

Registration number: SC450732 (Scotland)

# Abellio ScotRail Ltd

Annual report and statutory financial statements  
for the year ended 31 March 2021

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# **Abellio ScotRail Ltd**

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## **Abellio ScotRail Ltd**

### **Company information**

<b>Directors</b>	D D G Booth A J Hynes D Lister P Wright A C White D A Kaye
<b>Company secretary</b>	Brodi's Secretarial Services Limited
<b>Registered office</b>	Atrium Court 50 Waterloo Street Glasgow United Kingdom G2 6HQ
<b>Bankers</b>	HSBC 8-12 Queen Victoria Street London United Kingdom EC4N 4TQ
<b>Auditor</b>	Ernst & Young LLP Statutory Auditor 2 St Peter's Square Manchester United Kingdom M2 3DF

## **Abellio ScotRail Ltd**

### **Strategic report**

#### **For the year ended 31 March 2021**

The Directors present their strategic report and financial statements of Abellio ScotRail Ltd (the 'Company') for the year ended 31 March 2021.

#### **Business model**

The Company operates under a Franchise Agreement awarded by Transport Scotland, with the contract commencing on 1 April 2015. Prior to this date, the Company did not trade. The Company operates trains and manages stations, working with key partners, including Network Rail, who maintain and control the railway infrastructure, and rolling stock companies who own the trains that the Company leases.

Abellio ScotRail's plan for Scotland's Railway set ambitious objectives at the start of the franchise with the biggest investment in new trains, track and stations since the Victorian era.

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

The reporting period of this Annual report and Statutory financial statements is a twelve-month period which commenced on 1 April 2020 and ended 31 March 2021.

Key achievements for 2020/21 include multiple timetable changes throughout the pandemic which helped to keep key workers moving during unprecedented times. There were more detailed timetable changes than ever before, with services updated several times during the year to react to the changing lockdown restrictions by adjusting the timetable to meet the evolving needs of our customers making essential journeys, particularly hospital workers. The Company has also worked directly with Transport Scotland in order to ensure that necessary services remain available throughout the COVID-19 pandemic, whilst working to reduce the support required to operate those services through cost reductions. Investment has continued with multi-million-pound investment projects to refurbish the Aberdeen and Motherwell stations.

Recognising the exceptional circumstances presented by COVID-19, the Company entered into an Emergency Measures Agreement ("EMA") amendment to the underlying Franchise Agreement with Transport Scotland on 7 April 2020. The EMA ensured that, as far as possible, operational performance and the provision of passenger services was maintained. The EMA ensured that Abellio ScotRail Ltd was insulated as far as was reasonable from the severe financial impacts of COVID-19, with Transport Scotland undertaking revenue and cost risk and providing the financial support needed to continue operations. The EMA was effective from 1 March 2020 until 20 September 2020.

Due to the ongoing nature of COVID-19, on 20 September 2020, a second EMA amendment was entered into, Emergency Measures Agreement 2 ("EMA2"). EMA2 extended the support provided by the Scottish Government through to 10 January 2021. A subsequent EMA2 extension was entered into from 11 January 2021 to 31 March 2021.

A further EMA ("EMA3") was entered into on 31 March 2021 which covers 1 April 2021 through 18 September 2021. The Company continues to work alongside Transport Scotland in order to ensure that an EMA3 extension is agreed through to the end of the franchise term in March 2022. This will provide assurance over Abellio ScotRail Ltd's operational performance as well as its ability to meet its financial obligations as they fall due. Abellio ScotRail Ltd are grateful for the support provided by the Scottish Government which has ensured that services continue to be able to operate throughout a period of significant uncertainty.

The COVID-19 pandemic continues to have a significant impact on the financial results. The Company continues to operate under an EMA which was entered into with the Scottish Government. This insulates the Company as far as reasonable from the severe financial impacts of the pandemic.

As the Company moves closer to the end of the Franchise term, continual assessments are made on the recoverability of assets held, leading to adjustments being recorded in the income statement as required. Furthermore, an impairment has been recorded to reflect the most recent cash flow projections under the established EMA3 terms. These factors have resulted in an operating loss for the period of £9.3m (2020: £51.6m).

## **Abellio ScotRail Ltd**

### **Strategic report (continued) For the year ended 31 March 2021**

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

Other financial results include; Turnover for the year was £931.3m (2020: £917.0m) which included £853.7m (2020: £526.3m) of franchise subsidy from Transport Scotland and passenger income of £53.5m (2020: £360.4m). The increase in franchise subsidy from Transport Scotland represents the significant contributions which have been made by the Scottish Government under the EMA as well as increases in regulated costs, for example Network Rail costs including Fixed Track Access, Schedule 4 Access Charge Supplement, LTCs and Depot Lease charges. The loss after taxation for the year was £26.2m (2020: £56.3m).

The Company's net liabilities at the balance sheet date were £91.5m (2020: £72.7m). Included in the net liabilities position as at the balance sheet date are the loan balances due to related parties totalling £89.7m (2020: £89.7m) which are detailed in note 20. Under the EMA and the original Franchise Agreement, these loans are subject to lockup clauses which restrict the Company's ability to repay these balances. Furthermore, under the assumption that an EMA will be in place for the remainder of the franchise term, the Directors expect that the Company will be able to meet financial obligations, with the exception of the related party loans, as they fall due.

The global pandemic has created unprecedented uncertainty throughout the reporting period for these accounts. The full lockdowns and several travel restrictions have impacted the business substantially, and as with many organisations across the world, COVID-19 is the single biggest factor impacting the future of the business. There was a significant reduction in passengers travelling with Abellio ScotRail (up to 95 per cent reduction on the prior year).

Following the announcement made to the Scottish Parliament on 17 March 2021, the Scottish Ministers have decided that from 1 April 2022 a Successor Operator will take over the running of ScotRail Services, being the 'Operator of Last Resort' ("OLR"). The Successor Operator has subsequently been identified as ScotRail Trains Limited. Abellio ScotRail Ltd are working with Transport Scotland and ScotRail Trains Limited to ensure a smooth transition plan and process is in place for staff, passengers and other key stakeholders.

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

The Company measures its performance based on a balanced scorecard of indicators.

Customers are at the heart of the Company's business and customer satisfaction is measured through the National Rail Passenger Survey ("NRPS"), as well as through independent measurement of service quality standards. The Company's overall NRPS score was measured at 90% in the Spring 2020 survey. This is the highest score since Spring 2017, and the highest score amongst the large train operating companies within the UK. The results included a 96% satisfaction score for customer service, which is the best score for the business since that element was part of the survey in 2014. NRPS measurements have subsequently been suspended due to the COVID-19 pandemic with no industry agreed replacement having yet been put into place.

Operational performance is measured through the Public Performance Measure ("PPM") which is measured on a rolling 12 month moving annual average ("MAA") basis. During the twelve-month period ended 31 March 2021 the Company achieved a PPM MAA of 93.1% (31 March 2020: 88.5%). The improvement in PPM reflected better performance across the country, with record breaking periods of PPM on two separate occasions during the year. The successful implementation of the key worker timetable changes provided a vital service for those who needed to use services at the outbreak of the COVID- 19 pandemic.

The financial performance of the Company is measured by profit, with the results for the period set out above within the business review and results section.

The safety of the Company's employees and customers is of critical importance to our business. We work with our partners, British Transport Police, Network Rail, Transport Scotland and other key stakeholders, to ensure employees and customers return 'Home Safe, Every Day'. On Wednesday, 12 August 2020, the 06.38 Aberdeen to Glasgow Queen Street ScotRail service derailed in the Stonehaven area. This resulted in three fatalities, including two of our colleagues at Abellio ScotRail Ltd. These were distressing events for the surviving relatives, for colleagues and for the passengers on-board.

## **Abellio ScotRail Ltd**

### **Strategic report (continued) For the year ended 31 March 2021**

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

A joint investigation by the ORR, Police Scotland and the British Transport Police is being directed by the Crown Office and Procurator Fiscal Service. In parallel the RAIB are carrying out an independent investigation. An interim RAIB report was published on 19 April 2021, with the final report expected to be published by the end of 2021. Railway safety and personal safety of passengers and staff will remain top priorities for us going forward.

Our people are vital to the delivery of the Company's business strategy and objectives and it measures performance in a number of ways. The key employee-related performance metric is employee attendance, which was 92.03% in the period to 31 March 2021 (2020: 95.37%). The pandemic has profoundly increased our overall absence for the year with COVID-19 related absence averaging 2.76% across the year. All other absence excluding COVID-19, was 4.32% which is just slightly above the target of 4.25%. Our second largest employee absence driver in the year was stress/mental health with some of this coming directly from COVID-19. We continue to work hard with the business to increase mental health awareness, through our Mental Health First Aiders and the range of confidential support available from our occupational health and specialist providers to support all colleagues across the business.

Under EMA3, the existing 3 KPI categories (Operational Performance, Customer Experience and Good & Efficient Operator) will be replaced with the following categories:

- Operational Performance;
- Passenger Experience;
- Driving Cost Efficiency;
- Collaborative Working;
- Service Quality;
- Revenue Incentive (EMA3 Performance Period 2 only).

#### **Financial instruments**

The Company's principal financial assets are bank balances and trade receivables. The Company's credit risk is primarily attributable to its trade debtors. The amounts presented in the balance sheet are net of any identified impairment or expected credit loss. The expected credit loss method has been used, in line with IFRS 9, to consider the Company's exposure to credit risk (see note 2). The Company has no significant credit risk, with exposure mainly on rail industry partners. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies. To protect cash flows, the Company enters into commodity swap contracts to hedge a proportion of its exposure to fuel price. This cash flow hedge is recognised on the balance sheet at fair value. The Company's principal financial liabilities are trade and Company creditors and the fuel hedge liability.

