# Angel Trains Limited

## ANNUAL REPORT AND FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 DECEMBER 2018



Angel Trains Limited
Registered in England and Wales: Number 2912655
Registered Office: 123 Victoria Street, London, SW1E 6DE

# Angel Trains Limited

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## Angel Trains Limited

### OFFICERS AND PROFESSIONAL ADVISERS

| | |
|---|---|
| **Directors:** | K. Tribley<br>A. Lowe<br>M. Hicks<br>D. Jordan |
| **Company secretary:** | N. Holas |
| **Registered office:** | 123 Victoria Street<br>London<br>SW1E 6DE |
| **Independent auditors:** | PricewaterhouseCoopers LLP<br>Chartered Accountants and Statutory Auditors<br>7 More London Riverside<br>London<br>SE1 2RT |

Registered in England and Wales: Number 2912655

# Angel Trains Limited
## STRATEGIC REPORT
## FOR THE YEAR ENDED 31 DECEMBER 2018

The directors present their strategic report on Angel Trains Limited (the "Company") for the year ended 31 December 2018.

## REVIEW OF THE BUSINESS

The principal activity of the Company continues to be the provision of railway rolling stock to train operators under operating leases.

**New Trains and Opportunities**

The final 50 of 150 new Desiro City Class 707 vehicles, built by Siemens for lease on the South Western Railways franchise, were delivered during 2018. The Desiro City is a second generation EMU commuter train designed to carry more passengers and to have a significantly reduced whole life, whole system cost, meaning each unit costs less to maintain, uses less power and causes less damage to infrastructure. The total value of this deal is circa £230.0m.

There were no new train procurements for the year ending 31 December 2018. However, focus on project management delivery continues with the 24 x 5-car AT300 bi-mode intercity trains (Class 802), which will be assembled by Hitachi Rail Europe and utilised by FirstGroup on the TransPennine Express ("TPE") franchise and by First Hull Trains. The projects are currently running to plan with the trains forecast to be delivered from July 2019. The value of these contracts is circa £287.0m.

**Refranchising & Re-leasing**

As at 31 December 2018, the Company owned 3,895 rolling stock vehicles (with a further 120 in the build phase), with a fleet utilisation of 98.3% (2017: 99.0%).

The following leases were extended during the year, on existing terms, as the result of short-term franchise awards/extensions:

- Southeastern – The franchise was extended from June 2018 to ultimately June 2019, extending the lease of 200 Class 465 and 86 Class 466 vehicles.

The following leases were extended or entered into during the period outside of the refranchising process:

- East Midland Trains – 24 HST vehicles were vehicles were cascaded from Grand Central in January 2018 and leased until March 2019.
- Abellio ScotRail – 48 Class 314 vehicles were extended from 1 January 2019 to 28 February 2019.
- MerseyRail – 177 Class 507/8 vehicles were extended from 1 January 2019 to 31 December 2019.
- First Greater Western – 9 Class 153 vehicles were extended from April 2018 to June 2018. These were then again subsequently leased to:
  - Abellio ScotRail – 5 of the vehicles were leased from July 2018 to March 2025
  - East Midlands Trains – 4 of the vehicles were leased from July 2018 to December 2019

The following new leases were entered into following the award of new franchises;

- The Wales and Borders franchise was awarded to Keolis Amey Wales Cymru Limited (trading as Transport for Wales Rail Services), a joint venture between Keolis and Amey plc from October 2018 to October 2033. The incumbent fleets were leased until the dates specified as part of the franchise award:
  - 30 Class 142 vehicles until 31 December 2019
  - 5 Class 153 vehicles until 31 October 2022
  - 48 Class 158 vehicles until 31 October 2022
  - 70 Class 175 vehicles until 31 May 2022

The DfT refranchising programme has not been updated since July 2017, a number of directly awarded franchises have been introduced or contemplated. Furthermore, in many of these directly awarded franchises a further extension option has been included, which in our view, is likely to be exercised in a number of instances.

## REVIEW OF THE BUSINESS (continued)

### Refurbishment Projects & Future Developments

The Company continued to engage with the supply chain to ensure that modification programmes are in place to make sure all its fleets forecast to operate past 31 December 2019 will comply with PRM (Persons of Reduced Mobility) regulations by that deadline. Investment related to these programmes will ensure these vehicles can continue in service for years to come.

The Company's Hybrid Drive research and development project in partnership with Magtec Ltd and Chiltern Railways is leading the market in converting an existing DMU to Hybrid Drive. The expected benefits are significant reduction in $CO_2$, NOx, Particulate Matter and noise, as well as an estimated fuel saving of 25% for train operators.

### Other Financial & Business Matters

Between 2019 and 2022, 888 vehicles are due for re-lease; excluding those which are covered by Railways Act 1993 section 54 undertakings. During the same period an additional 120 new vehicles will be delivered. At the period end, 98.3% of the Company's portfolio was on lease. The off-lease vehicles are a small number of Class 442 vehicles and HSTs. During the year and in 2017, as a result of current market conditions the Company carried out a review of the recoverable amount of vehicles. The review led to recognition of a net impairment loss of £12.3m (2017: £19.2m). In determining the level of impairment, the Company considered a number of factors, but primarily: decreasing prices of new trains; new entrants to the market; displacement risk; and forecast life end dates. To offset these risks the Company considered its strong track record of near full fleet utilisation, section 54 undertakings (usage guarantees) on certain fleets and market intelligence on the outlook of the rail industry e.g. the sixth Long Term Rolling Stock Strategy published in March 2018 by the Rolling Stock Steering Group, which forecast increased capacity requirements over the next 30 years of between 40% and 85%, with an expectation that these requirements will be met with new and existing rolling stock. Details are disclosed in note 11.

The Company has monitored the potential impact of Brexit insofar that it has been able to given the continued uncertainty regarding the outcome. The Company remains insulated from the direct impact of foreign exchange volatility and the senior and junior debt is hedged for interest rates. All of our revenues are generated within the United Kingdom and they are denominated in Sterling.

