

Porterbrook March Leasing (4) Limited
Annual report and financial statements
Year ended 31 December 2019

Registered number: 2682768



Porterbrook March Leasing (4) Limited

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Strategic Report

The directors submit their strategic report for the year to 31 December 2019.

The purpose of this report is to provide information to the member of the company and as such it is only addressed to the member. The report may contain certain forward-looking statements with respect to the operations, performance and financial condition of the company. By their nature, these statements involve inherent risks and uncertainties since future events, circumstances and other factors can cause results and developments to differ materially from the plans, objectives, expectations and intentions expressed in such forward-looking statements. The member should consider this when relying on any forward-looking statements. The forward-looking statements reflect knowledge and information available at the date of preparation of this report and the company undertakes no obligation to update any forward-looking statement during the year. Nothing in this report should be construed as a profit forecast.

1. Principal activity

The principal activity of the company during the year was the leasing of rolling stock located in the United Kingdom to fellow group companies on operating lease agreements. The directors are not aware, at the date of this report, of any likely changes in the company's activities in the next year.

2. Principal risks and uncertainties

The company and its risks are managed on a consolidated basis as part of the Porterbrook Rail Finance Limited group ("the Porterbrook group").

The financial risk management objectives and policies of the company; the policy for hedging each major type of forecasted transaction; and the exposure of the company to credit risk, market risk, residual value risk and liquidity risk are outlined in note 2 to the financial statements. Note 3 describes the company's Capital management and resources policy. Further review of the other risks and uncertainties of the group, including the company, are discussed in the consolidated financial statements of Porterbrook Rail Finance Limited which do not form part of this report.

3. Business review

Overview

The Porterbrook group manages its operations on a consolidated basis. For this reason, the company's directors believe that further key performance indicators for the company, in addition to those below, are not necessary or appropriate for an understanding of the development, performance or position of the business. The performance of the Porterbrook group as a whole is discussed in the consolidated financial statements of Porterbrook Rail Finance Limited (the "Group Accounts") which are available from the address in note 18.

Review of the year

During 2019 the company managed its operating leases with group companies in line with expectations. The financial position of the company, its cash flows, liquidity position and borrowing facilities are described in the primary financial statements on pages 6 to 8 and notes to the financial statements on pages 9 to 17.

During the year the company sold part of this coal wagon fleet and recognised a profit on disposal of £0.5m (2018: £1.0m). The directors expect to complete the disposal of the fleet in 2020.

The Statement of Comprehensive Income on page 7 shows the company made a profit before tax of £5m (2018: £5.5m). The directors do not expect any significant change in the level of the business in the foreseeable future. As shown in the Balance Sheet on page 8 the company had net liabilities of £2.5m (2018: £6.7m). Given its position within the Porterbrook group, the directors consider the state of the company's affairs to be satisfactory.

4. Other corporate matters

Environment

The Porterbrook group recognises the importance of its environmental responsibilities, monitors its impact on the environment, and designs and implements policies to reduce any damage that might be caused by the group's activities. The company operates in accordance with group policies. Initiatives designed to minimise the group's impact on the environment include recycling and reducing energy consumption and are monitored on a monthly basis by the intermediate parent company.

Approved by the Board of Directors



Director
Peter Coates

9 March 2020
Derby, UK

Directors' Report

The following directors, who served throughout the year and subsequently (except where indicated), submit their report together with the separate strategic report, financial statements and auditor's report for the year to 31 December 2019.

	Appointed	Resigned
Mr S McGurk	-	-
Mr P Coates	-	-
Ms M Grant	-	-
Mr C McClure	-	-

1. Directors' responsibilities in respect of the preparation of accounts

Statement of directors' responsibilities

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

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

International Accounting Standard 1 requires that financial statements present fairly for each financial year the company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'.

In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs as adopted by the European Union. However, directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the company's ability to continue as a going concern.

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.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Going Concern

The company was profit making in the year but it had net current liabilities of £9.8m (2018: £10.9m). However, the directors observe that all of the company's activity is with other Porterbrook group companies, intergroup balances form the majority of its liabilities and the company has access to sufficient financial resources together with long term contracts with fellow group companies. The group entities that have intercompany payables with the company have agreed to support the company and not demand repayments. As a consequence, the directors believe that the company is well placed to manage its business risks successfully in the current economic environment.