#### **Principal risks and uncertainties**

The Company is subject to both internal and external risk factors. Appropriate mitigations for these risks are developed and reviewed regularly by the Board.

The biggest external risk factor is the ongoing COVID-19 pandemic. While the rollout of a vaccine is well underway, restrictions have had a considerable impact and some will remain in place for much of 2021. UK unemployment is expected to reach 5.6 per cent in 2021. A significant rise in unemployment may lead to a delay in passenger revenue recovery with fewer customers commuting as well as potentially lower demand for leisure travel. The consequences of this on the spending power of both the government and individuals could have a material impact on the recovery of the railway.

Under a scenario in which the Company is unable to secure an extension to the EMA to the end of the Franchise term this would pose a significant challenge to the ability of the Company to meet its financial obligations as they fall due. Management therefore closely monitor the ongoing negotiations with Transport Scotland.

## **Abellio ScotRail Ltd**

### **Strategic report (continued) For the year ended 31 March 2021**

#### **Principal risks and uncertainties (continued)**

External factors such as the global economic conditions and the impact of oil prices on the Scottish economy can have an impact on costs, passenger numbers and revenue, along with the global threat of terrorist activity. Abellio ScotRail Ltd has a hedging strategy in place to guard against significant fluctuations in oil prices. The cost risk of significant movements in the cost of fuel is therefore largely mitigated from fuel hedges entered into by the Company.

An internal risk factor is any potential industrial action, which could damage the credibility of the Company as a reliable form of public transport. This could limit the Company's ability to attract passengers back to the railway and grow revenue.

#### **Future developments**

Like the majority of businesses across the world, COVID-19 will impact the Company for the foreseeable future. The immediate priority is to recover from the impact of the pandemic by increasing passenger numbers and growing revenue. The Company has remained under EMA since March 2020, with the latest EMA extension (EMA3) expiring in September 2021 and Management assume that a further extension will be agreed until the end of the franchise. This will provide stability and enable the Company to deliver the modernisation agenda required to make the business sustainable.

Key areas of focus for the Company include:

- tactical offers to drive demand recovery;
- additional revenue protection measures;
- new products to attract people back to the railway;
- a timetable better suited to how people are now travelling;
- a new, innovative and progressive marketing plan; and
- new technology to make it easier for customers to buy tickets, including a bar-code ticketing system.

#### **COVID-19**

The Directors continue to monitor the ongoing situation regarding coronavirus and the potential impact on the Company, and take mitigating actions as required. Given the current uncertainty, it is not possible to quantify the potential impact.

#### **Statement by the Directors in performance of their statutory duties under Section 172(1) of the Companies Act 2006**

For the period ending 31 March 2021, the Board of Directors of Abellio ScotRail Ltd acted in such a way as to deliver success for the Company, having regard to its duties under Section 172(1) of the Companies Act 2006.

The following paragraphs summarise how the Directors fulfil their duties:

#### **Decision making**

The Company's approach to decision making is discussed in detail within the Board composition section of page 11.

#### **Risk management**

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

## **Abellio ScotRail Ltd**

### **Strategic report (continued) For the year ended 31 March 2021**

#### **Statement by the Directors in performance of their statutory duties under Section 172(1) of the Companies Act 2006 (continued)**

##### **Our people**

Our people are our most valuable asset. They are essential to our future plans to recover the railway following COVID-19. Having motivated and engaged staff is at the heart of what the Company does, which is why we invest significant resources into personal development, mental health support, training, and management support. During COVID-19, we have invested heavily in measures to keep staff safe.

##### **Stakeholder engagement**

The views of our key stakeholders, including customers, trade union colleagues, suppliers, or elected representatives, are vital to delivering the best possible service on Scotland's Railway. During the pandemic, it has been important to keep stakeholders updated on the numerous changes we have made to timetables, on train and in stations over the past twelve months. We have been sure to act on their feedback to continue to keep everyone moving, particularly key workers, and deliver an even better service.

We build relationships with key stakeholders, including politicians, business representative organisations and media through our programme of communications and engagement. Key stakeholders can raise any concerns directly with our External Relations Manager, who can share this with the relevant teams to be addressed.

The pandemic has changed Scotland's Railway fundamentally and our communication and engagement with stakeholders will need to adapt to the new reality. Therefore, in our communications and engagement, we try to ensure that we provide a fair and understandable outlook for the business, while adhering to any sensitivity and reputational risks.

We engage with key stakeholders in the following ways:

- Equality group for engagement with stakeholders representing disabled groups;
- Regular Member of the Scottish Parliament ("MSP") and Member of Parliament ("MP") drop-in sessions;
- One-to-one meeting with MSPs, MPs, and Councillors as required;
- ScotRail Alliance leaders give evidence to the Scottish Parliament's Rural Economy and Connectivity Committee;
- Regional roundtables across eight regions with key stakeholders from business and local authorities;
- Scotland's Railway Stakeholder Panel meetings held three times a year - the panel was relaunched in October 2020 with a brand-new membership in place, with the appointment of CBI Scotland Director Tracy Black as chair, alongside senior representatives from Scotland's key sectors;
- Regular one-to-one meetings with other key stakeholders, particularly business organisations; and
- Regular stakeholder email updates.

##### **Community and environment**

Abellio ScotRail's work is vital in connecting communities, whether it is providing lifeline services for remote areas, attracting greater investment into local areas, or transporting large numbers of people into city centres to boost economic activity. The Company is rooted in communities across Scotland, working with local groups to invest in the area and deliver for our customers.



## **Abellio ScotRail Ltd**

### **Strategic report (continued) For the year ended 31 March 2021**

#### **Business conduct**

The Company strives to maintain a reputation for high standards of business conduct. The Directors are responsible for setting these standards. Our intention is to behave responsibly and ensure that management operate the business in a responsible manner, operating within the high standards of business conduct, good governance and the minimum requirements set by our ultimate parent. In doing so this ensures we contribute to the delivery of our strategy and objectives as well as acting responsibly with our customers, suppliers and wider community.

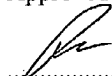
#### **Our shareholders**

We act responsibly toward our shareholder and endeavor to deliver a financial return to them. We have an open dialogue with our immediate shareholder and ultimate parent, providing them with regular and appropriate communications to ensure they understand our strategy, objectives and results.

#### **Parent company**

Abellio Transport Holdings Limited is the immediate parent company of the Company. The Board regularly engages with Nederlandse Spoorwegen (NS), Abellio UK's parent company and single shareholder. In line with governance rules, financial and strategic information is shared with NS to ensure its leadership team is fully aware of Abellio ScotRail's performance and future plans.

Approved by the Board on 30 July 2021 and signed on its behalf by:



.....  
P Wright  
Director

## **Abellio ScotRail Ltd**

### **Directors' report For the year ended 31 March 2021**

The Directors present their report for the period ended 31 March 2021.

#### **Directors**

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

D D G Booth

A J Hynes

D Lister

P Wright

A C White

J Edwards (resigned 28 July 2020)

A T Pilbeam (resigned 10 August 2020)

D A Kaye (appointed 28 July 2020)

#### **Going concern**

The Directors have considered the Company's ability to continue to trade for the period to the end of July 2022, with reference to a detailed cash flow forecast, budget and relevant financial information. The Company holds a detailed budget and business plan which covers the remainder of the Franchise Agreement to 31 March 2022. In addition, the Company continues to produce periodic forecasts for the next 12 months, including periods after the cessation of the Franchise Agreement.

The Company was originally set up to operate a franchise from 1 April 2015 to 31 March 2025, under a 10-year term. In the prior year, Transport Scotland announced that they would enact the break clause in the original Franchise Agreement. Following this announcement there was an expectation that the Company would cease to trade on 1 April 2022 once the current franchise term ends. This expectation was confirmed when it was announced to the Scottish Parliament on 17 March 2021, that Scottish Ministers have decided that from 1 April 2022 a Successor Operator will take over the running of the ScotRail Services. The Successor Operator will be ScotRail Trains Limited, a publicly owned company. The Company is in receipt of a formal notice from Transport Scotland to this effect.

While the existing trade is expected to cease on 1 April 2022, the Company will remain in existence to realise the remaining assets and liabilities, being the assets and liabilities that would not transfer to ScotRail Trains Limited, under the provisions of the Franchise Agreement. ScotRail Trains Limited will operate the ScotRail Franchise through a separate legal entity from 1 April 2022.

In accordance with IAS 1 Presentation of Financial Statements, the Directors must consider a period of at least 12 months from the date of approval of the financial statements and consider any events beyond that period when making the assessment of whether the financial statements should be prepared on the going concern basis. In accordance with IAS 1, where the Company intends to cease trading, or has no realistic alternative to do so, then financial statements should be prepared on a basis other than going concern.

The Company has therefore prepared the statutory financial statements for the year ended 31 March 2021 on a basis other than that of a going concern as the Company expects to cease carrying on the trade of passenger rail operations on 1 April 2022. The Directors do not consider there to be any measurement differences when compared to a going concern basis that would impact the results presented in these financial statements as they expect the Company to continue to meet financial obligations as they fall due. In arriving at this conclusion, the Directors have considered the contractual terms of EMA3 and the original Franchise Agreement on the ability to repay loans outstanding to parent entities, as set out in note 20 to the financial statements. These loans are subject to lockup clauses which restrict the Company's ability to repay these balances; therefore, these are not expected to be repaid within the next 12 months from the balance sheet date of these financial statements.

