

Porterbrook March Leasing (4) Limited

Annual report and financial statements

Year ended 31 December 2020

Registered number: 2682768

FRIDAY



AADPØBLT

A16

24/09/2021

#345

COMPANIES HOUSE

Porterbrook March Leasing (4) Limited

Contents

Strategic Report	1
Directors' Report	2
Independent Auditors' Report	4
Statement of Comprehensive Income	7
Balance Sheet	8
Statement of Changes in Equity	9
Cash Flow Statement	9
Notes to the Financial Statements	10

Strategic Report

The directors submit their Strategic Report for Porterbrook March Leasing (4) Limited ("the Company") for the year to 31 December 2020.

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 Group").

The financial risk management objectives and policies of the Company; the policy for hedging each major type of 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 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 Group as a whole is discussed in the consolidated financial statements of Porterbrook Rail Finance Limited (the "Group Financial Statements") which are available from the address in note 17.

Review of the year

During 2020 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 7 to 9 and notes to the financial statements on pages 10 to 20.

During the year, the Company sold part of this coal wagon fleet and recognised a profit on disposal of £0.1m (2019: £0.5m). The directors expect to complete the disposal of the fleet in 2021.

The Statement of Comprehensive Income on page 7 shows the Company made a profit before tax of £4.5m (2019: £5.0m). 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 £0.2m (2019: £2.5m). Given its position within the Group, the directors consider the state of the Company's affairs to be satisfactory.

4. Other corporate matters

Environment

The Company 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 Company's activities. The Company operates in accordance with the Group's 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 and signed on its behalf by:



Director
Peter Coates

26 February 2021

Directors' Report

The following directors, who served throughout the year and subsequently (except where indicated), and up to the date of signing, submit their report together with the separate Strategic Report, the financial statements and the auditors' report for the year to 31 December 2020.

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

The articles of association of the Company provide that in certain circumstances the directors are entitled to be indemnified out of the assets of the Company against claims from third parties in respect of the certain liabilities arising in connection with the performance of their functions, in accordance with the provisions of the Companies Act 2006. Indemnity provisions of this nature have been in place during the financial year and have not been utilised. The Company also purchased and maintained throughout the financial year Directors and Officers liability insurance in respect of itself and its directors.

1. Directors' responsibilities in respect of the preparation of financial statements

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

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

- select suitable accounting policies and then apply them consistently; and
- state whether international accounting standards in conformity with the requirements of the Companies Act 2006 have been followed, subject to any material departures disclosed and explained in the financial statements; and
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

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

Going concern

The Company was profit making in the year but had net current liabilities of £8.2m (2019: £9.8m) and net liabilities of £0.2m (2019: £2.5m) at the Balance Sheet date. However, the directors observe that all of the Company's activity is with other 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. The directors therefore 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 (2019: £nil).

Directors' Report (continued)

3 Compliance with section 172 Companies Act 2006

The directors have given due regard to the requirements of s172 (1) (a) to (f) of the Companies Act 2006 in respect of how they 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 2020. 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" 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 section 172 Companies Act 2006). The directors of Porterbrook March Leasing (4) Limited are all directors of PLCL.

4. Risk management

Details of the Company's risk management practices are included in the Strategic Report.

5. Independent auditors

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

- so far as they are aware, there is no relevant audit information of which the Company's auditors are unaware; and
- each 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 auditors are aware of that information.

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

PricewaterhouseCoopers LLP have expressed their willingness to continue in office as auditors of the Company.