The group, of which the company is a part, is managed on a consolidated basis and hence the directors have also considered the forecast cash flows and the ability, as disclosed in its financial statements, of the intermediate parent company, Porterbrook Rail Finance Limited in providing financial support. Therefore the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future and so they continue to adopt the going concern basis in preparing the financial statements.

2. Dividends

The trading results for the year and the company's financial position at the end of the year are shown in the attached financial statements. The directors have not recommended a dividend on the equity shares of the company (2018: £nil).

Directors' Report (continued)

3 Compliance with s172 Companies Act

The Company has complied with the requirements of s172 (1) (a) to (f) of the Companies Act (2006) in respect of how the Directors have promoted the success of the Company for the benefit of all stakeholders as set out in the Statement of Corporate Governance contained in the financial statements of the ultimate parent company, Porterbrook Holdings I Limited.

The directors of each entity in the Group formed by Porterbrook Holdings I Limited ("PHI") and its subsidiaries have applied the six Wates Corporate Governance Principles ("Wates Principles") for the financial year ended 31 December 2019. The management of each Group entity is the responsibility of the board of that Group entity, subject to the duties and responsibilities imposed on directors (including pursuant to the Companies Act legislation), the Group's "Corporate Governance and Delegated Authorities Mandate" ("the Mandate") and certain policies and procedures which are applied on a Group wide basis.

As a result of the arrangements between the parent company's shareholders, each shareholder is represented by a non-executive director on:

- the board of each of the main Group entities, including Porterbrook Leasing Company Limited ("PLCL"); and
- the two sub-committees of PHI, which are the Audit and Risk Committee and the Remuneration Committee. These committees operate on a Group wide basis.

Meetings of the boards and committees referred to above are only quorate if the shareholder directors are present.

The board of PLCL is responsible for setting the strategic direction of the Group, its values and culture, which are then implemented by each Group entity, to the extent relevant to that Group entity and subject to the duties and responsibilities imposed on directors of that Group entity.

We consider that adherence to the Wates Principles facilitates compliance by the directors of each Group entity with the duties and responsibilities imposed on directors (including pursuant to s.172 Companies Act 2006). The directors of Porterbrook March Leasing (4) Limited are all directors of PLCL.

4. Auditor

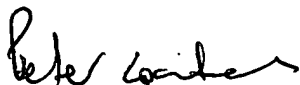
Each of the persons who is a director of the company at the date when this report is approved confirms that:

- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- the director has taken all steps that they ought to have taken as a director 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 provision of s418 of the Companies Act 2006.

Following a formal tender process in 2019, PriceWaterhouseCoopers LLP were appointed on 1 July 2019 as the Company's auditor. We would like to thank Deloitte LLP for their services. Deloitte LLP confirmed that there were no statement of circumstances related to their resignation as the auditor.

Approved by the Board of Directors



Director
Peter Coates

9 March 2020

Ivatt House
7 The Point
Pinnacle Way
Pride Park
Derby
DE24 8ZS

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF PORTERBROOK MARCH LEASING (4) LIMITED

Report on the audit of the financial statements

Opinion

In our opinion, Porterbrook March Leasing (4) Limited 's financial statements:

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

We have audited the financial statements, included within the Annual report and financial statements (the "Annual Report"), which comprise: the Balance Sheet as at 31 December 2019; the Statement of Comprehensive Income, the Cash Flow Statement, the Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

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

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

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

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

Reporting on other information

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

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

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

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

Strategic Report and Directors' Report

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF PORTERBROOK MARCH LEASING (4) LIMITED (continued)

Reporting on other information (continued)

Strategic Report and Directors' Report (continued)

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.



Tina Ahuja (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
9 March 2020

Statement of Comprehensive Income

For the year ended 31 December 2019

	NOTES	2019 £000	2018 £000
Revenue	4	15,794	15,794
Cost of sales		(6,477)	(6,471)
Gross profit		9,317	9,323
Profit on disposal of operating lease assets		522	975
Profit from operations	5	9,839	10,298
Investment income	4,7	3,796	2,855
Finance costs	8	(8,614)	(7,662)
Profit before tax		5,021	5,491
Tax charge	9	(825)	(1,296)
Net profit for the year and total comprehensive income		4,196	4,195

All of the activities of the company are classed as continuing in the current and prior year.