## **Abellio ScotRail Ltd**

### **Directors' report (continued) For the year ended 31 March 2021**

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

The Directors have considered the consequences of COVID-19 and other events and conditions on the ability of the entity to continue as a going concern and the measurement basis used in preparing these accounts. As a result of the pandemic, the Company has remained under EMA terms since the effective date of 1 March 2020, with the latest EMA contract ("EMA3") entered into on 1 April 2021 and ending on 18 September 2021. In the absence of an EMA extension, the impact of COVID-19 on future performance and therefore on the measurement of some assets and liabilities or on liquidity might be significant and might therefore require disclosure in the financial statements.

However, the Directors have considered that the Company is currently under an EMA with Transport Scotland until September 2021 and there is an assumption that an EMA3 extension will be in place until the cessation of the Franchise on 31 March 2022. The Scottish Government have publicly indicated their intention to retain the Company under an EMA through to the end of the franchise term, as announced by the Scottish Ministers on 17 March 2021.

The Directors believe that the Company will be able to continue to meet financial obligations as they fall due under the assumption that the Company remains under an EMA throughout the remainder of the Franchise term. The Directors therefore feel the measurement basis taken in these financial statements is appropriate.

#### **Dividend**

No dividend was paid or proposed in the year (2020: £nil).

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

The Company made charitable donations of £22,000 in the year (2020: £36,180). No political contributions were made in the year (2020: £nil).

#### **Impact of COVID-19**

The Directors continue to monitor the ongoing situation regarding coronavirus and the potential impact on the Company, and take mitigating actions as required. Given the current uncertainty, it is not possible to quantify the potential impact.

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

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

The Company manages this impact by having certified environmental and energy management systems. These systems support the overall sustainability strategy and contribute to nationwide rail industry initiatives.

The Company is committed to continually improving our environmental and energy performance whilst minimising pollution and recognises our role in supporting the delivery of the Scottish Government's emission reduction targets.

Some of the key achievements during the year were as follows:

- Maintained accreditation to environmental management standards - ISO 14001 Environmental Management and ISO 50001 Energy Management;
- The Company now has 144 electric vehicle charging points;
- Reduced overall carbon footprint by 30,002 tonnes;
- Received first ever environmental award;
- Published first Decarbonisation Policy;

## Abellio ScotRail Ltd

### Directors' report (continued) For the year ended 31 March 2021

#### Energy and carbon reporting (continued)

- Significant investment in upgrading waste recycling facilities as well as minimising and monitoring our waste schedules;
- Agreed with Transport Scotland to channel our customers online for digital communication, reducing our print production, saving 16.5 tonnes of paper across the May and December 2020 timetable changeovers;
- Worked collaboratively with Network Rail, forming Scotland's Railway Air Quality Steering Group;
- Invested £40,000 annually in supporting local biodiversity projects.

The Company maintains records of its energy consumption. The data below shows the Company's greenhouse gas emissions from operations, and other key metrics, for the financial year ended 31 March 2021, including prior year comparatives:

	Year ended 31 March 2021	Year ended 31 March 2020
Emissions from combustion of gas and the consumption of fuel for the purposes of transport	85,085	101,506
Emissions resulting from purchase of electricity for its own use	47,193	71,786
Emissions resulting from business travel	228	749
<b>Total Gross emissions - tonnes of CO<sub>2</sub>e</b>	<b>132,505</b>	<b>174,041</b>
<b>Tonnes of CO<sub>2</sub>e per headcount employee</b>	<b>25.3</b>	<b>34.2</b>

	Year ended 31 March 2021	Year ended 31 March 2020
<b>Energy consumption used to calculate emissions:</b>		
Kilowatt Hours ('KwH')	210,755,733	287,173,965
Litres of Diesel consumed	29,677,094	35,861,133
Kilometres travelled	2,672,583	3,176,195
Litres of Petrol consumed	232	10,450

UK Government Conversion Factors are utilized for greenhouse gas (GHG) reporting. The Company's Energy Management system is accredited to ISO50001 and externally audited on an annual basis.

#### Employees

The Company is a non-discriminatory employer operating an Equal Opportunities Policy which aims to eliminate unfair discrimination, harassment, victimisation and bullying. The Company is committed to ensuring that all individuals are treated fairly, with respect and are valued irrespective of disability, race, gender, health, social class, sexual preference, marital status, nationality, religion, employment status, age or membership or non-membership of a trade union.

The Company recognises its obligations to give disabled people full and fair consideration for all vacancies within the statutory medical requirement which must be met for certain grades of staff. Wherever reasonable and practicable, the Company will retain newly disabled employees and at the same time provide full and fair opportunities for the career development of disabled people.

## **Abellio ScotRail Ltd**

### **Directors' report (continued) For the year ended 31 March 2021**

#### **Employees (continued)**

The Company uses consultative procedures agreed with its staff and elected representatives with a view to ensuring that employees are aware of the financial and economic factors which affect the Company's performance and prospects. In addition, the Company issues a weekly newsletter to all employees informing them of developments within the Company.

Communication with employees is also effected through regular briefing and negotiation meetings between the Directors, the senior management and employee representatives on the central and depot negotiating committees.

The briefing meetings enable senior management to consult with employees and to ascertain their views on matters likely to affect their interests.

#### **Board composition**

An efficient Board structure requires a balance of skills, backgrounds, experience and knowledge. Individual Directors are required to each make a valuable individual contribution.

The Company has a Chief Operating Officer and Managing Director who ensure that the responsibilities, accountabilities and decision making is effectively maintained. The Chief Operating Officer and Managing Director play a pivotal role in creating an environment which allows the overall Board, and individual Directors to be effective. They also ensure that the Board is effective in its task of setting and implementing the Company's direction and strategy.

The Board is comprised of Directors from Abellio ScotRail Ltd, Abellio Group, as well as other stakeholders from the ScotRail Alliance. The size and composition of the Board is appropriate to the Company's size, nature and the complexity of the business.

The Board composition is defined by six core leadership capabilities. These capabilities are used in the Company's recruitment, learning and development, reward, performance management, talent management, and succession planning processes. Abellio ScotRail Ltd expects high standards from its leadership team and has developed a set of assessment criteria designed to help all leaders meet these leadership expectations. The combination of skills of the Directors is considered suitable for the nature of the organisation.

There is open debate and constructive challenge at meetings, with Board members demonstrating good engagement with the business, and a sound understanding of the Company's strategy, associated risks and challenges.

Directors update their skills, knowledge and familiarity with the Company by meeting with senior management, visiting operations, and attending appropriate internal and external seminars and training courses.

#### **Board remuneration**

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

Some of the Directors of Abellio ScotRail Ltd, who are also Directors of Abellio Transport Holdings Ltd, are remunerated for their services to the group as a whole and details can be found in the Abellio Transport Holdings Ltd annual report. Other Directors are Abellio Transport Holdings Ltd employees or Directors, and their remuneration is recharged to Abellio ScotRail Ltd.

The Managing Director is remunerated through a ScotRail Alliance partner, with Abellio ScotRail Ltd being recharged their allocation.

The remainder of the Directors are solely Directors of Abellio ScotRail Ltd and are remunerated through the Company.

The group remuneration committee considers the pay and incentive structures for senior management across the group, including the Directors of Abellio ScotRail Ltd. The remuneration of the Directors of Abellio ScotRail Ltd is established through a process which takes into account the same factors as the group executives.

## **Abellio ScotRail Ltd**

### **Directors' report (continued) For the year ended 31 March 2021**

#### **Board remuneration (continued)**

These include:

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

The Board is committed to creating an environment at all levels in the Company which enables people to perform and develop their abilities and potential.

The Board strives to ensure that Abellio ScotRail has a diverse workplace which does not attach specific importance to age, community background or country of origin, disability, gender, nationality, political opinion, religious belief, or sexuality - that ensures that we are able to attract talented employees who will contribute to the success of Scotland's Railway.

ScotRail prepares a number of policies and reports which detail our commitment to diversity, inclusion, belonging and equality. These are published on our website [www.scotrail.co.uk](http://www.scotrail.co.uk).

#### **Directors' indemnities**

The Company has made qualifying third-party indemnity provisions for the benefit of its Directors.

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

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

- so far as the Directors are aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the Directors have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

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

#### **Auditor**

The Company has elected to dispense with the annual requirement to reappoint the auditor and accordingly Ernst & Young LLP will continue to act as auditor of the Company.

Approved by the Board on 30 July 2021 and signed on its behalf by:



.....  
P Wright  
Director

## **Abellio ScotRail Ltd**

### **Directors' responsibilities statement**

The Directors are responsible for preparing the annual report including the financial statements in accordance with applicable UK law and regulations.

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

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

- select suitable accounting policies and apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether Financial Reporting Standard 101 Reduced Disclosure Framework has been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

## **Independent auditor's report to the members of Abellio ScotRail Ltd**

### **Opinion**

We have audited the financial statements of Abellio ScotRail Ltd for the year ended 31 March 2021 which comprise the Income Statement and Other Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 28, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2021 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Basis for opinion**

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

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

### **Emphasis of matter – financial statements prepared on a basis other than going concern**

We draw attention to note 3 to the financial statements which explains that the Company will have ceased to trade by 31 March 2022 and therefore the Directors do not consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements. Accordingly the financial statements have been prepared on a basis other than going concern as described in note 3. Our opinion is not modified in respect of this matter.

### **Other information**

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

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

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

We have nothing to report in this regard.