The Secretary of State for Transport launched a full review of the rail industry in September 2018. The purpose of the Williams Review is to ensure that the United Kingdom's vital rail service continues to benefit passengers and that it supports a stronger economy. The 'root and branch' review will consider all aspects of the industry including greater train and track integration, regional partnerships and value for money. The government will publish a white paper on its recommendations with any implemented reforms expected to start in 2020.

The Company welcomes the Williams Review and has formally responded to an initial industry-wide request for information. The Company will continue to support the review and believes that its approach to embracing competition, fostering innovation and improving the customer experience through the continued deployment of the ROSCO model is consistent with the review's objectives.

## KEY PERFORMANCE INDICATORS

The Company's financial performance is presented in the Income Statement on page 11. The profit after tax for the year ended attributable to the owners was £105.6m (2017: £91.6m).

Revenue rose by 7.4% and cost of sales decreased by 1.8%. Administrative expenses rose by 4.3% and other income rose by 25.4%. Operating profit for the year increased by 19.3% compared to 2017.

At the end of the year, the financial position showed total assets of £1,705.6m (2017: £1,590.3m). This includes the net book value of property, plant and equipment of £1,586.9m compared to £1,508.3m at the previous year. The percentage of rolling stock on lease is 98.3% (2017: 99.0%). Other non-current assets comprise of loans receivable of £45.6m (2017: £42.8m).

## KEY PERFORMANCE INDICATORS (continued)

The key performance indicators that the directors consider are interest cover, leverage (Net Debt / Earnings Before Interest, Tax, Depreciation and Amortisation) and net present value of future rentals. Interest cover and leverage ratios can be derived from the financial statements. The directors are satisfied with the current level of the ratios. The directors do not anticipate any material change in either the type or level of activities of the Company.

## STRATEGY

The Company's strategy is divided across three main themes: meet our customers' expectations, re-lease our existing portfolio and renew our portfolio.

The strategy is supported by having trains at all stages of the 25-40 year asset lifecycle, which manages the asset risk profile and helps protect the long term profitability of the business. This is supported by the spread of the portfolio across different vehicle types, i.e. high speed intercity, regional and urban (commuter) trains. The benefit of this portfolio approach is that we are not beholden to any one market sector.

The sixth *Long Term Rolling Stock Strategy* for the rail industry was published in March 2018. The report was published by the Rolling Stock Strategy Steering Group ("RSSSG") (a cross-industry group comprising the Company and the other Rolling Stock Companies ("ROSCO"), the Association of Train Operating Companies ("ATOC") and Network Rail). This follows previous editions in setting out a range of forecasts for the likely size and mix of the national rolling stock fleet required to accommodate future passenger numbers over the next 30 years to 2047. It continues to draw on outputs from the rail industry's Long Term Planning Process but has also considered recent developments, including the as yet undetermined impact of Brexit and the changes in electrification and train power strategy announced by the English government. The long term rolling stock outlook remains unchanged with a national fleet increase of between 40% (5,500 vehicles) and 85% (12,000 vehicles) forecast over the next 30 years. The mix of traction power amongst these vehicles is uncertain, but with the industry predicting another doubling of demand in the next 30 years and the franchising authorities continuing to invest based on similar expectations, the long term outlook remains positive. The strategy emphasises the resulting benefits to passengers and the wider community, including improvements to capacity, punctuality, reliability, passenger facilities and the environment.

## PEOPLE AND DIVERSITY

The Company continues to report on gender equality in accordance with the Government Equalities Office initiative "Think, Act, Report" which aims to encourage companies to share their progress in reporting gender equality. The Company recognises the benefit both it and the industry would receive from a more gender balanced workforce and is committed to increasing the number of women throughout the organisation and, more generally, to furthering the success of women in the rail sector. The Company undertakes voluntary gender equality analysis reporting by publishing an annual diversity report on its website each year.

The externally run annual employee survey was conducted in October 2018, increasing the already high response rate to 98%. The results were positive, with the overall "engagement rating" up on 2018 at 8.7 (2017: 8.5) against a national benchmark of 6.7 (2017: 6.8), and maintaining general satisfaction rate of 8.7 out of 10 (2017: 8.7).

In addition the Company has retained Investors in People Gold accreditation, against a new higher standard. The Company is committed to ensuring that our supply chains or any part of our business is free from modern slavery or human trafficking.

## LOOKING FORWARD

Looking ahead, the critical objective for the Company in the short to medium term will be to re-lease successfully all the vehicles that are coming towards the end of their current lease at rates that meet the expectations of the shareholders.

It will also be necessary to invest in enhancements to ensure continued service of certain fleets and compliance with the PRM-TSI regulations coming into force on 31 December 2019. These are areas of focus for Train Operating Companies ("TOCs") and key drivers in determining the relative attractiveness and competitiveness of our rolling stock. We employ a strong and committed team whose experience and depth of relationships within the rail industry gives us confidence that these challenges can be met.

Internally, the key challenges for the coming year will be to continue to project manage the enhancements and modifications to our existing fleet, to deliver the contracted new build and manage the associated supply chain. The Company will also continue monitoring any change in trends as the Brexit negotiations develop.

## PRINCIPAL RISKS, UNCERTAINTIES AND USE OF FINANCIAL INSTRUMENTS

The Company's portfolios of financial instruments principally comprise of loans, deposits and payables.

Applying International Financial Reporting Standards, all portfolios are considered to be held for non-trading purposes. The directors are responsible for considering risk management issues that arise across the Company's financial instrument portfolios. Risk management policies are detailed in note 27.

From the perspective of the Company, except for the above, the principal risks and uncertainties are integrated with the principal risks of the Group, and are not managed separately. The Group has an Internal Control Framework that is designed to monitor its risks, including financial, operational, regulatory, credit and reputational risks. The Framework includes processes to review the effectiveness of the Group's system of internal control. The Group has an organisational structure with clearly defined lines of responsibility and delegation of authority.