Balance Sheet

At 31 December 2019

	NOTES	2019 £000	2018 £000
Non-current assets			
Operating lease assets	10	65,731	72,208
Trade and other receivables	11	83,085	66,561
Total assets		<u>148,816</u>	<u>138,769</u>
Current liabilities			
Trade and other payables	12	(2,091)	(3,587)
Lease liabilities	13	(7,679)	-
Obligations under finance leases	14	-	(7,267)
Net current liabilities		<u>(9,770)</u>	<u>(10,854)</u>
Non-current liabilities			
Trade and other payables	12	(36,083)	(20,202)
Lease liabilities	13	(94,292)	-
Obligations under finance leases	14	-	(101,971)
Deferred tax	15	(11,171)	(12,438)
		<u>(141,546)</u>	<u>(134,611)</u>
Total liabilities		<u>(151,316)</u>	<u>(145,465)</u>
Net liabilities		<u>(2,500)</u>	<u>(6,696)</u>
Equity			
Share capital	16	20,000	20,000
Accumulated losses		(22,500)	(26,696)
Deficit attributable to equity holders of the parent		<u>(2,500)</u>	<u>(6,696)</u>

The financial statements of Porterbrook March Leasing (4) Limited (registered number 2682768) were approved by the board of directors and authorised for issue on 9 March 2020. They were signed on its behalf by:



Director
Peter Coates

Statement of Changes in Equity

For the year ended 31 December 2019

	Share capital £000	Accumulated losses £000	Total deficit £000
Balance at 1 January 2018	20,000	(30,891)	(10,891)
Net profit attributable to the company	-	4,195	4,195
Balance at 31 December 2018	20,000	(26,696)	(6,696)
Balance at 1 January 2019	20,000	(26,696)	(6,696)
Net profit attributable to the company	-	4,196	4,196
Balance at 31 December 2019	20,000	(22,500)	(2,500)

Cash Flow Statement

For the year ended 31 December 2019

	NOTE	2019 £000	Restated 2018 £000
Profit from operations		9,839	10,298
Adjustments for:			
Depreciation		6,477	6,473
Profit on disposal of property, operating lease assets		(522)	(975)
Increase in receivables		(16,524)	(19,516)
Increase in payables		15,880	14,522
Cash generated from operations		15,150	10,802
Interest paid		(2,559)	(1,200)
Tax paid		(3,587)	-
Net cash from operating activities		9,004	9,602
Investing activities			
Interest received		3,796	2,855
Purchase of property, plant and equipment		-	(108)
Disposals proceeds		522	975
Net cash from investing activities		4,318	3,722
Financing activities			
Interest on lease obligations		(6,055)	(6,462)
Repayment of lease obligation principal		(7,267)	(6,862)
Net cash used in financing activities		(13,322)	(13,324)
Net movement in cash and cash equivalents		-	-
Cash and cash equivalents at beginning of year		-	-
Cash and cash equivalents at end of year		-	-

Notes to the Financial Statements

For the year ended 31 December 2019

1. Significant accounting policies

Basis of preparation

Porterbrook March Leasing (4) Limited is a private company limited by shares, incorporated in England and Wales under the Companies Act 2006. The financial statements have been prepared under a going concern basis as noted within the directors' report in accordance with International Financial Reporting Standards (IFRSs) and IFRS Interpretations Committee interpretations as adopted by the European Union that are effective at the company's reporting date. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities held at fair value through profit or loss. The principal accounting policies adopted are set out below.

In the application of the accounting policies detailed below, 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 critical judgements are described where relevant below. The cashflow statement has been restated and included in this financial year as there are cash payments made on behalf of the company by other group entities. These transactions were incorrectly not disclosed in the prior year financial statements

Going concern

These financial statements are prepared on a going concern basis. The company continues to be profit making and benefits from long term contracts with its parent undertaking, Porterbrook Leasing Company Limited. The group companies that have intercompany payables have agreed to support the company and not demand repayments of their loans.

Adoption of new and revised standards

The following new and revised standards and interpretations have been adopted in the current year.

IFRS 16	Leases
Annual improvements to IFRS's	2015 - 2017 cycle – containing IAS 12 Income Taxes and IAS 23 Borrowing Costs
IFRIC 23	Uncertainty over Tax Treatments
Amendments to IAS19	Employee Benefits Plan amendments, Curtailment and Settlement

The adoption of these standards does not have a material impact on these financial statements.