## **Independent auditor's report to the members of Abellio ScotRail Ltd (continued)**

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

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

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

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

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

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

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

### **Responsibilities of Directors**

As explained more fully in the Directors' responsibilities statement set out on page 13, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

## Independent auditor's report to the members of Abellio ScotRail Ltd (continued)

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

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company and determined that the most significant are the direct laws and regulations relating to elements of company law and tax and pensions legislation, the financial reporting framework, i.e. Companies Act 2006 and FRS 101, and Rail regulatory legislation.
- We understood how the Company is complying with those frameworks by making enquiries with management and those responsible for legal and compliance matters. We also reviewed correspondence between the Company and UK regulatory bodies, reviewed minutes of the Board meetings and meetings with governing bodies and gained an understanding to the Company's approach to governance and its review of the risk management framework and internal control processes.
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by considering the controls that the Company has established to address risks identified by the entity, or that might otherwise seek to prevent, deter or detect fraud. We also considered areas of significant judgement including complex transactions, economic or external pressures and the impact these have on the control environment. Where the risk was considered to be higher, we performed audit procedures to address each identified risk. These procedures included testing manual journals and were designed to provide reasonable assurance that the financial statements were free from fraud or error.
- Based on this understanding we designed our audit procedures to identify noncompliance with such laws and regulations. For direct laws and regulations, we considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statement items. For both direct and other laws and regulations our procedures involved; making enquiries with those charged with governance and senior management for their awareness of non-compliance with laws and regulations; inquiring about policies that have been established to prevent non-compliance with laws and regulations by officers and employees; inquiring about the Company's methods of enforcing and monitoring compliance with such policies; and inspecting significant correspondence with regulatory authorities.

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

### Use of our report

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

*Ernst & Young LLP*

.....  
Jamie Dixon (Senior Statutory Auditor)  
for and on behalf of Ernst & Young LLP, Statutory Auditor

2 St Peter's Square  
Manchester  
United Kingdom  
M2 3DF

Date: 30 July 2021  
.....

## Abellio ScotRail Ltd

### Income statement

For the year ended 31 March 2021

	Note	2021 £ 000	2020 £ 000
Revenue	5	931,267	916,985
Operating costs		(943,529)	(968,629)
Gain on disposal of leased assets	16	<u>2,925</u>	<u>-</u>
<b>Operating loss</b>		(9,337)	(51,644)
Interest receivable and similar income	6	226	369
Interest payable and similar charges	7	<u>(9,453)</u>	<u>(13,219)</u>
<b>Loss before taxation</b>		(18,564)	(64,494)
Taxation	11	<u>(7,622)</u>	<u>8,242</u>
<b>Loss for the financial year</b>	12	<u><u>(26,186)</u></u>	<u><u>(56,252)</u></u>

The above results were derived from continuing operations.

The notes on pages 21 to 48 form an integral part of these financial statements.

**Abellio ScotRail Ltd**

**Statement of comprehensive income  
For the year ended 31 March 2021**

	<b>2021</b> <b>£ 000</b>	<b>2020</b> <b>£ 000</b>
<b>Loss for the financial year</b>	<u>(26,186)</u>	<u>(56,252)</u>
<b>Items that will not be reclassified subsequently to profit or loss:</b>		
Movements on cash flow hedges	7,352	(10,545)
<b>Items that may be reclassified subsequently to profit or loss:</b>		
Tax charge on items relating to components of comprehensive income	<u>-</u>	<u>51</u>
<b>Total other comprehensive income/(loss) for the year</b>	<u>7,352</u>	<u>(10,494)</u>
<b>Total comprehensive loss for the year</b>	<u><u>(18,834)</u></u>	<u><u>(66,746)</u></u>

The notes on pages 21 to 48 form an integral part of these financial statements.

# Abellio ScotRail Ltd

## Balance sheet As at 31 March 2021

	Note	2021 £ 000	2020 £ 000
<b>Non-current assets</b>			
Intangible assets	14	4,420	7,995
Property, plant and equipment	15	10,953	19,848
Right-of-use assets	16	110,293	212,830
		<u>125,666</u>	<u>240,673</u>
<b>Current assets</b>			
Inventories	17	10,976	10,828
Trade and other receivables	18	91,788	120,181
Cash and cash equivalents		70,228	34,929
		<u>172,992</u>	<u>165,938</u>
<b>Current liabilities</b>			
Trade and other payables	19	(170,494)	(164,569)
Loans and borrowings	20	(107,177)	(4,000)
Fuel hedge liability	21	(2,891)	(6,208)
Lease liabilities	22	(109,624)	(105,670)
		<u>(390,186)</u>	<u>(280,447)</u>
<b>Net current liabilities</b>		<u>(217,194)</u>	<u>(114,509)</u>
<b>Total assets less current liabilities</b>		<u>(91,528)</u>	<u>126,164</u>
<b>Non-current liabilities</b>			
Loans and borrowings	20	-	(86,302)
Fuel hedge liability	21	-	(4,835)
Lease liabilities	22	-	(107,721)
		<u>-</u>	<u>(198,858)</u>
<b>Net liabilities</b>		<u>(91,528)</u>	<u>(72,694)</u>
<b>Equity</b>			
Called-up share capital	23	-	-
Cash flow hedging reserve	23	(2,891)	(10,243)
Retained earnings	23	(88,637)	(62,451)
<b>Total equity</b>		<u>(91,528)</u>	<u>(72,694)</u>

The financial statements of Abellio ScotRail Ltd (registration number: SC450732 (Scotland)) were approved by the Board of Directors and authorised for issue on 30 July 2021.



P Wright  
Director

The notes on pages 21 to 48 form an integral part of these financial statements.

**Abellio ScotRail Ltd**

**Statement of changes in equity  
For the year ended 31 March 2021**

	<b>Called-up share capital £ 000</b>	<b>Cash flow hedging reserve £ 000</b>	<b>Retained earnings £ 000</b>	<b>Total £ 000</b>
<b>At 1 April 2019</b>	-	251	7,887	8,138
IFRS 16 transition	-	-	(14,086)	(14,086)
Loss for the year	-	-	(56,252)	(56,252)
Other comprehensive loss	-	(10,494)	-	(10,494)
<b>Total comprehensive loss</b>	-	(10,494)	(70,338)	(80,832)
<b>At 31 March 2020</b>	-	(10,243)	(62,451)	(72,694)
	<b>Called-up share capital £ 000</b>	<b>Cash flow hedging reserve £ 000</b>	<b>Retained earnings £ 000</b>	<b>Total £ 000</b>
<b>At 1 April 2020</b>	-	(10,243)	(62,451)	(72,694)
Loss for the year	-	-	(26,186)	(26,186)
Other comprehensive income	-	7,352	-	7,352
<b>Total comprehensive loss</b>	-	7,352	(26,186)	(18,834)
<b>At 31 March 2021</b>	-	(2,891)	(88,637)	(91,528)

The notes on pages 21 to 48 form an integral part of these financial statements.

# **Abellio ScotRail Ltd**

## **Notes to the financial statements For the year ended 31 March 2021**

### **1 General information**

Abellio ScotRail Ltd (the 'Company') is a private Company limited by share capital incorporated in Scotland and domiciled in the United Kingdom.

The address of its registered office is:

Atrium Court  
50 Waterloo Street  
Glasgow  
United Kingdom  
G2 6HQ

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

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

### **2 Adoption of new and revised International Financial Reporting Standards**

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

In the current year, the company has applied a number of amendments to International Accounting Standards ('IAS'), IFRS Standards and International Financial Reporting Interpretations Committee ('IFRIC') and Interpretations issued by the International Accounting Standards Board ('IASB') that are effective for an annual period that begins on or after 1 January 2020. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

- Impact of the initial application of Interest Rate Benchmark Reform amendments to IFRS 9 and IFRS 7;
- Impact of the initial application of COVID-19-Related Rent Concessions Amendment to IFRS 16;
- Amendments to References to the Conceptual Framework in IFRS Standards; and
- Amendments to IAS 1 and IAS 8 Definition of material.

### **3 Accounting policies**

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

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

#### **Statement of compliance**

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

#### **Basis of accounting**

The financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for the goods and services.

## **Abellio ScotRail Ltd**

### **Notes to the financial statements (continued) For the year ended 31 March 2021**

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

##### **Summary of disclosure exemptions**

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

- the requirements of IFRS 7 Financial Instruments: Disclosures;
- the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement;
- the requirement in paragraph 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of: (i) paragraph 79(a) (iv) of IAS 1, (ii) paragraph 73(e) of IAS 16 Property Plant and Equipment
- the requirements of paragraphs 10(d), 10(f) and 134-136 of IAS 1 Presentation of Financial Statements;
- the requirements of IAS 7 Statement of Cash Flows;
- the requirements of paragraph 17 of IAS 24 Related Party Disclosures;
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member;
- the requirements of paragraphs 134(d)-134(1) and 135(c)-135(e) of IAS 36 Impairment of Assets; and
- the requirements of paragraph 30 and 31 of IAS 8 Accounting policies, changes in accounting estimates and errors (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective).

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

The principal accounting policies adopted are set out below.

##### **Going concern**

The Directors have considered the Company's ability to continue to trade for the period to the end of July 2022, with reference to a detailed cash flow forecast, budget and relevant financial information. The Company holds a detailed budget and business plan which covers the remainder of the Franchise Agreement to 31 March 2022. In addition, the Company continues to produce periodic forecasts for the next 12 months, including periods after the cessation of the Franchise Agreement.