### Operational risk

Operational risk is the risk of unexpected losses attributable to human error, systems failure, fraud or inadequate internal financial controls and procedures.

The Company manages this risk through systems and procedures to monitor transactions and positions, the documentation of transactions and periodic review. The Company also maintains contingent facilities to support operations in the event of disaster.

By order of the board

N. Holas

Company Secretary

27 March 2019

The directors present their annual report and the audited financial statements for the year ended 31 December 2018.

## RESULTS AND DIVIDENDS

An interim dividend of £147.0m was paid during the year (2017: £65.3m). The directors do not propose the payment of a final dividend (2017: £nil). The Company's financial performance is presented in the Income Statement on page 11. The profit after tax attributable to the owners for the year was £105.6m (2017: £91.6m) and this was transferred to reserves. The increase in profit after tax mostly relates to an increase in Revenue, as a result of the Class 707 being fully delivered and the impact of adopting IFRS 15 'Revenue from contracts with customers', as disclosed in the notes.

## DIRECTORS AND COMPANY SECRETARY

The present directors and company secretary are listed on page 1. Those who have served during the year and up to the date of signing this report are listed below. During the year, the following changes took place:

| Directors | Resigned | Appointed |
|---|---|---|
| M. Brown | 30 July 2018 | |
| A. Lowe | | |
| K. Tribley | | |
| M. Hicks | | |
| D. Jordan | | 1 August 2018 |

**Company Secretary**

N. Holas

## 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 period. Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRS) 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. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

## STATEMENT OF DIRECTORS' RESPONSIBILITIES (CONTINUED)

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

## STATEMENT OF DISCLOSURE OF INFORMATION TO AUDITORS

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- they have taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

## GOING CONCERN

These financial statements are prepared on a going concern basis. The Company continues to comply with the requirements of the Group's debt covenants, with performance underpinned by positive cash flows from the Company's operations despite a negative net current liabilities position. The Directors having made appropriate enquiries, have a reasonable expectation the Company has adequate resources to continue in operational existence for the foreseeable future.

## DIRECTORS INDEMNITY COVER

No directors have been granted Qualifying Third Party indemnity Provisions.

## FINANCIAL RISK MANAGEMENT

The main financial risk the Company faces is interest rate risk. However this risk is mitigated at Group level through the use of hedging (see the Notes to the Financial Statements for further details of the Hedging Policy). The directors consider that the Group's exposure to price risk, liquidity risk or credit risk is less significant given the mitigants it has in place.

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

K.Tribley
**Director**
27 March 2019

# INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ANGEL TRAINS LIMITED

## Report on the audit of the financial statements

### Opinion

In our opinion, Angel Trains Limited's financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2018 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 ("Annual report") which comprise: the Balance Sheet as at 31 December 2018; the Income Statement, the Statement of Comprehensive Income, the Statement of Cash Flows, 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 the 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 on which the United Kingdom may withdraw 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.

### Reporting on other information (continued)

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 2018 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 set out on page 6, 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.

# INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ANGEL TRAINS LIMITED (continued)

**<u>Other required reporting</u>**

**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 director's remunerations 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.

Luke Hanson

Luke Hanson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

29 March 2019

## Angel Trains Limited

Registered Number 2912655

## INCOME STATEMENT

## FOR THE YEAR ENDED 31 DECEMBER 2018

| | Note | Year ended 31 December 2018 £'m | Year ended 31 December 2017 £'m |
|---|---|---|---|
| **Revenue** | 2 | 421.1 | 392.0 |
| Cost of sales | | (196.9) | (200.5) |
| **Gross Profit** | | 224.2 | 191.5 |
| Administrative expenses | | (26.7) | (25.6) |
| Other income | 3 | 7.9 | 6.3 |
| **Operating profit** | | 205.4 | 172.2 |
| Finance income | 4 | 2.9 | 5.3 |
| Finance costs | 6 | (79.3) | (64.2) |
| Other losses | | (0.1) | - |
| **Profit before income tax** | | 128.9 | 113.3 |
| Income tax expense | 7 | (23.3) | (21.7) |
| **Profit attributable to the owners** | | **105.6** | **91.6** |

The notes on pages 16 to 54 form an integral part of these financial statements.

## Angel Trains Limited

Registered Number 2912655

### STATEMENT OF COMPREHENSIVE INCOME
### FOR THE YEAR ENDED 31 DECEMBER 2018

| | Note | Year ended 31 December 2018 | Year ended 31 December 2017 |
|---|---|---|---|
| | | £'m | £'m |
| **Profit for the financial year** | | 105.6 | 91.6 |
| **Other comprehensive income** | | | |
| ***Items that will not be reclassified to profit and loss*** | | | |
| Actuarial gain on defined benefit pension scheme | 28 | 5.5 | 11.0 |
| Tax on items taken directly to equity | | (0.9) | (1.9) |
| **Total other comprehensive income for the year** | | 4.6 | 9.1 |
| **Total comprehensive income for the year attributable to the owners** | | **110.2** | **100.7** |

The notes on pages 16 to 54 form an integral part of these financial statements.

## Angel Trains Limited

Registered Number 2912655

### STATEMENT OF CHANGES IN EQUITY

### FOR THE YEAR ENDED 31 DECEMBER 2018

| | Called up share capital | Retained earnings | Total equity |
|---|---|---|---|
| | £'m | £'m | £'m |
| **At 1 January 2017** | **172.3** | **126.1** | **298.4** |
| Profit for the year | - | 91.6 | 91.6 |
| **Other comprehensive income** | | | |
| Actuarial gain on defined benefit pension scheme | - | 11.0 | 11.0 |
| Tax on items taken directly to equity | - | (1.9) | (1.9) |
| **Total comprehensive income** | - | 100.7 | **100.7** |
| Dividends | - | (65.3) | (65.3) |
| **At 31 December 2017** | **172.3** | **161.5** | **333.8** |
| Effect of change in accounting policy [IFRS 15] | - | (1.0) | (1.0) |
| **Balance at 1 January 2018 - As restated*** | **172.3** | **160.5** | **332.8** |
| Profit for the year | - | 105.6 | 105.6 |
| **Other comprehensive income** | | | |
| Actuarial gain on defined benefit pension scheme | - | 5.5 | 5.5 |
| Tax on items taken directly to equity | - | (0.9) | (0.9) |
| **Total comprehensive income** | - | 110.2 | **110.2** |
| Dividends | - | (147.0) | (147.0) |
| **At 31 December 2018** | **172.3** | **123.7** | **296.0** |

* The comparative information has been restated as a result of the initial application of IFRS 15 as discussed in note 1.