Approved by the Board of Directors and signed on its behalf by:



Director
Peter Coates

26 February 2021

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS 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 2020 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and financial statements (the "Annual Report"), which comprise: the Balance Sheet as at 31 December 2020; the Statement of Comprehensive Income, the Cash Flow Statement, and 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

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

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

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

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

Reporting on other information

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

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

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

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

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

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 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

Based on our understanding of the company and industry, we considered the principal risks of non-compliance with laws and regulations, including those that have a direct impact on the preparation of the financial statements such as the Companies Act 2006 and the extent to which non-compliance might have a material effect on the financial statements. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting of inappropriate journal entries in order to increase revenue, and management bias in accounting estimates and judgemental areas of the financial statements such as impairment assessment of operating lease assets. Audit procedures performed included:

- Discussions with management and internal audit, including consideration of known or suspected instances of non-compliance with laws and regulations and fraud;
- Understanding management's internal controls designed to prevent and detect irregularities;
- Reviewing relevant meeting minutes, including those of the Board of Directors;
- Challenging assumptions and judgements made by management in their significant accounting estimates, in particular in relation to impairment assessment of operating lease assets;
- Identification and testing of journal entries, in particular any journal entries posted with unusual amounts, unusual account combinations, unusual times or dates;
- Reviewing internal audit reports; and
- Involving our valuation experts.

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

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.



Tina Ahuja (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
1 March 2021

Statement of Comprehensive Income

For the year ended 31 December 2020

	NOTES	2020 £000	2019 £000
Revenue	4	15,527	15,794
Cost of sales		(5,989)	(6,477)
Gross profit		<u>9,538</u>	<u>9,317</u>
Profit on disposal of operating lease assets		53	522
Profit from operations	5	<u>9,591</u>	<u>9,839</u>
Investment income	4,7	4,542	3,796
Finance costs	8	(9,675)	(8,614)
Profit before tax		<u>4,458</u>	<u>5,021</u>
Tax charge	9	(2,125)	(825)
Net profit for the year and total comprehensive income		<u><u>2,333</u></u>	<u><u>4,196</u></u>

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

Balance Sheet

At 31 December 2020

	NOTES	2020 £000	2019 £000
Non-current assets			
Operating lease assets	10	61,030	65,731
Trade and other receivables	11	97,894	83,085
Total assets		<u>158,924</u>	<u>148,816</u>
Current liabilities			
Trade and other payables	12	-	(2,091)
Lease liabilities	13	(8,150)	(7,679)
Net current liabilities		<u>(8,150)</u>	<u>(9,770)</u>
Non-current liabilities			
Trade and other payables	12	(53,434)	(36,083)
Lease liabilities	13	(86,143)	(94,292)
Deferred tax	14	(11,364)	(11,171)
		<u>(150,941)</u>	<u>(141,546)</u>
Total liabilities		<u>(159,091)</u>	<u>(151,316)</u>
Net liabilities		<u>(167)</u>	<u>(2,500)</u>
Equity			
Share capital	15	20,000	20,000
Accumulated losses		(20,167)	(22,500)
Deficit attributable to equity holders of the parent		<u>(167)</u>	<u>(2,500)</u>

The financial statements on pages 7 to 20 of Porterbrook March Leasing (4) Limited (registered number 2682768) were approved by the board of directors and authorised for issue on 26 February 2021. They were signed on its behalf by:



Director
Peter Coates

Statement of Changes in Equity

For the year ended 31 December 2020

	Share capital £000	Accumulated losses £000	Total deficit £000
Balance at 1 January 2019	20,000	(26,696)	(6,696)
Net profit for the year and total comprehensive income	-	4,196	4,196
Balance at 31 December 2019	20,000	(22,500)	(2,500)
Balance at 1 January 2020	20,000	(22,500)	(2,500)
Net profit for the year and total comprehensive income	-	2,333	2,333
Balance at 31 December 2020	20,000	(20,167)	(167)

Cash Flow Statement

For the year ended 31 December 2020

	2020 £000	2019 £000
Profit from operations	9,591	9,839
Adjustments for:		
Depreciation	5,989	6,477
Profit on disposal of property, operating lease assets	(53)	(522)
Increase in receivables	(14,809)	(16,524)
Increase in payables	17,353	15,880
Cash generated from operations	18,071	15,150
Interest paid	(4,047)	(2,559)
Tax paid	(4,024)	(3,587)
Net cash from operating activities	10,000	9,004
Investing activities		
Interest received	4,542	3,796
Purchase of property, plant and equipment	(1,288)	-
Disposals proceeds	53	522
Net cash from investing activities	3,307	4,318
Financing activities		
Interest on lease obligations	(5,629)	(6,055)
Repayment of lease obligation principal	(7,678)	(7,267)
Net cash used in financing activities	(13,307)	(13,322)
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 2020