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective:

Amendments to IAS1 and IAS8	Definition of material
Conceptual Framework	Amendments to References to the Conceptual Framework

The directors do not expect the adoption of the Standards listed above will have a material impact on the financial statements of the company and company in future years.

The company has applied IFRS 16 Leases (as issued by the IASB in January 2016) that is effective for annual periods that begin on or after 1 January 2019.

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. The impact of the adoption of IFRS 16 on the Company's financial statements is described below.

The date of initial application of IFRS 16 for the Company is 1 January 2019.

The Company has applied IFRS 16 using the cumulative catch-up approach which:

- Requires the Company to recognise the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of retained earnings at the date of initial application.
- Does not permit restatement of comparatives, which continue to be presented under IAS 17 and IFRIC 4.

Impact of the new definition of a lease

The Company has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to those leases entered or changed before 1 January 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. This is in contrast to the focus on 'risks and rewards' in IAS 17 and IFRIC 4.

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

1. Significant accounting policies (continued)

Adoption of new and revised standards (continued)

Impact on Lessee Accounting- Former finance leases

For leases that were classified as finance leases under IAS17, the carrying amount of the leased asset and obligations under the finance lease measured applying immediately before the date of initial application is reclassified without any adjustment, except where the group has elected to apply the low value exemption.

Impact on Lessor Accounting

IFRS 16 does not change substantially how a lessor accounts for leases. Under IFRS 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently. However, IFRS 16 has changed and expanded the disclosures required, in particular regarding how a lessor manages the risks arising from its residual interest in leased assets.

Leases

The Company has applied IFRS 16 using the cumulative catch-up approach and therefore comparative information has not been restated and is presented under IAS 17. The details of accounting policies under both IAS 17 and IFRS 16 are presented separately below.

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 and leases of low value assets. 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.

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 rate implicit in the lease. If this rate cannot be readily determined, the lessee uses its incremental borrowing rate.

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

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable

The lease liability is presented as a separate line in the consolidated statement of financial position.

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.
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

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

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

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 statement of financial position.

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 'Operating lease assets policy'.

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.

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

1. Significant accounting policies (continued)

The Company as lessor

Leases for which the Company is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Company's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Company's net investment outstanding in respect of the leases.

Policies applicable prior to 1 January 2019

The company as lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

The company as lessee

Payments made under operating leases are charged to the Statement of Comprehensive Income on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

Where a lease is recorded as a finance lease the related asset is capitalised. At inception, the asset is recorded at the lower of the present value of the minimum lease payments or fair value and depreciated over the estimated useful life. The corresponding rental obligations are recorded as borrowings.

The aggregate benefit of incentives, if any, is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Revenue recognition

Capital lease income from operating leases with other group companies is recognised in revenue on a straight-line basis over the lease term.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Operating lease assets

Operating lease assets comprise UK based rolling stock leased to the parent company.

Rolling stock is carried at cost less accumulated depreciation and accumulated impairment losses. Gains and losses on disposal of operating lease assets are determined by reference to their carrying amount and are taken into account in determining profit from operations reported as 'profit on disposal of operating lease assets'.

Operating lease assets are depreciated on a straight-line basis over their useful life as follows. This is included within cost of sales:

Operating lease assets	16 to 30 years
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Assets held under leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

1. Significant accounting policies (continued)

Impairment of Operating lease assets

Management consider the impairment of operating lease assets to be a source of estimation uncertainty.

At each balance sheet date, or more frequently when events or changes in circumstances dictate, property, plant and equipment and operating lease assets are assessed for indicators of impairment. If indications are present, these assets are subject to an impairment review. The impairment review comprises a comparison of the carrying amount of the asset with its recoverable amount: the cash-generating unit's value in use. Value in use is calculated by discounting the expected future cash flows obtainable as a result of the asset's continued use, including those resulting from its ultimate disposal, at a market based discount rate on a pre-tax basis. Net selling price is not considered because there is no active market for rail assets in the UK. Cash generating units are the lowest level at which management monitors the return on investment on assets.

The carrying values of assets are written down by the amount of any impairment and the loss is recognised in the Statement of Comprehensive Income in the year in which it occurs. A previously recognised impairment loss relating to an asset may be reversed in part or in full when a change in circumstances leads to a change in the estimates used to determine the asset's recoverable amount. The carrying amount of the asset will only be increased up to the amount that would have been had the original impairment not been recognised.