The notes on pages 16 to 54 form an integral part of these financial statements.

# Angel Trains Limited

Registered Number 2912655

## BALANCE SHEET AT 31 DECEMBER 2018

| | Note | 31 December 2018 £'m | 31 December 2017 £'m |
|---|---|---|---|
| **Assets** | | | |
| ***Non-current assets*** | | | |
| Property, plant and equipment | 11 | 1,586.9 | 1,508.3 |
| Loans receivable | 13,15 | 45.6 | 42.8 |
| | | 1,632.5 | 1,551.1 |
| ***Current assets*** | | | |
| Inventories | 9 | 0.7 | 0.8 |
| Contract assets | 10 | 29.9 | - |
| Current tax assets | 19 | 1.9 | - |
| Trade and other receivables | 15 | 28.3 | 28.0 |
| Cash and cash equivalents | 15 | 12.3 | 10.4 |
| | | 73.1 | 39.2 |
| ***Current liabilities*** | | | |
| Trade and other payables | 18 | (67.0) | (58.1) |
| Current tax liabilities | 19 | - | (10.0) |
| Obligations under finance leases | 22 | (51.5) | (49.5) |
| Contract liabilities | 21 | (19.8) | - |
| Deferred profit | 24 | (5.8) | (5.8) |
| | | (144.1) | (123.4) |
| **Net current liabilities** | | (71.0) | (84.2) |
| **Total assets less current liabilities** | | 1,561.5 | 1,466.9 |
| ***Non-current liabilities*** | | | |
| Loans payable | 13,17 | 469.6 | 282.7 |
| Retirement benefit obligation | 28 | 12.0 | 16.5 |
| Trade and other payables | 18 | 5.5 | 5.1 |
| Deferred tax liabilities | 20 | 155.3 | 152.9 |
| Obligations under finance lease | 22 | 593.2 | 640.1 |
| Deferred profit | 24 | 29.9 | 35.8 |
| | | 1,265.5 | 1,133.1 |
| ***Equity attributable to owners of the parent*** | | | |
| Called up share capital | 16 | 172.3 | 172.3 |
| Retained earnings | | 123.7 | 161.5 |
| **Total equity** | | 296.0 | 333.8 |
| **Total equity and non-current liabilities** | | 1,561.5 | 1,466.9 |

The notes on pages 16 to 54 form an integral part of these financial statements.

The financial statements on pages 11 to 54 were approved by the Board of Directors on 27 March 2019 and signed on its behalf.

A. Lowe
**Director**

# Angel Trains Limited

Registered Number 2912655

## STATEMENT OF CASH FLOWS

## FOR THE YEAR ENDED 31 DECEMBER 2018

| | Year ended 31 December 2018 | Year ended 31 December 2017 |
|---|---|---|
| | £'m | £'m |
| **Cash flows from operating activities:** | | |
| Cash receipts from customers | 417.6 | 389.2 |
| Cash paid to suppliers and employees | (104.5) | (121.7) |
| Cash generated from operations | 313.1 | 267.5 |
| Income taxes paid | (33.7) | (56.8) |
| Interest paid | (55.9) | (59.4) |
| **Net cash generated from operating activities** | **223.5** | **151.3** |
| **Cash flows from investing activities:** | | |
| Interest received | 0.1 | - |
| Purchase of property, plant and equipment | (438.9) | (185.3) |
| Proceeds from disposal of partnership interest | 248.6 | - |
| **Net cash used in investing activities** | **(190.2)** | **(185.3)** |
| **Cash flows from financing activities:** | | |
| Payments of dividends | (147.0) | (65.3) |
| Repayment of obligations under finance lease | (44.6) | (43.5) |
| Repayment of loans | (222.2) | (131.1) |
| Receipt of new loans | 382.4 | 267.0 |
| Issue of new loans to group Companies | - | (143.9) |
| Repayment of loans by group Companies | - | 152.9 |
| **Net cash (used in)/generated from financing activities** | **(31.4)** | **36.1** |
| **Net cash movement in cash and cash equivalents** | 1.9 | 2.1 |
| Cash and cash equivalents at the beginning of the year | 10.4 | 8.3 |
| **Cash and cash equivalents at the end of the year** | | |
| Bank balances and cash | **12.3** | **10.4** |

The notes on pages 16 to 54 form an integral part of these financial statements.

## NOTES TO FINANCIAL STATEMENTS - FOR THE YEAR ENDED 31 DECEMBER 2018

### 1. Significant Accounting Policies

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

**General**
Angel Trains Limited is a private company, limited by shares and is incorporated and domiciled in England and Wales. The address of the registered office is on page 1. The nature of the Company's operations and its principal activities are set out in the Strategic Report and Directors' Report.

**Basis of preparation**
These financial statements have been prepared in accordance with European Union ("EU") endorsed International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee interpretations and the Companies Act 2006 applicable to companies reporting under IFRS.

The financial statements are prepared under the historical cost convention and on the going concern basis. The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed below. These policies have been consistently applied to all the years presented, unless otherwise stated.