The Company was originally set up to operate a franchise from 1 April 2015 to 31 March 2025, under a 10-year term. In the prior year, Transport Scotland announced that they would enact the break clause in the original Franchise Agreement. Following this announcement there was an expectation that the Company would cease to trade on 1 April 2022 once the current franchise term ends. This expectation was confirmed when it was announced to the Scottish Parliament on 17 March 2021, that Scottish Ministers have decided that from 1 April 2022 a Successor Operator will take over the running of the ScotRail Services. The Successor Operator will be ScotRail Trains Limited, a publicly owned company. The Company is in receipt of a formal notice from Transport Scotland to this effect.

While the existing trade is expected to cease on 1 April 2022, the Company will remain in existence to realise the remaining assets and liabilities, being the assets and liabilities that would not transfer to ScotRail Trains Limited, under the provisions of the Franchise Agreement. ScotRail Trains Limited will operate the ScotRail Franchise through a separate legal entity from 1 April 2022.



## Abellio ScotRail Ltd

### Notes to the financial statements (continued) For the year ended 31 March 2021

#### 3 Accounting policies (continued)

##### Going concern (continued)

In accordance with IAS 1 Presentation of Financial Statements, the Directors must consider a period of at least 12 months from the date of approval of the financial statements and consider any events beyond that period when making the assessment of whether the financial statements should be prepared on the going concern basis. In accordance with IAS 1, where the Company intends to cease trading, or has no realistic alternative to do so, then financial statements should be prepared on a basis other than going concern.

The Company has therefore prepared the statutory financial statements for the year ended 31 March 2021 on a basis other than that of a going concern as the Company expects to cease carrying on the trade of passenger rail operations on 1 April 2022. The Directors do not consider there to be any measurement differences when compared to a going concern basis that would impact the results presented in these financial statements as they expect the Company to continue to meet financial obligations as they fall due. In arriving at this conclusion, the Directors have considered the contractual terms of EMA3 and the original Franchise Agreement on the ability to repay loans outstanding to parent entities, as set out in note 20 to the financial statements. These loans are subject to lockup clauses which restrict the Company's ability to repay these balances; therefore, these are not expected to be repaid within the next 12 months from the balance sheet date of these financial statements.

The Directors have considered the consequences of COVID-19 and other events and conditions on the ability of the entity to continue as a going concern and the measurement basis used in preparing these accounts. As a result of the pandemic, the Company has remained under EMA terms since the effective date of 1 March 2020, with the latest EMA contract ("EMA3") entered into on 1 April 2021 and ending on 18 September 2021. In the absence of an EMA extension, the impact of COVID-19 on future performance and therefore on the measurement of some assets and liabilities or on liquidity might be significant and might therefore require disclosure in the financial statements.

However, the Directors have considered that the Company is currently under an EMA with Transport Scotland until September 2021 and there is an assumption that an EMA3 extension will be in place until the cessation of the Franchise on 31 March 2022. The Scottish Government have publicly indicated their intention to retain the Company under an EMA through to the end of the franchise term, as announced by the Scottish Ministers on 17 March 2021.

The Directors believe that the Company will be able to continue to meet financial obligations as they fall due under the assumption that the Company remains under an EMA throughout the remainder of the Franchise term. The Directors therefore feel the measurement basis taken in these financial statements is appropriate.

##### Revenue

##### *Ticketed passenger revenue*

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

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

##### *Daily tickets*

The Company has assessed that there is one performance obligation for the provision of transport on the specified day and for the specified route set out on the ticket. The transaction price of each ticket is the Company's share from the Rail Settlement Plan and this is recognised as revenue on the day of travel specified on the ticket.

## **Abellio ScotRail Ltd**

### **Notes to the financial statements (continued) For the year ended 31 March 2021**

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

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

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

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

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

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

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

Revenue is recognised over the validity period of the railcard on a straight line basis.

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

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

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

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

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

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

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

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

The transaction price is specified on the ticket.

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

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

## **Abellio ScotRail Ltd**

### **Notes to the financial statements (continued) For the year ended 31 March 2021**

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

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

###### ***Car park income (continued)***

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

###### ***Franchise subsidies (Government grants and subsidies)***

The Company recognises Government grants and subsidies receivable for tendered services, concessionary fare schemes and financial support receivable from Transport Scotland in revenue. The amount recognised for financial support aligns income with cost in line with IAS 20 and is net of any financial penalties.

###### ***Management fees and performance payments***

Management fee and performance payment income due under the EMAs is recognised as services are delivered under the contractual EMA terms.

Management fee income under the EMA was fixed per the EMA contractual terms and earned each rail period in which the EMA covered. There is no management fee income under EMA2 or EMA3.

Performance payments are variable based on the outcome of a balanced scorecard grading process. Performance payments are earned on a rail period basis as services are delivered. The Company record revenue based on the expected outcome of the grading process on a rail period basis.

##### **Tax**

###### ***Current tax***

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

###### ***Deferred tax***

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

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

##### **Foreign currencies**

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the contracted rate or the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the income statement.

##### **Property, plant and equipment**

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

## Abellio ScotRail Ltd

### Notes to the financial statements (continued) For the year ended 31 March 2021

#### 3 Accounting policies (continued)

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

Depreciation is provided on all property, plant and equipment, other than land, on a straight-line basis over the shorter of its expected useful life and the anticipated franchise end date as follows:

Asset class	Depreciation rate and method
Buildings	10 years straight-line
Plant and equipment held under finance leases	Over the life of the lease
Plant and equipment	3 to 10 years straight-line
Fixtures and fittings	3 years straight-line
Computer equipment	3 to 10 years straight-line

##### Heavy maintenance

Maintenance and repair costs for leased rolling stock is charged to raw materials and consumables as incurred, with the exception of heavy maintenance expenditures on leased rolling stock, which are capitalised as described below. Heavy maintenance events typically consist of more complex inspections and servicing of the rolling stock.

Right-of-use assets are accounted for under IAS 16 Property, Plant and Equipment. Rolling stock recorded as right-of-use assets have the same accounting policies as directly owned assets. Abellio ScotRail allocates the amount initially recognised in respect of an item of property and equipment to its significant components and depreciates separately each component. Leased rolling stock right-of-use assets are componentised by the materials utilised to perform distinct scheduled heavy maintenance events. Heavy maintenance components are depreciated over the shorter of the remainder of the lease term, or the expected life between major maintenance events.

Heavy maintenance of leased rolling stock, including replacement spares and parts, labour costs and/or third-party maintenance service costs, are capitalised as part of the right-of-use asset and depreciated over the shorter of the lease term and the expected life between heavy maintenance events. All other maintenance costs are charged to operating expenses in the income statement as incurred.

##### Deferred capital grants

Income received in relation to fixed assets acquisitions is offset against the cost of the asset and the net cost is depreciated over the life of the asset.

##### Leases

###### *The Company as a lessee*

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

###### *Lease liability*

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

## Abellio ScotRail Ltd

### Notes to the financial statements (continued) For the year ended 31 March 2021

#### 3 Accounting policies (continued)

##### Leases (continued)

###### *Lease liability (continued)*

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

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the balance sheet.

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

The Company remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The company did not make any such adjustments during the period presented.

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

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

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset.

The depreciation starts at the commencement date of the lease.

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

The Company applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the "Impairment of tangible and intangible assets" policy.

## Abellio ScotRail Ltd

### Notes to the financial statements (continued) For the year ended 31 March 2021

#### 3 Accounting policies (continued)

##### Leases (continued)

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

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

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Company has not used this practical expedient. For a contract that contains a lease component and one or more additional lease or non-lease components, the Company allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

##### Intangible assets

Intangible fixed assets are stated at original cost less accumulated amortisation and accumulated impairment. Amortisation is recognised so as to write off the cost or valuation of assets less their residual values over the shorter of their expected useful life and the anticipated franchise end date on the following bases:

Asset class	Amortisation rate and method
Development costs	7 years straight-line
Software costs	7 years straight-line

###### *Development and software costs*

Development expenditure on an individual project is recognised as an intangible asset when the Company can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the asset and the ability to measure reliably the expenditure during development. Following initial recognition of the development expenditure as an asset, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised evenly over the period of expected future benefit. During the period of development, the asset is tested for impairment annually.

##### Impairment of tangible and intangible assets

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

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

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

## **Abellio ScotRail Ltd**

### **Notes to the financial statements (continued) For the year ended 31 March 2021**

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

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

Cash and cash equivalents comprise cash at bank and cash on hand that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

##### **Inventories**

Stocks are valued at the lower of cost and replacement cost after making due allowance for obsolete items. Cost includes all costs incurred in bringing each product to its present location and condition.

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

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

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

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

Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. The accounting liabilities are updated at each balance sheet date and, typically, every three years are rebalanced to allow for the triennial statutory funding valuation. The resulting defined benefit asset or liability, net of related deferred tax, is presented separately after other assets on the face of the balance sheet. Discussions continue with the Pensions Regulator on the statutory funding valuations as at 31 December 2016 and 31 December 2019, as such those valuations are not yet complete. However, the draft results of the 31 December 2019 statutory funding valuation are available and have been used in the calculation of the year-end accounting liabilities.

##### **Financial instruments**

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

## **Abellio ScotRail Ltd**

### **Notes to the financial statements (continued) For the year ended 31 March 2021**

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

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

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

The Company had commodity swap contracts that were put in place during 2014 and 2015 and expired on 31 March 2020. Additional swap contracts were put in place in August 2019 and expire on 31 March 2022.

##### **Financial assets**

Financial assets are recognised in the Company's balance sheet when the Company becomes party to the contractual provisions of the instrument.