Taxation

The tax in the Statement of Comprehensive Income represents the sum of tax currently payable and deferred tax.

Tax currently payable is based on taxable profits, as calculated under UK tax law, and is recognised as an expense in the year in which profits arise. The company's liability for current tax is calculated using UK tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is calculated at tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on the UK tax laws and rates that have been enacted or substantively enacted by the balance sheet date.

Deferred and current tax assets and liabilities are only offset when they arise in the same tax reporting group and where there is both the legal right and the intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Trade and other receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost.

Trade and other payables

Financial liabilities are measured at initial recognition at fair value and subsequently measured at amortised cost.

Profit from operations

Profit from operations is stated after charging depreciation, impairment and administrative costs but before investment income and finance costs.

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

1a Critical accounting judgements and key sources of estimation uncertainty

In the application of the groups accounting policies, which are described in note 1, the directors are required to make judgements that have a significant impact on the amounts recognised and to make estimates and assumptions about the carrying value 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 deemed to be relevant. Actual results may differ from these estimates.

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

Key sources of estimation

The following is the critical judgement and involves using estimates, that the directors have made in the process of applying the Groups accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Impairment testing for Operating lease assets

The key assumptions used in impairment testing are

- **Discount rates:** The groups forecast cashflows are discounted using a market based interest rate in the respective impairment reviews. Significant judgement is included in the calculation of these rates due to the varied nature of the inputs into the pricing model. Third party external valuers are used to establish the inputs into the pricing model. These rates reflect current market assessments of the time value of money and the risks of the CGU for each impairment test.
- **Future lease terms:** Management estimate the future use of the existing fleet based on their judgement and experience. The group prepares cash flow forecasts for the full life of each CGU with more detailed forecasts for the forthcoming five years as part of the most recent financial budget approved by the board of directors.

2. Financial risk

Financial risk management objectives

Effective and efficient financial risk governance and oversight provide management with assurance that the group's business activities will not be adversely impacted by financial risks that could have been reasonably foreseen. This in turn reduces the uncertainty of achieving the group's strategic objectives.

The company's financial risk management focuses on the major areas of credit risk, liquidity risk, market risk and residual value risk and is managed on a consolidated basis as noted below

Policies and processes for managing the financial risk

The ultimate holding company retains overall responsibility for the group's policies and processes for managing financial and operational risks. With the exception of certain shareholder specific matters, the board of the ultimate holding company has delegated control of the group to its subsidiaries. The Porterbrook group has two tiers of financial risk governance.

The first is provided by the ultimate holding company who has the responsibility for each of the risks set out in this note and for the strategy for managing financial risk across the whole group. The ultimate holding company Board has established an Audit and Risk Committee which meets at least 3 times a year and is responsible for:

- reviewing the effectiveness of the group's system of internal financial controls;
- monitoring the integrity of the financial reporting and accounting policies; and
- all matters relating to the external audit.

The second comprises the Porterbrook Leasing Company Limited Board (the Board). Authority flows from the ultimate parent company to the Board. Financial risk management is carried out on a group basis by the Board. The Board ensures that risk is managed and controlled on behalf of all stakeholders.

The execution of the financial management policies is delegated by the Board to the Porterbrook Audit and Risk Committee, which is supported, in the areas of credit and residual risk, by the Porterbrook Head of Audit & Risk. Reporting to the Chief Financial Officer, the role of the Head of Audit & Risk includes development of financial risk measurement methodologies, financial risk monitoring, and financial risk reporting.

The Finance and Compliance & Risk reports presented to the Porterbrook Audit and Risk Committee and Board contain analysis of credit, market, liquidity and residual value risk.

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

2. Financial risk (continued)**Policies and processes for managing the financial risk (continued)**

Methods used to measure the financial risks are disclosed in each section below.

Credit risk

Credit risk is the risk that counterparties will not meet their financial obligations and may result in the company failing to recover debts due.

Credit risk occurs in relation to intercompany loan receivables. The group, on behalf of the company manages this risk by reviewing the balance sheet position of all group counterparties on a monthly basis. The maximum exposure to credit risk without taking into account collateral or credit enhancements is £81,769,000 (2018: £66,561,000). This is equivalent to the outstanding intercompany debtors at 31 December 2019. There are no impaired financial assets and there are no financial assets overdue but not impaired in the current or prior year.

