern Railway Limited
Notes to the Financial Statements (continued)

For the year ended 31 March 2022

13 Trade and other payables (continued)

Deferred revenue and deferred season ticket revenue are contract liabilities under IFRS 15. All previous contract liabilities are recognised as revenue in the year and the year end deferred revenue consists of balances created in the year.

See note 1 for details of restatement to comparatives.

14 Provisions for liabilities

The provisions note has been restated to show the deferred tax balance on the face of the Statement of Financial Position rather than being included as a provision.

Insurance claims

	2022	2021
	£000	£000
At start of year	762	671
Charged to the Income Statement	600	299
Released in year	(363)	(90)
Utilised in year	<u>(55)</u>	<u>(118)</u>
Provision at end of year	<u>944</u>	<u>762</u>

The £944,000 (2021: £762,000) provision relates to customer and employee claims against the Company for compensation for injuries occurring whilst on Company property. Payments are expected to be made in respect of these claims as they are settled, which is typically within 5 years of origination, but the nature of the settlement process makes the timing of these payments uncertain. Estimates of claim values are based on actuarial reviews and prior claims history.

15 Deferred Tax

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

Deferred tax (assets)/liabilities:		Restated
	2022	2021
	£000	£000
Fixed assets	744	208
Short-term provision	<u>(382)</u>	<u>(363)</u>
Deferred tax provision/(asset)	<u>362</u>	<u>(155)</u>

London North Eastern Railway Limited
Notes to the Financial Statements (continued)

For the year ended 31 March 2022

15 Deferred Tax (continued)

		Restated
	2022	2021
	£000	£000
The movement in deferred tax during the year was:		
At beginning of year	(155)	(38)
Charge to Income Statement (note 7a)	517	(117)
At end of year	362	(155)

See note 1 for details of restatement to comparatives.

16 Called up share capital

	2022	2021
	£	£
Issued share capital not paid		
Ordinary shares of £1 each	1	1

17 Retained earnings

A reconciliation of the movements in each reserve is shown in the Statement of Changes in Equity.

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

Prior to the pension restatement, a capital contribution was recognised representing the defined benefit pension asset as at 24 June 2018, transferred to the Company from the DfT, a related party, of £32,146,000 net of associated deferred tax £6,107,000 (2020: £6,107,000). This is non-distributable for the purpose of future dividends that might be paid. The pension restatement removed the capital contribution from the opening reserves as at 1 April 2020. See note 1 for details of the restatement.

18 Capital commitments

	2022	2021
	£000	£000
Contracted	7,093	9,220
Authorised but not contracted	10,143	10,669
Total	17,236	19,889

Capital commitments relate to capital projects that the Company is committed to or has approved but not yet contracted as at 31 March, the cost to be incurred over the remaining capital project timeline.

London North Eastern Railway Limited
Notes to the Financial Statements (continued)
For the year ended 31 March 2022

19 Lease liabilities

	Rolling Stock	Property leases	Plant and equipment	Total
	£000	£000	£000	£000
Lease liabilities				
Balance at 1 April 2021	282,107	8,593	440	291,140
Additions	1,144	-	-	1,144
Remeasurement	208,668	4,041	119	212,828
Interest	25,021	73	4	25,098
Repayment of lease liabilities	(142,909)	(4,630)	(241)	(147,780)
Balance at 31 March 2022	374,031	8,077	322	382,430
Current lease liabilities	105,728	5,031	322	111,081
Non-current lease liabilities	268,303	3,046	0	271,349
Total lease liabilities	374,031	8,077	322	382,430

Right of use assets

Balance at 1 April 2021	262,665	8,401	491	271,557
Additions	3,741	-	-	3,741
Remeasurement	208,668	4,041	119	212,828
Depreciation for the year	(118,230)	(3,997)	(246)	(122,473)
Balance at 31 March 2022	356,844	8,445	364	365,653

Lease amounts recognised in operating costs:

Leases of low value assets	-	-	63	63
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Right of use assets comprise rolling stock, offices, other property leases and depot equipment. Included in rolling stock right of use assets are the Azuma fleet and part of the legacy fleet retained. The Azuma lease continues until 2046 but the expected term for the Company's service period has been used to measure the liabilities, being the period of use of the right of use assets. Maintenance and variable components of the lease are shown in operating costs.

The remeasurement in the year primarily relates to the extension of the service period to June 2025 from the previous end date of June 2023. The change of accounting judgement, as detailed in note 1, has led to an increase in the asset value and recognised liability as at the balance sheet date.

London North Eastern Railway Limited
Notes to the Financial Statements (continued)

For the year ended 31 March 2022

20 Retirement benefits

Information about the Scheme and the Company's accounting policies

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

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

The Section is open to new members.