In accordance with IFRS 13, fair value measurements and/or disclosures in these financial statements are categorised according to the inputs used in valuation techniques into three levels within a fair value hierarchy. The different levels have been defined as follows:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 - Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 - Inputs for the asset or liability that are not based on observable market data (that is unobservable inputs).

**Critical accounting judgements and key sources of estimation uncertainty**

In the application of the Company's accounting policies, which are described 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 estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

***Critical judgements in applying accounting policies***

The following are the critical judgements, apart from those involving estimates (see below) 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.

***Revenue recognition***
Revenue for non-capital income (i.e. predominantly maintenance lease rentals 'contracts'), the Company's primary obligation is to maintain customers rolling stock in an operational condition. The Company achieves this by undertaking various maintenance activities over the period of the contract. To determine the correct revenue recognition, the Company determines whether multiple contracts should be combined and accounted for as one single contract and a single performance obligation or, a single contract (including combined contracts accounted for a single contract) should be accounted for as more than one performance obligation.

**1. Significant Accounting Policies (continued)**

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

***Keys sources of estimation uncertainty***

***Useful lives of property, plant & equipment***
As described in the Property, plant and equipment accounting policy note below, the Company periodically reviews the useful economical lives. In recent years, the directors determined that the useful economical lives of certain rolling stock should be shortened or extended, due to either commercial or technical changes.

For the current year the directors have considered the current estimate of useful economic lives are supportable and reasonable and therefore no material changes have been made during the year. Because of the long term nature of rolling stock there is inherent uncertainty, however directors continue to review periodically.

***Forecasts and discount rates***
As described in the impairment of tangible assets policy below the Company reviews the carrying amounts of its tangible assets and in particular Property, plant and equipment. The assessment as to whether there are any indications of impairment of Property, plant and equipment, in particular rolling stock are dependent on the estimated future cash flows and the discount rate used to calculate a present value. Because of the long-term nature of rolling stock there is inherent uncertainty, however the Group performs a robust quarterly forecast, which is reviewed by directors.

***Maintenance lease rentals***
The Company has long term maintenance lease rentals contracts that fall into different financial years and can extend into multiple financial years. The estimated revenues are inherently difficult to predict and estimates are required to assess the whole life maintenance pattern of rolling stock. A significant change in one or more of these estimates may result in increases or decreases in operating profit.

**Adoption of the new and revised Standards**

**New and amended IFRS standards that are effective for the current year**

***Impact of application of IFRS 15 Revenue from Contracts with Customers***

In the current year, the Company has applied IFRS 15 Revenue from Contracts with Customers (as amended in April 2016) which became effective from 1 January 2018. IFRS 15 introduced a 5-step approach to revenue recognition. Given the nature of the Company's non-capital income (i.e. predominantly maintenance related income), the adoption of IFRS 15 has impacted the timing of recognition of revenue on non-capital income.

**Timing of revenue recognition**

Under the previous standard the margin was consistent with maintenance lease rental by matching costs with income. To the extent that maintenance income exceeded the related annual costs and expected margin, then it was deferred to match costs in future years. To the extent that maintenance income was less than related annual costs, income was accelerated to match these costs and its margin. Under the new standard the revenue recognition policy is detailed in the Maintenance lease policy below, but generally, revenue and associated margin is recognised over time, based on the extent of progress towards completion of the performance obligation identified from a contract. The impact is therefore higher or lower revenue recognised in a reporting period. When estimates of costs exceed the estimates of revenue to be earned on a performance obligation, a provision for the entire loss is recognised in the period.

**1. Significant Accounting Policies (continued)**

**Adoption of the new and revised Standards (continued)**

**New and amended IFRS standards that are effective for the current year (continued)**

**Reclassifications**

There was also an impact to certain balances representing other receivables or deferred income, previously included within trade and other receivables or trade and other payables. They have been reclassified to contract assets and contract liabilities as appropriate.

**Transition approach and practical expedients**

The Company has applied IFRS 15 in accordance with the modified retrospective approach, whereby the cumulative effect of initially applying the revenue standard is adjusted to the opening balance of accumulated losses as at 1 January 2018. Comparative prior period will not be adjusted. In accordance with IFRS 15:C7 the adjustment is only applied to contracts that are not completed as at 1 January 2018. The Company has also applied the practical expedients for modified contracts in IFRS 15:C5(c) and the expedient in IFRS 15:C5(d) allowing both non-disclosure of the amount of the transaction price allocated to the remaining performance obligations, and an explanation of when it expects to recognise that amount as revenue for all reporting periods presented before 1 January 2018.

The cumulative effect of the changes made to the Balance Sheet as at 1 January 2018 was:

**Balance Sheet**

| | As at 31 December 2017 | Adjustments due to IFRS15 | As at 1 January 2018 |
|---|---|---|---|
| | £'m | £'m | £'m |
| **Current assets** | | | |
| Trade and other receivables | 28.0 | (2.2) | 25.8 |
| Contract assets | - | 27.8 | 27.8 |
| **Current liabilities** | | | |
| Contract liabilities | - | (21.9) | (21.9) |
| Provisions | - | (4.7) | (4.7) |
| **Equity attributable to owners of the parent** | | | |
| Retained earnings | 161.5 | (1.0) | 160.5 |

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

### 1. Significant Accounting Policies (continued)

**Adoption of the new and revised Standards (continued)**

The impact of adoption on the Income Statement and Balance Sheet was as follows:

**Income Statement**

| | Year ended 31 December 2018 £'m |
|---|---|
| **Revenue** | |
| Increase due to timing of recognition for maintenance cost | 7.6 |
| income tax expense increase | (1.4) |
| Increase in profit attributable to owners of the parent | 6.2 |

**Balance Sheet**

| | As at 31 December 2018 £'m | Balances without adoption IFRS15 £'m | Effect of change higher/(lower) £'m |
|---|---|---|---|
| **Current assets** | | | |
| Trade and other receivables | 28.3 | 31.8 | (3.5) |
| Contract assets | 29.9 | - | 29.9 |
| Current tax assets | 1.9 | 3.3 | (1.4) |
| **Current liabilities** | | | |
| Contract liabilities | (19.8) | - | (19.8) |
| **Equity attributable to owners of the parent** | | | |
| Retained earnings | 123.7 | 117.5 | 6.2 |

**Impact of initial application of IFRS9 Financial Instruments**

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of IFRS 9 Financial Instruments (as revised in July 2014) from 1 January 2018 resulted in changes in accounting policies and resulted in reclassification of financial assets and liabilities, but this has had no material impact to the Company. There was no material impact from the adoption of the impairment requirements of IFRS 9 given the nature of the Company operations which result in limited credit risk exposure to customers.