Liquidity risk

Liquidity risk is the potential that, although remaining solvent, the company does not have sufficient liquid financial resources to enable it to meet its obligations as they fall due, or can secure them only at excessive cost. The company manages liquidity risk with the support of its intermediate parent company, ensuring that the company will have sufficient liquid resources to meet its obligations as they fall due.

Maturities of financial liabilities:

	On Demand £000	Up to 3 months £000	3 – 12 months £000	2 – 5 years £000	Over 5 years £000	Total £000
At 31 December 2019						
Trade and other payables	-	-	2,091	-	36,083	38,174
Lease liabilities	-	1,886	5,793	35,592	58,700	101,971
	<u>-</u>	<u>1,886</u>	<u>7,884</u>	<u>35,592</u>	<u>94,783</u>	<u>140,145</u>
At 31 December 2018						
Trade and other payables	-	-	3,587	-	20,202	23,789
Finance leases obligations	-	1,799	5,468	33,601	68,370	109,238
	<u>-</u>	<u>1,799</u>	<u>9,055</u>	<u>33,601</u>	<u>88,572</u>	<u>133,027</u>

Market risk

Market risk is the potential for increase in costs or decrease in the value of net assets caused by movements in the levels and prices of financial instruments. The company has no exposure to foreign exchange rate risk, as it has no transactions with overseas customers or suppliers.

Market risk arises as a result of interest rates. Interest rate risk in respect of the group's variable rate external borrowings is managed centrally for the group within the intermediate parent company, Porterbrook Rail Finance Limited. The company does not hold derivative contracts in its own name. As such the group is not materially exposed to changes in interest rates, although net exposures could arise in the company.

Residual value risk

Monitoring exposures to residual value risk is a significant management activity undertaken by the group, which also assists in the review of overall operating lease risk. Residual value risk represents the extent to which future income, either disposal proceeds or further income streams at the end of current lease terms, are insufficient to recover the outstanding value of the associated assets.

The group, on behalf of the company, regularly monitors the residual values projected at the next lease-end.

The table shows the forecast net book values at the end of the current leases which expire as follows:

	2019 £000	2018 £000
Within one year	33,417	14,737
Between 1-2 years	6,134	20,211
Between 2-5 years	8,222	6,134
More than 5 years	1,901	10,096
Total exposure	<u>49,674</u>	<u>51,178</u>

Provision is made against the carrying values of operating leased assets if there are indications of impairment, for example, if the residual value is not fully recoverable. Therefore the directors believe that as a result of this impairment testing, residual value risks are minimised.

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

3. Capital management and resources

The company considers its capital to consist of equity attributable to the equity holders of the company, comprising issued share capital and retained earnings as shown on the Balance Sheet. The company's capital is managed on a group basis to ensure that the company can continue as a going concern.

4. Revenue

	2019 £000	2018 £000
Operating lease rentals	15,794	15,794
Investment income (see note 7)	3,796	2,855
	<u>19,590</u>	<u>18,649</u>

5. Profit from operations

Profit from operations has been arrived at after charging cost of sales, purely depreciation of operating lease assets of £6,477,000 (2018: £6,473,000).

The company employed no staff during the year (2018: nil).

Fees payable to the company's auditor for the audit of the company's annual accounts for the current year are £10,000 (2018: £8,000) and have been borne by the company's immediate parent undertaking, Porterbrook Leasing Company Limited, for which no recharge has been made in the current or prior year.

6. Directors' emoluments

The directors did not receive any emoluments for their services to the company in the current or prior year and no apportionment of directors' remuneration has been made by Porterbrook Leasing Company Limited (2018: £nil).

7. Investment income

	2019 £000	2018 £000
Interest receivable from group undertakings	<u>3,796</u>	<u>2,855</u>

8. Finance costs

	2019 £000	2018 £000
Interest payable to group undertakings	<u>8,614</u>	<u>7,662</u>

Interest payable to group undertakings includes amount due under leases of £6,055,000 (2018: £6,462,000).