Employer contributions for the year ended 31 March 2022 are 11.70%, 10.32% and 9.90% of Section Pay for Category 60 Members, Category 62 Members and Category 64 Members respectively. These rates are expected to be reviewed as part of the 31 December 2022 triennial valuation.

The trustees complete a full actuarial valuation triennially, separately for each section of the RPS, but the obligation is updated annually by independent actuaries using the projected unit credit method for financial reporting purposes. The level of contributions paid by the Company is in line with the latest certified schedule of contributions which was signed in 2013. The 2016 and 2019 funding valuations of the RPS have not yet been signed.

The discounted mean term of the Section's DBO was 23 years at the end of the reporting year. All the assets are unquoted in the financial statements.

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

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

London North Eastern Railway Limited
Notes to the Financial Statements (continued)
For the year ended 31 March 2022

20 Retirement benefits (continued)

- Life expectancy: An increase in life expectancy will lead to an increased value being placed on the Section DBO. Future mortality rates cannot be predicted with certainty.

Membership data:	Number	
	2022	2021
Active members	2,929	2,956
Deferred members	3,927	3,938
Pensioner members (including dependants)	2,196	2,099

Asset Data:	2022	2021
	£000	£000
Growth assets	668,104	610,138
Government bonds	-	20,144
Non-Government bonds	-	47,004
Other assets	96,001	3,702
Total asset value	764,105	680,988

Summary of assumptions:	2022	2021
	% pa	% pa
Discount rate	2.65	2.05
Future price inflation (RPI measure)	3.60	3.20
Future price inflation (CPI measure)	3.30	2.90
Increase in pensions (CPI)	3.60	3.20
Pensionable salary increases	3.30	2.90

The assumed average expectation of life in years at age 65 is as follows:

	2022	2021
Male currently aged 65	20.4	20.4
Male currently aged 45	21.7	21.8
Female currently aged 65	22.6	22.7
Female currently aged 45	24.2	24.2

London North Eastern Railway Limited
Notes to the Financial Statements (continued)

For the year ended 31 March 2022

20 Retirement benefits (continued)

Defined benefit asset at end of year:

	2022	Restated 2021
	£000	£000
Defined benefit obligation at end of year		
Active members	(545,842)	(539,615)
Deferred members	(232,528)	(240,191)
Pensioner members (incl. dependants)	(245,548)	(268,028)
Total defined benefit obligation	(1,023,918)	(1,047,834)
Fair value of assets at end of year	764,105	680,988
Adjustment for the members' share of deficit	103,925	146,738
Deficit expected to be recovered after end of current service period	155,888	220,108
Net defined benefit asset at end of the year	-	-

Reconciliation of net defined benefit asset:

	2022	Restated 2021
	£000	£000
Opening net defined benefit asset	-	-
Employer's share of pension expense	(7,947)	(7,808)
Employers contributions	7,947	7,808
Closing net defined benefit asset	-	-

	2022	Restated 2021
	£000	£000
Income statement:		
Employer's share of service cost	27,648	18,641
Franchise adjustment to service cost	(21,137)	(12,646)
Employer's share of administration cost	1,436	1,758
Past service cost adjustment	-	55
Total employer's share of service cost	7,947	7,808
Employer's share of net interest on net defined benefit liability	4,448	3,756
Interest on service period adjustment	(4,448)	(3,756)
Employer's share of pension expense	7,947	7,808

London North Eastern Railway Limited
Notes to the Financial Statements (continued)

For the year ended 31 March 2022

20 Retirement benefits (continued)

Other comprehensive income (OCI):	2022	Restated
	£000	2021
		£000
Loss due to demographic assumptions	(1,298)	(6,993)
Gain due to financial assumptions	32,061	89,712
Gain/(loss) due to DBO experience	18,712	(15,812)
Return on plan assets less than discount rate	(49,475)	(66,907)
Total recognised in the OCI	-	-

The actuarial gain or loss due to financial assumptions includes movement in the deficit expected to be recovered after the end of the current service period.

Reconciliation of defined benefit obligation (DBO):	2022	Restated
	£000	2021
		£000
Opening defined benefit obligation	1,047,834	859,900
Service cost	27,648	18,641
Franchise adjustment to service cost	(21,137)	(12,646)
Interest cost on DBO	12,771	11,223
Interest on franchise adjustment	(4,448)	(3,756)
Employee contributions	5,140	5,040
Section amendment	-	55
Loss/(gain) on DBO – experience	31,187	(26,354)
Gain on DBO – demographic assumptions	(2,164)	(11,655)
Gain/(loss) on DBO – financial assumptions	(53,598)	227,001
Actual benefit payments	(19,315)	(19,615)
Closing defined benefit obligation	1,023,918	1,047,834

London North Eastern Railway Limited
Notes to the Financial Statements (continued)