At the date of authorisation of these financial statements, the following amended standards were effective for accounting periods beginning on 1 January 2018 but did not have a material impact on the Company's financial statements:

IFRS 2 (amendment) - 'Share-based payment'
IFRS 4 (amendment) - 'Insurance contracts'

**1. Significant Accounting Policies (continued)**

**Adoption of the new and revised Standards (continued)**
IFRS 9 (amendment - 2014) - 'Financial Instruments: recognition and measurement'
IAS 40 (amendment) - 'Investment property'
IFRIC 22 - 'Foreign currency transactions and advanced consideration'

The following standards, amendments and interpretations to existing standards have been issued but are effective for accounting periods beginning after 1 January 2018, and the Company has not early adopted them:

IFRS 9 (amendment - 2017) - 'Financial Instruments: recognition and measurement'
IFRS 16 - 'Leases'
IFRS 17 - 'Insurance contracts'

IFRS 16 – 'Leases' (effective for the year beginning 1 January 2019) introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede current lease guidance including IAS 17 Leases and the related interpretations when it becomes effective. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to classify a lease either as an operating lease or finance lease. For lessee accounting the distinctions of operating leases and finance leases are removed and replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases, except for short-term leases and leases of low value assets.

The Company plans to adopt IFRS 16 in 2019 using the 'simplified' approach. The comparative 2018 results included in the 2019 financial statements will not be restated, with an immaterial cumulative adjustment to equity 'Retained earnings' as at 1 January 2019 and an estimated increase to assets of £4.4m, an increase to liabilities £4.9m and a decrease in trade and other payables £0.5m. It is possible that there may be some changes to the impact above, while implementation and refinement of procedures are carried out during 2019. Additional disclosures will also be required in the 2019 financial statements.

**Revenue recognition**
Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, rebates and sales-related taxes. The Company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Company's activities as described below.

**Maintenance lease rentals**
For most maintenance lease rentals, the customer contracts the Company to provide various maintenance activities over the period of the contract. These activities are a complex service integrating a set of tasks that could be over multiple rolling stock vehicles. The entire contract or combination of contracts is considered as one performance obligation unless more than one performance obligation exists. Because of control transferring over time, revenue is recognised based on the extent of progress towards completion of the performance obligation. The Company also considers the potential risk where estimates may affect more than one customer contract. For each performance obligation to be recognised over time, the Company recognises revenue using an input method, based on costs incurred during the period. Revenue and the associated margin are calculated by the reliable estimates of transaction price, total expected costs and a reasonable allowance for potential risks.

**Finance income**
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.

**Dividend income**
Dividend income is recognised when the right to receive payment is established.

**1. Significant Accounting Policies (continued)**

**The Company as lessor**
Payments received under operating leases (net of any incentives) are credited to the income statement on a straight-line basis over the period of the lease. Rent-free periods and payments made in advance are accounted for in a way such that the revenue income is consistent each year over the term of the 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.

**The Company as lessee**

Rentals payable under operating leases (net of any incentives) are charged to the income statement on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

The Company as lessee of property, plant and equipment where the Company has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate of return on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in obligation under finance leases.

The interest element of the finance costs is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

**Foreign currencies**
The financial statements of the Company are presented in Sterling, which is the currency of the primary economic environment in which the Company operates (its functional currency). In preparing the financial statements, transactions in currencies other than the Company's functional currency (foreign currencies) are recorded using the exchange rates prevailing at the date of the transaction. At each balance sheet date, monetary assets and liabilities denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date.

Exchange differences arising on the settlement of monetary asset and liabilities, and on the retranslation of monetary assets and liabilities, are included in the income statement within 'other gains/(losses)'. In order to hedge its exposure to certain foreign exchange risks, the Company enters into forward contracts (see below for details of the Company's accounting policies in respect of such derivative financial instruments).

**Borrowing costs**
Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use of leasing or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use of leasing or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. The interest rate is capitalised at the average swap rate plus the weighted average margin of the Group's external debt. All other borrowing costs are recognised in the income statement in the period in which they are incurred.

## 1. Significant Accounting Policies (continued)

### Retirement benefit costs

Benefits for the Company's employees are provided by an Angel Trains Shared Cost Section (the 'Main Scheme'), a defined benefit scheme which is part of the Railways Pension Scheme, but its assets and liabilities are identified separately, and defined contribution retirement benefit plans.

*Main Scheme*

For defined benefit schemes, the cost of providing benefits is determined using the projected unit credit method, with approximate actuarial valuations being carried out at each balance date. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. Past service costs are recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost, and as reduced by the fair value of scheme assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which benefits will be paid, and that have terms of maturity approximating to the terms of the related pension liability.

Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the scheme.

*Defined contribution*

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

### Current and deferred tax

Tax expense represents the sum of current tax and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is recognised in other comprehensive income or directly in equity, respectively.

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

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

**1. Significant Accounting Policies (continued)**

**Current and deferred tax (continued)**
Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

**Property, plant and equipment**
Property, plant and equipment are shown at cost less any accumulated depreciation and subsequent accumulated impairment losses. On 12 June 2008, the Company entered into a sale and leaseback transaction with a fellow group company, The Great Rolling Stock Company Ltd. The Company sold the rolling stock vehicles at market value and entered into a finance lease. Market value was determined as the present value of future lease payments. Deferred profit, being the difference between the carrying value and market value is recognised in the Income Statement over the finance lease term on a straight-line basis. Depreciation for these assets is charged to cost of sales. On the subsequent sale or retirement of revalued rolling stock, the attributable revaluation surplus remaining in the revaluation reserve is transferred directly to accumulated profits.