1. Significant accounting policies

Basis of preparation

Porterbrook March Leasing (4) Limited is a private company limited by shares incorporated and domiciled 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 accounting standards in conformity with the requirements of the Companies Act 2006 ("IFRS") and the applicable legal requirements of the Companies Act 2006. The financial statements have been prepared under the historical cost convention. The principal accounting policies adopted are set out below and have been applied consistently, unless otherwise stated.

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.

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, PLCL. The Group companies that have intercompany balances with the Company have agreed to support the Company and not demand repayment of any amounts due to them.

Adoption of new and revised standards

The following new and revised Standards and Interpretations have been adopted in the current year.

Amendments to IAS1 and IAS8	Definition of material
Conceptual Framework	Amendments to References to the Conceptual Framework in IFRS Standards
Annual improvements to IFRSs	2016 - 2018 cycle

At the date of authorisation of these financial statements, certain Standards and Interpretations have not been applied in these financial statements as they were in issue but not yet effective.

Amendments to IAS1	Classification of Liabilities as Current or Non-current
Annual improvements to IFRSs	2018 – 2020 cycle

The directors do not expect the adoption of the Standards and Interpretations listed above will have an impact on the financial statements of the Group and the Company in future years.

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 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 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; and
- 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.

Notes to the Financial Statements (continued)

For the year ended 31 December 2020

1. Significant accounting policies (continued)

The Company as lessee (continued)

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 Balance Sheet.

The Company applies IAS36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the Company's Operating lease assets policy.

As a practical expedient, IFRS16 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.

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.

Revenue recognition

Capital lease income from operating leases with other companies in the Group 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 and reported as profits on the disposal of operating lease assets.

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

Operating lease assets	16 to 30 years
------------------------	----------------

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 2020

1. Significant accounting policies (continued)

Impairment of operating lease assets

The directors consider any 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, being the cash-generating unit's ("CGU") 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. CGUs are the lowest level at which the directors monitor the return on investment in 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 it would have been had the original impairment not been recognised.

Taxation

The taxation charge 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.

1a Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's 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 Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Notes to the Financial Statements (continued)

For the year ended 31 December 2020

1. Significant accounting policies (continued)**Impairment testing for operating lease assets**

The key assumptions used in impairment testing are

- **Discount rates:** The Company's 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 Company 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 directors.
- **Useful Economic Life of Rolling Stock:** The useful economic lives of assets are reviewed on a periodic basis and adjusted if appropriate.

These assumptions are sensitive to changes and accordingly are considered a key sources of estimation uncertainty. The key assumptions described above are used in the calculation of the recoverable amount of this asset class. The table below shows the change in the recoverable amount of the operating lease assets as a whole.

	2020 £000	2019 £000
Discount rate		
0.50% increase	(9,000)	(8,000)
0.60% decrease	11,000	10,000
Future lease terms		
10% reduction in uncontracted revenue	(10,000)	(19,000)
10% increase in uncontracted revenue	10,000	19,000
Useful economic life of rolling stock		
1 year reduction in Useful economic life	(8,000)	(10,000)
1 year increase in Useful economic life	9,000	10,000

2. Financial risk**Financial risk management objectives**

Effective and efficient financial risk governance and oversight provide management with assurance that the Company'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 Company'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 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 three 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 and Risk. Reporting to the Chief Financial Officer, the role of the Head of Audit and Risk includes development of financial risk measurement methodologies, financial risk monitoring, and financial risk reporting.