For the year ended 31 March 2022

20 Retirement benefits (continued)

Reconciliation of value of assets:

	2022 £000	Restated 2021 £000
Opening value of schemes' assets	680,988	570,534
Interest income on assets	8,323	7,467
Return on plan assets greater than discount rate	82,458	111,512
Employer contributions	7,947	7,808
Employee contributions	5,140	5,040
Actual benefit payments	(19,315)	(19,615)
Administration costs	(1,436)	(1,758)
Closing value of schemes' assets	764,105	680,988

DBO sensitivity to significant actuarial assumptions:

	Sensitivity	Approximate change in DBO £000
Discount rate	-0.25% p.a.	+59,700
	+0.25% p.a.	-55,100
Price inflation*	-0.25% p.a.	-52,200
	+0.25% p.a.	+56,300
Salary increases	-0.25% p.a.	-16,400
	+0.25% p.a.	+17,100
Life expectancy	-1 year	-41,000
	+1 year	41,000

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

The sensitivity figures are as at 31 March 2022. Note that these scenarios do not represent upper or lower bounds on what could happen. In addition, the sensitivity figures are based on indicative calculations and therefore may not be sufficiently accurate for use in any actuarial calculations whose results are intended for disclosure in the Company's financial statement.

The expected future contributions are £7,954,000 for the 2023 year.

London North Eastern Railway Limited
Notes to the Financial Statements (continued)

For the year ended 31 March 2022

20 Retirement benefits (continued)

Projected income statement:

	2023 £000
Employer's share of service cost	26,850
Franchise adjustment to service cost	(20,380)
Employer's share of administration cost	1,484
Employer's share of net interest on net defined benefit liability	4,133
Interest on service period adjustment	(4,133)
Projected cost recognised in income statement	<u>7,954</u>

Defined contribution scheme

The cost of contributions to the defined contribution scheme amounts to £434,000 (2021: £465,000).

21 Related party disclosures

The following additional related party transactions occurred during the year;

	Gemini Applications £000	Make it York £000	Rail Delivery Group £000	Rail Safety & Standards Board £000	Govia Thameslink Railway £000
2021					
Goods/services sold to/ (purchased)	(6)	(33)	(286)	(573)	-
Payables balance at 31 March 2021	-	(33)	-	-	-
Receivables balance at 31 March 2021	-	-	-	1	-
2022					
Goods/services sold to/ (purchased)	(2)	(11)	(285)	(767)	(396)
Payables balance at 31 March 2022	-	(2)	(98)	-	(37)
Receivables balance at 31 March 2022	-	-	-	5	344

The above additional related parties are companies that LNER and intercompany directors also hold directorships in.

Under the Services Agreement, the Company is subject to Fixed Service Payments in the form of service agreement premium paid to, or service agreement subsidy received from, the Department for Transport which for the year to the 31 March 2022 was a receivable service agreement subsidy of £248,216,000 (2021: £601,830,000).

London North Eastern Railway Limited
Notes to the Financial Statements (continued)

For the year ended 31 March 2022

21 Related party disclosures (continued)

An amount of £1,749,000 was received from the Department for Transport during the year relating to the 2020/21 service agreement subsidy. As at the 31 March 2022, the Company owes a payable balance of £55,299,000 relating to the Department for Transport service agreement premium washup (2021: service agreement subsidy receivable £1,749,000).

During the year the net cost of goods and services purchased from and sold to Network Rail was £100,680,000 (2021: £107,046,000). Capital project funding, net of capital costs, of £2,359,000 was received during the year (2021: £3,936,000). Fleet reliability funding of £353,000 was received during the year (2021: £nil). As at the 31 March 2022, balances with Network Rail included receivables £19,304,000 (2021: £1,009,000) and payables £27,279,000 (2021: £48,359,000).

Transactions with government owned companies, other than Network Rail, have not been disclosed as they are not significant.

22 Ultimate parent undertakings

The Company is a wholly owned subsidiary of DfT OLR Holdings Limited, a company registered in England and Wales (number 07141122). The Company's ultimate parent undertaking and controlling party is the Secretary of State for Transport.

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

DfT OLR Holdings Limited is the parent undertaking of the smallest and largest group of undertakings to consolidate these financial statements.

The financial statements of DfT OLR Holdings Limited can be obtained from Albany House, 94-98 Petty France, London, SW1H 9EA.

23 Post balance sheet events

Since the year end the RMT, ASLEF and TSSA trade unions have called strikes across the rail industry in Britain. These included the employees of LNER, NTL and Southeastern, as well as Network Rail the infrastructure provider and other train operating companies. Regrettably at the date of signing the financial statements, we anticipate further industrial action. We are working to try to resolve this situation for the benefit of our passengers, our employees, and the company and its shareholder.