Depreciation is charged so as to write off the cost of these assets over their estimated useful lives, using the straight-line method.

The following rates are used for the depreciation of property, plant and equipment:

| | Years |
|---|---|
| Rolling stock | 25 - 40 |
| | |
| Other | |
| Office fixtures and fittings | 5 - 10 |
| Computer equipment | 3 |
| IT system upgrade | 10 |

Rolling stock in the course of construction for rental purposes is carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Company's accounting policy. Depreciation of these assets, on the same basis as other rolling stock, commences when the assets are ready for their intended use. Intended use is usually identified as when the construction of rolling stock is complete.

Office fixtures and fittings, computer equipment and IT system upgrade are categorised as Other within Property Plant and Equipment in note 11.

The useful economical lives and residual values are reviewed on an annual basis. The residual value exposure is the net book value of leased assets at the end of the lease term. This exposure is monitored periodically with any corrections required being made through depreciation.

Gains and losses on disposals are determined by comparing the proceeds with carrying amount and are recognised as other income or losses in the income statement.

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

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

### 1. Significant Accounting Policies (continued)

**Impairment of tangible fixed assets (continued)**
Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset (cash-generating unit).

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

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior periods. A reversal of an impairment loss is recognised immediately in the income statement, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

**Inventories**
Inventories represent spares used in rolling stock maintenance and are stated at the lower of cost and net realisable value. Cost represents the purchase price of the spares. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

**Financial instruments**
Financial assets and financial liabilities are recognised on the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument.

**Financial assets**

On transition to IFRS 9, the Company reclassified the following items out of 'loans and receivables' to 'finance assets at amortised cost': loans receivable, trade and other receivables and cash and cash equivalents. The classification was determined on initial recognition. Investments in subsidiaries are measured at cost less any impairment. Impairment reviews are performed by the directors when there has been an indication of potential impairment.

*Financial assets at amortised cost (2017: Loans, trade and other receivables)*

Financial assets at amortised cost (2017: Loans, trade and other receivables) are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in the income statement when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

*Contract assets*
Contract assets are balances due from the customers that arise when performance obligations are performed in line with the contract. Any amount previously recognised as a contract asset is reclassified to trade receivables at the point at which it is invoiced to the customer.

**1. Significant Accounting Policies (continued)**

**Financial instruments (continued)**

*Impairment of financial assets*
The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the assets and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

*Cash and cash equivalents*
Cash and cash equivalents comprise cash in hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

**Financial liabilities**
Financial liabilities issued by the Company are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability. The accounting policies adopted for specific financial liabilities are set out below.

*Derivative financial instruments*

The Company's activities expose it to the financial risks of changes in foreign exchange rates. The Company uses derivative financial instruments to reduce exposure to foreign exchange risk. The Company does not hold or issue derivative financial instruments for speculative purposes.

Derivative financial instruments are initially measured at fair value on the contract date, and subsequently re-measured to fair value at subsequent reporting dates. Gains and losses arising from changes in the fair value of a derivative are recognised as they arise in the income statement.

The use of financial derivatives is governed by the Group's policies approved by the Board of Directors, which provide written principles on the use of financial derivatives consistent with the Group's risk management strategy.

*Loan payables*
Interest-bearing loans are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings using the effective interest rate method.

*Trade and other payables*
Trade and other payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

*Contract liabilities*
Contracts liabilities relating to maintenance lease rentals are balances due to customers. These arise if a maintenance lease rental exceeds the revenue recognised to date.

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

### 1. Significant Accounting Policies (continued)

**Investment in subsidiaries**
Investments in subsidiary undertakings are recorded at cost plus incidental expenses less any provision for impairment. Impairment reviews are performed by the directors when there is indication of potential impairment.

**Provisions**
Provisions are recognised when the Company has a present obligation as a result of a past event, and it is probable that the Company will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

**Share capital**
Ordinary shares are classified as equity and have rights to receive all dividends and other distributions, made or paid on the ordinary share capital of the Company.

**Consolidation exemption**
The Company is exempt from the requirement to prepare consolidated financial statements, under Section 401 of Companies Act 2006 as the Company is a wholly-owned subsidiary of Willow Topco Limited (a Jersey incorporated entity) and the Company's results are consolidated within the financial statements of the parent entity. The Willow Topco Limited consolidated financial statements are available from the registered office, 27 Hill Street, St Helier, Jersey, JE2 4UA. The Company's financial statements therefore present information about the Company as an individual entity and not about the Group.

### 2. Revenue

| | Year ended 31 December 2018 | Year ended 31 December 2017 |
|---|---|---|
| | £'m | £'m |
| Operating lease rentals | 303.5 | 276.5 |
| Maintenance lease rentals | 114.6 | 110.1 |
| Management fees | 1.4 | 1.0 |
| Other revenue | 1.6 | 4.4 |
| | 421.1 | 392.0 |

All revenue relates to United Kingdom operations.

### 3. Other income

| | Year ended 31 December 2018 | Year ended 31 December 2017 |
|---|---|---|
| | £'m | £'m |
| Dividend income from group undertakings | 2.1 | - |
| Release of deferred profit on sale and leaseback | 5.8 | 6.3 |
| | 7.9 | 6.3 |

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

### 4. Finance income

| | Year ended 31 December 2018 | Year ended 31 December 2017 |
|---|---|---|
| | £'m | £'m |
| Interest receivable from group undertakings | 2.8 | 5.3 |
| Other interest receivable | 0.1 | - |
| | 2.9 | 5.3 |

The interest receivable from group undertakings represents interest received from Angel Trains Group Limited.