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

9. Tax

	2019 £000	2018 £000
UK Corporation tax		
Current tax:		
Current charge for the year	2,185	2,252
Adjustment in respect of prior year	(93)	324
	<u>2,092</u>	<u>2,576</u>
Deferred tax (note 14):		
Current year	(1,231)	(1,280)
Adjustments in respect of prior years	(36)	-
	<u>(1,267)</u>	<u>(1,280)</u>
Tax expense for the year	<u>825</u>	<u>1,296</u>

Corporation tax is calculated at 19% (2018: 19%) of the estimated assessable profit for the year.

The credit for the year can be reconciled to the profit per the Statement of Comprehensive Income as follows:

	2019 £000	2018 £000
Profit before taxation	5,021	5,491
Tax at the UK corporation tax rate of 19% (2018: 19%)	954	1,043
Effect on deferred tax balance of change in corporation tax rate from 19% to 17% effective 1 April 2020	-	(71)
Adjustment in respect of prior year	(129)	324
Tax expense for the year	<u>825</u>	<u>1,296</u>

10. Operating lease assets**£000****Cost**

At 1 January 2018	206,032
Additions	108
Disposals	(4,859)
At 31 December 2018 and 1 January 2019	<u>201,281</u>
Disposals	(13,917)
At 31 December 2019	<u>187,364</u>

Accumulated depreciation and impairment

At 1 January 2018	127,459
Charge for the year	6,473
Disposals	(4,859)
At 31 December 2018 and 1 January 2019	<u>129,073</u>
Charge for the year	6,477
Disposals	(13,917)
At 31 December 2019	<u>121,633</u>

Carrying amount

At 31 December 2019	<u>65,731</u>
At 31 December 2018	<u>72,208</u>

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

10. Operating lease assets (continued)

The operating lease assets shown above represent UK based rolling stock and are all subject to operating leases.

The carrying amount of the company's operating lease assets includes an amount of £65,731,000 which relates to a right of use asset under a lease as per IFRS16.

The company tests the operating lease assets for impairment at each reporting date, or more frequently if there are indicators of impairment. The operating lease assets are combined according to the external lease contracts, which are the cash generating units ("CGU"). To test for impairment, the recoverable amount of each CGU is determined from value in use calculations comprising discounted forecast future pre-tax cashflows, the key assumptions of which include:

- **Discount rates:** Management estimate discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks of the CGU.
- **Future lease terms:** Management forecast the future use of the existing fleet based on their judgement and experience. The group prepares cash flow forecasts for the full life of each CGU with more detailed forecasts for the forthcoming five years as part of the most recent financial budget approved by the board of directors.

The company has assessed the sensitivity of each CGU carrying value to changes in the key assumptions noted above. The analysis showed that the cash flow forecasts support the operating lease assets value under a range of scenarios. Increasing the discount rate to 5.7% or reducing the future lease term by one year does not lead to an impairment loss. Therefore the directors concluded there is no basis for an impairment charge at the year end.

11. Trade and other receivables

	2019 £000	2018 £000
Amounts due from other group companies	83,085	66,561

The directors consider that the carrying amount of receivables approximates to their fair value. All amounts due for settlement after 12 months.

12. Trade and other payables

	2019 £000	2018 £000
Amounts due to other group companies	36,083	20,202
Corporation Tax	2,091	3,587
	<u>38,174</u>	<u>23,789</u>
Less: Amount due for settlement within 12 months (shown under current liabilities)	2,091	3,587
Amount due for settlement after 12 months	<u>36,083</u>	<u>20,202</u>

The directors consider that the carrying amount of payables approximates to their fair value.

13. Lease liabilities

	2019 £000	2018 £000
Amounts payable under finance leases:		
Year 1	7,679	-
Year 2	8,150	-
Year 3	8,631	-
Year 4	9,920	-
Year 5	8,891	-
After 5 years	58,700	-
	<u>101,971</u>	<u>-</u>
Analysed as:		
Current	7,679	-
Non-current	94,292	-
	<u>101,971</u>	<u>-</u>

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

13. Lease liabilities (continued)

The company does not face a significant liquidity risk in respect of its lease liabilities. All lease obligations are denominated in sterling. The average remaining lease term is 10 years (2018: 11 years). Interest rates were fixed at the contract date. For the year ended 31 December 2019, the average effective borrowing rate was 5.9%. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The fair value of the company's lease obligations is approximately equal to their carrying amount.