The Finance and Compliance and 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 2020

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 £97,894,000 (2019: £81,769,000). This is equivalent to the outstanding intercompany debtors at 31 December 2020. There are no impaired financial assets.

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 2020						
Trade and other payables	-	-	-	-	53,434	53,434
Lease liabilities	-	2,012	6,138	37,695	48,448	94,293
	<u>-</u>	<u>2,012</u>	<u>6,138</u>	<u>37,695</u>	<u>101,882</u>	<u>147,727</u>
At 31 December 2019						
Trade and other payables	-	-	2,091	-	36,083	38,174
Finance leases obligations	-	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>

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 any 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:

	2020 £000	2019 £000
Within one year	-	33,417
Between 1-2 years	14,153	6,134
Between 2-5 years	12,283	8,222
More than 5 years	15,534	1,901
Total exposure	<u>41,970</u>	<u>49,674</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. The directors therefore 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 2020

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

	2020 £000	2019 £000
Operating lease rentals	15,527	15,794
Investment income (see note 7)	4,542	3,796
	<u>20,069</u>	<u>19,590</u>

5. Profit from operations

Profit from operations has been arrived at after charging cost of sales, which consists of depreciation charges in respect of operating lease assets of £5,989,000 (2019: £6,477,000).

The Company employed no staff during the year (2019: nil).

Fees payable to the Company's auditor for the audit of its financial statements for the current year are £12,000 (2019: £10,000) 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. There were no fees payable for non-audit services 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 (2019: £nil).

7. Investment income

	2020 £000	2019 £000
Interest receivable from group undertakings	<u>4,542</u>	<u>3,796</u>

8. Finance costs

	2020 £000	2019 £000
Interest payable to group undertakings	<u>9,675</u>	<u>8,614</u>

Interest payable to group undertakings includes amounts due under leases of £5,629,000 (2019: £6,055,000).

Notes to the Financial Statements (continued)

For the year ended 31 December 2020

9. Tax charge

	2020	2019
	£000	£000
UK Corporation tax		
Current tax:		
Current year	1,932	2,185
Adjustment in respect of prior year	-	(93)
	<u>1,932</u>	<u>2,092</u>
Deferred tax (note 14):		
Current year	193	(1,231)
Adjustments in respect of prior year	-	(36)
	<u>193</u>	<u>(1,267)</u>
Tax expense for the year	<u>2,125</u>	<u>825</u>

Corporation tax is calculated at 19% (2019: 19%) of the estimated assessable profit for the year. The charge for the year can be reconciled to the profit per the Statement of Comprehensive Income as follows:

	2020	2019
	£000	£000
Profit before taxation	<u>4,458</u>	<u>5,021</u>
Tax at the UK corporation tax rate of 19% (2019: 19%)	847	954
Effect on the deferred tax balance of the increase in corporation tax rate from 17% to 19% effective 1 April 2020	1,278	-
Adjustment in respect of prior year	-	(129)
Tax expense for the year	<u>2,125</u>	<u>825</u>

10. Operating lease assets

	£000
Cost	
At 1 January 2019	201,281
Disposals	(13,917)
At 31 December 2019 and 1 January 2020	<u>187,364</u>
Additions	1,288
Disposals	(3,168)
At 31 December 2020	<u>185,484</u>
Accumulated depreciation and impairment	
At 1 January 2019	129,073
Charge for the year	6,477
Disposals	(13,917)
At 31 December 2019 and 1 January 2020	<u>121,633</u>
Charge for the year	5,989
Disposals	(3,168)
At 31 December 2020	<u>124,454</u>
Carrying amount	
At 31 December 2020	<u>61,030</u>
At 31 December 2019	<u>65,731</u>

Notes to the Financial Statements (continued)

For the year ended 31 December 2020

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 £61,030,000 (2019: £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 CGUs. 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; and
- **Future lease terms:** Management forecast the future use of the existing fleet based on their judgement and experience. The Company 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 directors; and
- **Useful Economic Life of Rolling Stock:** The useful economic lives of assets are reviewed on a periodic basis and adjusted if appropriate.