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

##### ***Trade receivables***

Trade receivables are amounts due from customers for services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

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

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

##### **Financial liabilities**

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

##### ***Trade payables***

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities. Trade payables are recognised initially at the transaction price and subsequently measured at amortised cost using the effective interest method.

##### ***Other financial liabilities***

Other financial liabilities are initially measured at fair value, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability to the net carrying amount on initial recognition.



## Abellio ScotRail Ltd

### Notes to the financial statements (continued) For the year ended 31 March 2021

#### 3 Accounting policies (continued)

##### Financial instruments (continued)

##### Financial liabilities (continued)

##### *Derecognition of financial liabilities*

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

##### *Fuel hedge ineffectiveness assessment*

COVID-19 led to significant timetable revisions, which in turn led to a decrease in fuel requirements. Under the provisions of IFRS 9, an assessment was undertaken to assess the effectiveness of the fuel hedge as at 31 March 2020. An expense of £799,000 was recorded in the prior year income statement as a result of this assessment. This expense represented the assessed ineffective portion of the fuel hedge contracts in place as at 31 March 2020.

An assessment was performed as at 31 March 2021, but the remaining contracts in place were deemed to be effective. As a result of this assessment, no expense relating to ineffectiveness has been recorded in the income statement during the current year.

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

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

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

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

The cost of defined benefit pensions plans and other post-employment medical benefits are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and the long term nature of these plans, such estimates are subject to significant uncertainty. The discount rate is based on the market yields at the reporting date on high quality corporate bonds. The currency and term of the corporate bonds should be consistent with the currency and estimated term of the post-employment benefit obligations. The mortality rate is based on publicly available mortality tables for the specific country. Future salary increases and pension increases are based on expected future inflation rates. Further details are given in note 27.

##### **Accrued income**

The Company recognises accrued income in relation to Franchise Subsidy, in accordance with the principles of IAS 20. Subsidy income should be recognised in the income statement on a "systematic basis over the periods in which the entity recognises as expenses the related costs for which the grant is intended to compensate". In determining the amount of accrued income, management utilise the best information available to establish the future related costs for which the franchise subsidy is intended to compensate.

As a result of Abellio ScotRail entering the Emergency Measures Agreement ("EMA") amendment, effective from 1 March 2020, a subsidy income unwind adjustment is recorded in line with the methodology outlined in note 3.

## **Abellio ScotRail Ltd**

### **Notes to the financial statements (continued) For the year ended 31 March 2021**

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

##### **Accrued income (continued)**

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

##### **Estimated impairment of a cash generating unit**

The impact of the COVID-19 pandemic in Scotland continues to have a significant impact on the Company. At the end of the prior year, the Scottish Government introduced widespread social distancing and lockdown procedures for Scotland and instructed people not to use public transport unless they were key workers. The Company has operated reduced timetables since March 2020. As a result of the variety of measures implemented by the Scottish Government over the course of the year, the Company has experienced a significant reduction in public transport usage.

As a result of the significant impact on the business, the Company entered an EMA with Transport Scotland with an effective date of 1 March 2020. While the EMA contracts provide a level of protection compared to the position if the Company were solely operating under the terms of the existing franchise agreements, given the significant change in cashflows, an impairment review was performed in accordance with IAS 36 at 31 March 2020. Subsequently, an impairment charge of £62,474,565 was recorded in the prior year.

EMA2 and EMA3 were entered into during the current year, which provided further clarity on the expected future cashflows. An impairment review was performed at 31 March 2021 utilising the most recent cash flow projections for the remainder of the franchise term based on reasonable and supportable assumptions that represent management's best estimate of the economic conditions that will exist over the remaining useful life of the asset.

A key assumption applied in determining the value in use is that the Company will remain under an EMA3 terms for the remainder of the franchise term and receive the forecasted contractual cashflows associated with the EMA. These cashflows are projections based on financial budgets and forecasts which have been approved by management and cover the remainder of the Franchise term.

For the impairment review, the Company as a whole is considered to be a cash generating unit. The rationale is that the business is managed on this basis by the board of Directors and the shareholders review the business on this basis. There are no cashflows attributed to individual assets and as such all assets as assessed as one. This is consistent with prior year.

An impairment loss of £3,833,157 (2020: £62,474,565) was recorded as a result of the impairment review. The revised recoverable amount assessed as at 31 March 2021 amounts to £22,492,986 (31 March 2020: £44,748,704). The recoverable amount has been calculated on a value in use basis.

A discount rate of 5.8% (2020: 5.8%) has been applied in determining the recoverable amount under the value in use methodology.

# Abellio ScotRail Ltd

## Notes to the financial statements (continued) For the year ended 31 March 2021

### 5 Revenue

The analysis of the Company's revenue is as follows:

	2021 £ 000	2020 £ 000
Passenger income	53,472	360,432
Franchise subsidies	853,661	526,350
Other operating income	24,134	30,203
	<u>931,267</u>	<u>916,985</u>

All revenue arises from operations within the United Kingdom.

### 6 Interest receivable and similar income

	2021 £ 000	2020 £ 000
Bank deposits	<u>226</u>	<u>369</u>

### 7 Interest payable and similar charges

	2021 £ 000	2020 £ 000
Interest paid	266	441
Interest payable to group undertakings	4,993	4,140
Interest on obligations under finance leases and hire purchase contracts	10	86
Interest on lease liabilities	4,184	7,753
Hedge ineffectiveness on the cash flow hedges	-	799
	<u>9,453</u>	<u>13,219</u>

### 8 Staff costs

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

	2021 No.	2020 No.
Drivers	1,325	1,270
On-train staff	1,186	1,209
Station staff	1,019	1,047
Fleet maintenance staff	924	946
Management and administrative staff	<u>633</u>	<u>624</u>
	<u>5,087</u>	<u>5,096</u>

# Abellio ScotRail Ltd

## Notes to the financial statements (continued) For the year ended 31 March 2021

### 8 Staff costs (continued)

The actual headcount movement from 31 March 2020 to 31 March 2021 has been provided below.

	2021 £ 000	2020 £ 000
Drivers	1,354	1,311
On-train staff	1,203	1,212
Station staff	1,092	1,042
Fleet maintenance staff	944	950
Management and administrative staff	641	637
	<u>5,234</u>	<u>5,152</u>

Their aggregate remuneration comprised:

	2021 £ 000	2020 £ 000
Wages and salaries	209,086	217,630
Social security costs	21,016	22,594
Other pension costs	14,054	13,300
Redundancy costs	819	751
Other staff costs	1,083	178
Other employee expense	6,488	9,189
	<u>252,546</u>	<u>263,642</u>

### 9 Directors' remuneration

The Directors' remuneration for the year was as follows:

	2021 £ 000	2020 £ 000
Remuneration	149	371
Company pension contributions to defined benefit schemes	12	24
	<u>161</u>	<u>395</u>

Remuneration disclosed above include the following amounts paid to the highest paid Director:

	2021 £ 000	2020 £ 000
Remuneration	139	203
Company pension contributions to defined benefit schemes	12	13
	<u>151</u>	<u>216</u>

Retirement benefits accrued to the Director at 31 March 2021 under a defined benefit scheme of £nil (2020: £nil). The pension lump sum accruing to the highest paid Director at the 31 March 2021 was £nil (2020: £nil). The remaining Directors of the Company are remunerated through Abellio entities but not through Abellio ScotRail Ltd.

# Abellio ScotRail Ltd

## Notes to the financial statements (continued) For the year ended 31 March 2021

### 10 Auditor's remuneration

The analysis of auditor's remuneration is as follows:

	2021 £ 000	2020 £ 000
Fees payable for the audit of the Company's annual accounts	267	250
Other assurance services	18	-
	<u>285</u>	<u>250</u>

### 11 Taxation

(a) Tax (charged)/credited for the year in the income statement:

	2021 £ 000	2020 £ 000
<b>Current taxation</b>		
UK corporation tax	(2,081)	(9,346)
Adjustments in respect of prior periods	9,703	444
	<u>7,622</u>	<u>(8,902)</u>
<b>Deferred taxation</b>		
Origination and reversal of timing differences	-	(60)
Adjustments in respect of prior periods	-	713
Effect of change in tax rates	-	7
	<u>-</u>	<u>660</u>
Total deferred taxation	-	660
Tax charge/(credit) in the income statement	<u>7,622</u>	<u>(8,242)</u>

In addition to the amount charged/(credited) to the income statement, the following amounts relating to tax have been recognised in other comprehensive income:

(b) Tax charge for the year in other comprehensive income:

	2021 £ 000	2020 £ 000
<b>Current tax</b>	-	-
<b>Deferred tax:</b>		
Current year charge/(credit)	-	(51)
Total income tax recognised in other comprehensive income	<u>-</u>	<u>(51)</u>

## Abellio ScotRail Ltd

### Notes to the financial statements (continued) For the year ended 31 March 2021

#### 11 Taxation (continued)

The tax on loss before tax for the year is the same as the standard rate of corporation tax in the UK of 19% (2020: 19%).

The charge/(credit) for the year can be reconciled to the loss in the income statement as follows:

	2021 £ 000	2020 £ 000
Loss before tax	(18,564)	(64,494)
Corporation tax at standard UK rate of 19% (2020: 19%)	(3,527)	(12,254)
Adjustments in respect of prior periods	9,703	1,157
Expenses not deductible	662	440
Deferred tax not recognised	881	3,306
Tax rate changes	-	7
Income not taxable	(97)	(898)
Tax charge/(credit) for the year	7,622	(8,242)

#### Factors that may affect future tax charges

Finance Act 2016 had previously enacted provisions to reduce the main rate of UK corporation tax to 17% from 1 April 2020 and accordingly the deferred tax at 31 March 2019 had been calculated at this rate. However, in the March 2020 Budget it was announced that the reduction will not occur and the Corporation Tax Rate will be held at 19%. The Provisional Collection of Taxes Act was used to substantively enact the revised 19% tax rate on 17 March 2020 and accordingly the deferred tax balances have been re-calculated to 19% at the year end.