14. Obligations under finance leases

	Minimum lease payments		Present value of minimum lease payments	
	2019	2018	2019	2018
	£000	£000	£000	£000
Amounts payable under finance leases:				
Within one year	-	13,357	-	7,267
In the second to fifth years inclusive	-	53,430	-	33,601
After five years	-	81,739	-	68,370
	-	148,526	-	109,238
Less: future finance charges	-	(39,288)	-	n/a
Present value of lease obligations	-	109,238	-	109,238

Analysed as:

Less: Amount due for settlement within 12 months (shown under current liabilities)	-	7,267
Amount due for settlement after 12 months	-	101,971
	-	109,238

All lease obligations are denominated in sterling. The average remaining lease term is 10 years (2018: 11 years). Interest rates were fixed at the contract date. For the year ended 31 December 2018, the average effective borrowing rate was 5.9%. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The fair value of the company's lease obligations is approximately equal to their carrying amount.

15. Deferred tax

Deferred income taxes are calculated on temporary differences under the liability method using the tax rates expected to apply when the liability is settled or the asset is realised. The Finance (No2) Act 2015, which provided for a reduction in the main rate of corporation tax from 20% to 19% effective from 1 April 2017 and 19% to 18% effective from 1 April 2020, was substantively enacted on 26 October 2015. The Finance Act 2016 which provides for a further reduction from 18% to 17% effective from 1 April 2020 was substantively enacted on 15 September 2016. The impact of the rate reduction is therefore reflected in both the current and prior reporting period. The disclosed rate change adjustments below are calculated by reference to the respective forecast closing deferred tax balances.

The following are the major deferred tax assets and liabilities recognised by the company and the movements thereon during the current and prior year.

	Operating Leased Assets £000
At 1 January 2018	13,718
Charge to income	(1,209)
Effect of change in corporation tax rate from 19% to 17% effective 1 April 2020	(71)
At 31 December 2018 and 1 January 2019	12,438
Prior period adjustment	(36)
Charge to income	(1,231)
At 31 December 2019	11,171

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

16. Share capital

	2019 £000	2018 £000
Authorised:		
20,000,002 ordinary shares of £1 each (2018: 20,000,002)	<u>20,000</u>	<u>20,000</u>
Allotted, called up and fully paid:		
20,000,002 ordinary shares of £1 each (2018: 20,000,002)	<u>20,000</u>	<u>20,000</u>

The company has one class of ordinary shares which carry no rights to fixed income.

17. Related party transactions

The related party disclosures in this note relate to the following entities and individuals:

- Parent company
- Fellow subsidiaries
- Parties that have an interest in the company that gives them a significant influence
- The parent company's key management personnel
- Close family members of the above

Trading transactions

During the year, the company entered into the following transactions with related parties:

	Income		Expenditure	
	2019 £000	2018 £000	2019 £000	2018 £000
Parent company	19,590	18,649	-	-
Fellow subsidiaries	<u>-</u>	<u>-</u>	<u>8,614</u>	<u>7,662</u>
	Amounts owed by related parties		Amounts owed to related parties	
	2019 £000	2018 £000	2019 £000	2018 £000
Parent company	83,085	66,561	-	-
Fellow subsidiaries	<u>-</u>	<u>-</u>	<u>138,054</u>	<u>129,440</u>

Key management personnel

There were no related party transactions during the year (2018: None), or existing at the balance sheet date, with the company's, or parent company's, key management personnel. Please see the financial statements of the Porterbrook Leasing Company Limited for further information on remuneration of key management personnel of the entity which is paid by other group entities.

18. Parent undertaking and controlling party

At the year end, the company's immediate parent company was Porterbrook Leasing Company Limited, a company incorporated in England and Wales.

The company's ultimate parent undertaking and controlling party is Porterbrook Holdings I Limited, a company incorporated in England and Wales. Porterbrook Holdings I Limited heads the largest group for which group accounts are drawn up and of which the company is a member.

Porterbrook Rail Finance Limited, a company incorporated in Jersey, is an intermediate parent undertaking and heads the smallest group for which group accounts are drawn up and of which the company is a member.

Copies of the Porterbrook Rail Finance Limited and Porterbrook Holdings I Limited group financial statements, which include the results of the company, are available from Ivatt House, 7 The Point, Pinnacle Way, Pride Park, Derby, DE24 8ZS.