The Company did not recognise any impairment loss in the Statement of Comprehensive Income (2019: £nil) based on a discount rate of 5.4% (2019: 5.3%).

11. Trade and other receivables

	2020 £000	2019 £000
Amounts due from other group companies	<u>97,894</u>	<u>83,085</u>

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

	2020 £000	2019 £000
Amounts due to other group companies	53,434	36,083
Corporation tax	<u>-</u>	<u>2,091</u>
	53,434	38,174
Less: Amount due for settlement within 12 months (shown under current liabilities)	<u>-</u>	<u>2,091</u>
Amount due for settlement after 12 months	<u>53,434</u>	<u>36,083</u>

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

Notes to the Financial Statements (continued)

For the year ended 31 December 2020

13. Lease liabilities

	2020	2019
	£000	£000
Amounts payable under leases		
Year 1	8,150	7,679
Year 2	8,631	8,150
Year 3	9,141	8,631
Year 4	9,670	9,141
Year 5	10,252	10,497
After 5 years	<u>48,449</u>	<u>57,873</u>
	<u>94,293</u>	<u>101,971</u>
Analysed as		
Current	8,150	7,679
Non-current	<u>86,143</u>	<u>94,292</u>
	<u>94,293</u>	<u>101,971</u>

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 9 years (2019: 10 years). Interest rates were fixed at the contract date. For the year ended 31 December 2020, 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. 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 the prior reporting period. On 22 July 2020, the Finance Act 2020 provided that the corporation tax rate with effect from 1 April 2020 would be 19%. All deferred tax balances are now calculated using a corporation tax rate of 19%. 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 lease assets £000
At 1 January 2019	12,438
Prior period adjustment	(36)
Charge to income	<u>(1,231)</u>
At 31 December 2019 and 1 January 2020	11,171
Charge to income	(1,086)
Effect of change in corporation tax rate from 17% to 19% effective 1 April 2020	<u>1,279</u>
At 31 December 2020	<u>11,364</u>

Notes to the Financial Statements (continued)

For the year ended 31 December 2020

15. Share capital

	2020 £000	2019 £000
Allotted, called up and fully paid:		
20,000,002 ordinary shares of £1 each (2019: 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.

16. 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	
	2020 £000	2019 £000	2020 £000	2019 £000
Parent company	20,069	19,590	-	-
Fellow subsidiaries	<u>-</u>	<u>-</u>	<u>9,675</u>	<u>8,614</u>
	Amounts owed by related parties		Amounts owed to related parties	
	2020 £000	2019 £000	2020 £000	2019 £000
Parent company	97,894	83,085	-	-
Fellow subsidiaries	<u>-</u>	<u>-</u>	<u>147,727</u>	<u>138,054</u>

Key management personnel

There were no related party transactions during the year (2019: 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.

Group entities

The Company, whose registered office is Ivatt House, 7 The Point, Pinnacle Way, Pride Park, Derby, DE24 8ZS has a related party relationship with the following group entities;

Porterbrook Holdings I Limited (a)
 Porterbrook Holdings II Limited (a)
 Porterbrook Investments I Limited (a)
 The Porterbrook Partnership (b)
 Porterbrook Rail Finance Limited (c)
 Porterbrook Leasing Mid Company Limited (a)
 Porterbrook Leasing Company Limited (a)
 Porterbrook Maintenance Limited (a)
 Porterbrook Leasing Asset Company Limited (a)

The Registered office of the subsidiaries is shown below

- Ivatt House, 7 The Point, Pinnacle Way, Pride Park, Derby, DE24 8ZS
- 1 Exchange Crescent, Conference Square, Edinburgh, EH3 8UL
- 47, The Esplanade, St Helier, Jersey, JE1 0BD

Notes to the Financial Statements (continued)

For the year ended 31 December 2020

17. 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 that owns 100% of the share capital of the Company.

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 financial statements 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 financial statements 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.