The March 2021 Budget announced a further increase to the main rate of corporation tax to 25% from April 2023. This rate has not been substantively enacted at the balance sheet date and as a result, any deferred tax balances which would have been recognised as at 31 March 2021 would be measured at 19%. As no deferred tax balance has been recognised at this date, there would be no change to the deferred tax balance if it was remeasured at 25%.

# Abellio ScotRail Ltd

## Notes to the financial statements (continued) For the year ended 31 March 2021

### 12 Loss for the financial year

Loss for the year has been arrived at after charging/(crediting):

	2021 £ 000	2020 £ 000
Raw materials and consumables	20,963	8,566
Depreciation - owned assets	6,704	4,977
Deprecation - assets held under finance leases	2,535	835
Amortisation expense	3,429	2,870
Depreciation on right of use assets - Machinery	108,507	97,672
Depreciation on right of use assets - Property	519	521
Depreciation on right of use assets - Other	3,002	2,485
Gain/(loss) on disposal of right-of-use assets	2,925	-
Rentals receivable under operating leases - Property	(709)	(1,616)
Network Rail access charges	285,133	270,959
Auditors remuneration (see note 10)	285	250

### 13 Deferred tax

	2021 £ 000	2020 £ 000
Provision at start of year	-	(608)
Adjustments in respect of prior periods	-	713
Deferred tax credit in income statement for the year	-	(54)
Deferred tax (credit)/charge in OCI for the year	-	(51)
Deferred tax assets	-	-

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

	31 March 2021 £ 000	31 March 2020 £ 000
Deferred tax liabilities	-	-
Deferred tax assets	-	-

# Abellio ScotRail Ltd

## Notes to the financial statements (continued) For the year ended 31 March 2021

### 14 Intangible assets

	Website development costs £ 000	Software costs £ 000	Work in progress £ 000	Total £ 000
<b>Cost or valuation</b>				
At 1 April 2020	885	12,137	239	13,261
Disposals	-	-	(146)	(146)
Transfers	-	93	(93)	-
At 31 March 2021	885	12,230	-	13,115
<b>Amortisation</b>				
At 1 April 2020	550	4,716	-	5,266
Amortisation charge	140	3,289	-	3,429
At 31 March 2021	690	8,005	-	8,695
<b>Net book value</b>				
At 31 March 2021	195	4,225	-	4,420
At 31 March 2020	335	7,421	239	7,995



Abellio ScotRail Ltd

Notes to the financial statements (continued)  
For the year ended 31 March 2021

15 Property, plant and equipment

	Land & Buildings £ 000	Plant & Equipment £ 000	Fixtures & Fittings £ 000	Computer Equipment £ 000	Work in Progress £ 000	Total £ 000
<b>Cost or valuation</b>						
At 1 April 2020	6,265	18,686	1,982	5,830	1,774	34,537
Additions	-	-	-	-	344	344
Transfers	940	445	51	1	(1,437)	-
At 31 March 2021	7,205	19,131	2,033	5,831	681	34,881
<b>Depreciation</b>						
At 1 April 2020	1,327	8,994	338	4,030	-	14,689
Charge for the period	2,535	5,210	728	766	-	9,239
At 31 March 2021	3,862	14,204	1,066	4,796	-	23,928
<b>Net book value</b>						
At 31 March 2021	3,343	4,927	967	1,035	681	10,953
At 31 March 2020	4,938	9,692	1,644	1,800	1,774	19,848

Work in progress consists of assets under construction where bringing the asset into use has not yet been completed. Depreciation on work in progress assets commences when each project is complete.

# Abellio ScotRail Ltd

## Notes to the financial statements (continued) For the year ended 31 March 2021

### 16 Right-of-use assets

	Rolling stock £ 000	Buildings £ 000	Plant and equipment £ 000	Total £ 000
<b>Cost</b>				
At 1 April 2020	558,908	3,638	12,408	574,954
Additions	42,695	-	-	42,695
Disposals	(114,403)	-	(970)	(115,373)
At 31 March 2021	487,200	3,638	11,438	502,276
<b>Accumulated depreciation</b>				
At 1 April 2020	354,108	2,600	5,416	362,124
Depreciation charge	108,507	519	3,002	112,028
Eliminated on disposal	(81,327)	-	(842)	(82,169)
At 31 March 2021	381,288	3,119	7,576	391,983
<b>Carrying amount</b>				
At 31 March 2021	105,912	519	3,862	110,293
At 31 March 2020	204,800	1,038	6,992	212,830

The Company leases several assets including rolling stock, buildings, and equipment. The average lease term is 3 years (2020: 4 years).

During the current year, the Company concluded Section 54 Agreements with the Rolling Stock Company, leading to an extension of the lease term of the Company's Class 158 and Class 170 Rolling Stock. No physical assets were added or disposed of. In accordance with IFRS 16 the original lease was terminated and a new lease was created to replace this. A gain of £2,925,473 was recognised upon termination of the original leased assets.

	2021 £	2020 £
<b>Amounts recognised in profit and loss account</b>		
Depreciation expense on right-of-use assets	112,028	100,677
Interest expense on lease liabilities	4,184	7,753
Expense relating to short-term leases	1,020	4,353
Expense relating to leases of low value assets	29	28
Income from subleasing right-of-use assets	57	240
Gain on disposals	(2,925)	-
	114,393	113,051

At 31 March 2021, the Company is committed to £0.5 million for short-term leases.

# Abellio ScotRail Ltd

## Notes to the financial statements (continued) For the year ended 31 March 2021

### 17 Inventories

	2021 £ 000	2020 £ 000
Fuel stocks	521	410
Engineering spares	10,455	10,418
	<u>10,976</u>	<u>10,828</u>

### 18 Trade and other receivables

	2021 £ 000	2020 £ 000
Trade debtors	5,451	12,494
Other debtors	35	70
VAT	16,362	10,941
Accrued income	66,560	84,673
Prepayments	2,065	1,873
Amounts due from group undertakings	1,207	10,130
Income tax asset	108	-
	<u>91,788</u>	<u>120,181</u>

Amounts due from group undertakings are unsecured, interest-free and are repayable on demand.

### 19 Trade and other payables

	2021 £ 000	2020 £ 000
Trade creditors	106,426	91,333
Loan interest due to group undertakings	11,617	7,066
Social security and other taxes	5,433	11,069
Accruals and deferred income	27,842	28,540
Other creditors	17,290	16,251
Deferred season ticket income	452	6,060
Amounts due to related parties	1,434	4,250
	<u>170,494</u>	<u>164,569</u>

The deferred season ticket income is secured by a season ticket bond in accordance with the terms of the Franchise Agreement.

Loan interest due to group undertakings are unsecured, repayable within 12 months, and relate to loans and borrowings shown in note 20.

## Abellio ScotRail Ltd

### Notes to the financial statements (continued) For the year ended 31 March 2021

#### 20 Loans and borrowings

	2021 £ 000	2020 £ 000
Loan due to Abellio Transport Group Limited	37,000	37,000
Loan due to Abellio Transport Holding B.V.	25,000	25,000
Loan due to Nederlandse Spoorwegen	27,700	27,700
Loan due to Transport Scotland	17,477	-
Other loans	-	602
	<u>107,177</u>	<u>90,302</u>

The amounts due to group undertakings are unsecured and are repayable at the end of the franchise, with the exception of the loan with Abellio Transport Group Limited which is repayable on demand.

Interest is charged at 8% (Nederlandse Spoorwegen) and 4% (Abellio Transport Holding B.V.). Of the £37,000,000 (2020: £37,000,000) loan due to Abellio Transport Group Limited, £4,000,000 (2020: £4,000,000) is repayable upon demand and interest is charged at 2%. 4% interest is charged on the remainder of the amount due to Abellio Transport Group Limited £33,000,000 (2020: £33,000,000). These loans are subject to lockup clauses under EMA, and therefore cannot be repaid until the cessation of the EMA contract. The Loan due to Transport Scotland relates to a short term working capital loan provided to ensure working capital payments could be met under the EMA. This balance does not accrue interest. This balance is due for repayment at the conclusion of the EMA.

	2021 £ 000	2020 £ 000
Less than 1 year	107,177	4,000
Between 2 - 3 years	-	86,302
	<u>107,177</u>	<u>90,302</u>

#### 21 Financial instruments

	2021 £ 000	2020 £ 000
<b>Current liabilities</b>		
Fuel hedge liability	<u>2,891</u>	<u>6,208</u>
	<b>2021 £ 000</b>	<b>2020 £ 000</b>
<b>Non-current liabilities</b>		
Fuel hedge liability	<u>-</u>	<u>4,835</u>

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

The remaining commodity swap contracts were put in place in August 2019.

# Abellio ScotRail Ltd

## Notes to the financial statements (continued) For the year ended 31 March 2021

### 21 Financial instruments (continued)

The fair value of the fuel hedge was calculated using a discounted cash flow methodology. The forward rate for Gas Oil has been calculated on a monthly basis for the duration of the contract, and converted into GBP using a forward rate.

### 22 Lease liabilities

	2021 £ 000	2020 £ 000
<b>Maturity analysis</b>		
Year 1	(109,624)	(105,670)
Year 2	-	(107,721)
	(109,624)	(213,391)
Less: unearned interest	-	-
	(109,624)	(213,391)
	2021 £ 000	2020 £ 000
<b>Analysed as:</b>		
Non-current	-	(107,721)
Current	(109,624)	(105,670)
	(109,624)	(213,391)

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

The total cash outflow for leases amounts to £110,627,000 (2020: £105,755,000).

There are no extension or termination options on the leases.

### 23 Equity

#### Share Capital

	31 March 2021 £	31 March 2020 £
1 Ordinary share of £1	1	1

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

## **Abellio ScotRail Ltd**

### **Notes to the financial statements (continued) For the year ended 31 March 2021**

#### **23 Equity (continued)**

The Company's other reserves are as follows:

##### ***Retained earnings***

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

##### ***Cash flow hedging reserve***

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

#### **24 Contingent liabilities**

The Company, as the franchisee, has procured a performance bond in favour of Transport Scotland. This bond is in place for the franchise term and for 196 days after the end of the franchise. The performance bond amount as at 31 March 2021 was £40,372,000 (2020: £39,824,000).

In addition, Abellio ScotRail Ltd, as the franchisee, has procured a season ticket bond in favour of Transport Scotland. The maximum season ticket and smart card bond value as at 31 March 2021 was £2,777,000 (2020: £6,722,000). The bond is due to expire on 31 March 2022, the expected expiry date of the franchise.

#### **25 Capital commitments**

At 31 March 2021, amounts contracted for but not provided in the financial statements for the purchase of property, plant and equipment amount to £16,498,534 (2020: £21,735,000). A significant proportion of these commitments are expected to be funded by Transport Scotland through the EMA3 contract. As the Company will cease to trade on 31 March 2022, the Company will not derive capital benefits from those commitments which are not funded by Transport Scotland, so the expenditures will not be capitalised.

#### **26 Related party transactions**

As 100% of the Company's voting rights are controlled within the Company headed by NV Nederlandse Spoorwegen, the Company has taken advantage of the exemption contained in FRS 101 and has therefore not disclosed transactions or balances with entities which form part of the Company (or investees of the Company qualifying as related parties). The consolidated financial statements of NV Nederlandse Spoorwegen, within which this Company is included, can be obtained from the address given in note 28.

## Abellio ScotRail Ltd

### Notes to the financial statements (continued) For the year ended 31 March 2021

#### 26 Related party transactions (continued)

Transactions entered into, and trading balances outstanding at the year end with other related parties, are as follows:

	Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
	£000	£000	£000	£000
Merseyrail Electrics 2002 Limited				
2021	-	-	-	-
2020	-	3	-	-
West Midlands Trains Limited				
2021	46	-	9	-
2020	34	-	9	-

Merseyrail Electrics 2002 Limited are related parties by virtue of the fact that Merseyrail Services Holding Company Limited, their immediate parent companies respectively, are joint ventures of Abellio Transport Holdings Limited, the immediate parent company of Abellio Scotrail Ltd.

West Midlands Trains Limited is a related party as it is a fellow subsidiary of the Company's ultimate controlling party NV Nederlandse Spoorwegen.

The Company has not provided or benefitted from any guarantees for any related party receivables or payables. During the period ended 31 March 2021, the Company has not recognised any impairment or experienced any credit loss under IFRS 9 relating to amounts owed by related parties (2020: £nil).

#### 27 Retirement benefits

##### Railway Pension Scheme — ScotRail Section

The Company is a member of a defined benefit pension scheme, which is funded. All eligible employees are offered membership of the "Railway Pension Scheme". The last full actuarial valuation of the scheme was carried out by independent actuaries as at 31 December 2013. The actuarial valuation was updated for 31 March 2021; at this date the market value of the scheme's assets totalled £921.9m. The actuarial value of these assets was sufficient to cover 67.8% of the benefits which had accrued to the scheme's members.

Contributions are paid to the scheme at rates recommended by the actuaries and the assets of the scheme are held in a separately administered trust. The schemes' assets are held and managed independently of the Company's finances by independent investment managers appointed by the trustees of the scheme. The current contribution rate is 6.7% for employees and 10.0% for employers.

The actuarial assumptions used in determining the last full actuarial valuation were that the rate of earnings increase would be 2.7% per annum and the rate of inflation would be (RPI/CPI) 3.2%/2.7% per annum. The valuation was made using the projected unit method.

## Abellio ScotRail Ltd

### Notes to the financial statements (continued) For the year ended 31 March 2021

#### 27 Retirement benefits (continued)

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

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

The valuations used have been based on the draft results of the 31 December 2019 statutory funding valuation and have been updated by Mercer in order to assess the liabilities of the schemes as at the subsequent balance sheet dates. Scheme assets are stated at their market values at the respective balance sheet dates and overall expected rates of return are applied to each category of scheme assets. The present value of the defined benefit obligation, the related current service cost and past service cost were measured using the projected unit method. Discussions continue with the Pensions Regulator on the statutory funding valuations as at 31 December 2016 and 31 December 2019, as such those valuations are not yet complete. However, the draft results of the 31 December 2019 statutory funding valuation are available and have been used in the calculation of the year-end accounting liabilities.

#### Net defined benefit position

	2021 £ 000	2020 £ 000
Cash and cash equivalent	87,542	90,841
Equity instruments	645,918	496,420
Debt instruments	53,488	57,117
Real estate	76,317	75,970
Other	58,686	44,280
Total fair value of scheme assets	921,951	764,628
Present value of scheme liabilities	(1,359,052)	(1,064,296)
Franchise adjustment	262,261	179,801
Defined benefit obligation	(174,840)	(119,867)
Members' share of deficit	(174,840)	119,867
Deficit in the scheme	-	-
Related deferred tax asset	-	-
Net pension liability	-	-

Scheme assets are stated at their market value at the respective balance sheet dates. The expected rate of return on assets is determined based on the market returns on each category of scheme assets.



# Abellio ScotRail Ltd

## Notes to the financial statements (continued) For the year ended 31 March 2021

### 27 Retirement benefits (continued)

Analysis of the amount charged to operating loss:

	2021 £ 000	2020 £ 000
Current service cost	30,730	29,715
Administrative expenses	1,437	1,210
Interest expense on defined benefit obligation	15,485	15,870
Interest income on pension scheme assets	(11,226)	(11,830)
Interest on franchise adjustment	(4,405)	(4,189)
Franchise adjustment	(18,256)	(17,698)
Amount charged in arriving at the loss for the financial year	13,765	13,078

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

	2021 £ 000	2020 £ 000
Return on plan assets	144,155	(11,456)
(Loss)/gain from change in members' share	39,962	(2,130)
Change in assumptions	(260,068)	16,777
(Loss)/gain on franchise adjustment	59,799	(3,191)
Effect of experience adjustment	16,152	-
Total re-measurement recognised in the statement of comprehensive income	-	-

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

	2021 £ 000	2020 £ 000
Fair value of scheme assets at 1 January	764,628	758,599
Expected return on plan assets	144,155	(11,456)
Cash contributions - employer	13,765	13,078
Cash contributions - employee	9,028	8,459
Interest income - employer	11,226	11,830
Interest income - employee	7,484	7,887
Benefits paid	(25,940)	(21,752)
Administration expense	(2,395)	(2,017)
Fair value of schemes assets	921,951	764,628

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

## Abellio ScotRail Ltd

### Notes to the financial statements (continued) For the year ended 31 March 2021

#### 27 Retirement benefits (continued)

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

	2021 £ 000	2020 £ 000
Defined benefit obligation at 1 January	1,064,296	1,027,107
Current service cost - employer	30,730	29,715
Current service cost - employee	20,242	19,553
Benefits paid	(25,940)	(21,752)
Interest expense - employer	15,485	15,870
Interest expense - employee	10,323	10,580
Effect of changes in financial assumptions	264,145	(8,671)
Effect of changes in demographic assumptions	(4,077)	(8,106)
Effect of experience adjustments	(16,152)	-
Defined benefit obligation	<u>1,359,052</u>	<u>1,064,296</u>

The following assumptions have been used:

	31 March 2021	31 March 2020
Rate of increase in salaries	2.7%	2.0%
Rate of increase of pensions	2.7%	2.0%
Discount rate	2.2%	2.4%
Inflation assumption	2.7%	2.0%
Expected rates of return on assets by scheme	2.2%	2.4%

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

<i>Assumption</i>	<i>Change in Assumption</i>	<i>Impact on scheme liabilities</i>
Discount rate	Increase/decrease by 25 bps	Increase/decrease by 5.9%/6.3%
Inflation assumption	Increase/decrease by 25 bps	Increase/decrease by 6.2%/5.8%
Rate of salary increases	Increase/decrease by 25 bps	Increase/decrease by 1.6%/1.6%
Post retirement mortality	Plus one year rating	Increase/decrease by 3.2%

#### 28 Ultimate parent and controlling undertaking

The Company's immediate controlling party is Abellio Transport Holdings Ltd.

The smallest company in which the results of the Company are consolidated is that headed by Abellio Transport Holding B.V.. The consolidated financial statements of this Company are available to the public and may be obtained by writing to Laan van Puntenburg 100, (3511 ER), Utrecht, The Netherlands.

The largest company in which the results of the Company are consolidated is that headed by NV Nederlandse Spoorwegen. The consolidated financial statements of this Company are available to the public and may be obtained by writing to Laan van Puntenburg 100, (3511 ER), Utrecht, The Netherlands.