### 5. Expenses by nature

| | Year ended 31 December 2018 | Year ended 31 December 2017 |
|---|---|---|
| | £'m | £'m |
| Changes in inventories | 0.1 | 0.1 |
| Employees' emoluments | 18.3 | 18.2 |
| Depreciation and impairment | 116.7 | 107.5 |
| Advertising costs | 0.1 | 0.1 |
| Operating lease payments | 0.9 | 0.9 |
| Other expenses | 87.5 | 99.3 |
| Total cost of sales and administrative expenses | 223.6 | 226.1 |

Auditors' remuneration for audit services provided to the Company during the year was £250,800 of which £18,000 related to work for the year ended 31 December 2017 (2017: £248,966 of which £35,700 related to work for the 15 months ending 31 December 2016). There were no fees charged by the auditors for other non-audit services during the year (2017: £45,000 for professional services).

### 6. Finance cost

| | Year ended 31 December 2018 | Year ended 31 December 2017 |
|---|---|---|
| | £'m | £'m |
| Interest payable to group undertakings | 28.8 | 13.7 |
| Interest on obligations under finance leases to group undertakings | 55.5 | 59.2 |
| Interest capitalised | (5.0) | (8.7) |
| | 79.3 | 64.2 |

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

### 7. Income tax expense

The charge for taxation based on the profit for the year is based on United Kingdom corporation tax at 19.00% (2017: 19.25%) and comprises:

| | Year ended 31 December 2018 | Year ended 31 December 2017 |
|---|---|---|
| | £'m | £'m |
| **Current tax:** | | |
| Current tax charge on profits for the year | 25.9 | 29.1 |
| Adjustments in respect of prior years | (4.1) | (0.1) |
| **Total current tax charge** | **21.8** | **29.0** |
| **Deferred tax** | | |
| Origination and reversal of temporary differences | (1.8) | (7.2) |
| Adjustments in respect of prior years | 3.8 | (0.4) |
| Effect of tax rate change | (0.5) | 0.3 |
| **Total deferred tax** | **1.5** | **(7.3)** |
| **Total tax charge** | **23.3** | **21.7** |

The tax on the Company's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the Company as follows:

| | Year ended 31 December 2018 | Year ended 31 December 2017 |
|---|---|---|
| | £'m | £'m |
| Profit before taxation | 128.9 | 113.3 |
| Expected tax charge at 19.00% (2017: 19.25%) | 24.5 | 21.8 |
| Expenses not deductible for tax purposes | - | 0.1 |
| Effect of change in tax rate | (0.5) | 0.3 |
| Non taxable income | (0.4) | - |
| Adjustments in respect of prior years | (0.3) | (0.5) |
| **Tax charge for the year** | **23.3** | **21.7** |

The standard rate of Corporation tax in the UK changed from 20.00% to 19.00% with effect from 1 April 2017. Accordingly, the Company's profits for this accounting year are taxed at the main corporation tax rate of 19.00% ( 2017: 19.25% effective rate).

In the Finance Act 2016 which received Royal Assent on 15 September 2016, the main rate of corporation tax was reduced to 17.00% from 1 April 2020. The effect of the future change in tax rate has been reflected in the credit to the income statement for the year.

**8. Employees' emoluments**

The average monthly number of persons employed by the Company (including directors) during the year, analysed by category, was as follows:

| | Year ended 31 December 2018 | Year ended 31 December 2017 |
|---|---|---|
| **Department** | **Number** | **Number** |
| Executive and support functions | 41 | 40 |
| Customer-facing staff | 30 | 31 |
| Engineering and technical | 51 | 51 |
| | 122 | 122 |

Employee costs during the year amounted to:

| | Year ended 31 December 2018 | Year ended 31 December 2017 |
|---|---|---|
| | £'m | £'m |
| Wages and salaries | 14.0 | 13.3 |
| Social security costs | 1.8 | 1.7 |
| Other pension costs | 2.5 | 3.2 |
| | 18.3 | 18.2 |

**9. Inventories**

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| | £'m | £'m |
| Spares for rolling stock | 0.7 | 0.8 |

During the year, £0.1m (2017: £0.1m) of inventories were recognised as cost of sales.

**10.Contract Assets**

| | 31 December 2018 | 1 January 2018 (adjusted) |
|---|---|---|
| | £'m | £'m |
| **Amounts falling due within one year** | | |
| Maintenance services | 29.9 | 27.8 |

Amounts relating to contract assets are balances due from customers under maintenance contracts that arise when the Company completes performance related obligations. Any amount previously recognised as a contract asset is reclassified to trade receivables at the point at which it is invoiced to the customer.

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

### 11. Property, plant and equipment

| | Rolling Stock | Other | Total |
|---|---|---|---|
| | £'m | £'m | £'m |
| **Cost** | | | |
| At 1 January 2017 | 2,280.7 | 10.6 | 2,291.3 |
| Additions | 193.5 | 0.4 | 193.9 |
| Disposals | (0.2) | - | (0.2) |
| At 31 December 2017 | 2,474.0 | 11.0 | 2,485.0 |
| Additions | 442.6 | 1.3 | 443.9 |
| Disposals | (248.7) | - | (248.7) |
| **At 31 December 2018** | **2,667.9** | **12.3** | **2,680.2** |
| **Accumulated depreciation** | | | |
| At 1 January 2017 | 864.3 | 5.1 | 869.4 |
| Charge for the year | 87.5 | 0.6 | 88.1 |
| Impairment | 19.4 | - | 19.4 |
| Reversal of impairment losses | (0.2) | - | (0.2) |
| At 31 December 2017 | 971.0 | 5.7 | 976.7 |
| Charge for the year | 103.1 | 1.3 | 104.4 |
| Impairment | 12.8 | - | 12.8 |
| Reversal of impairment losses | (0.5) | - | (0.5) |
| Disposals | (0.1) | - | (0.1) |
| **At 31 December 2018** | **1,086.3** | **7.0** | **1,093.3** |
| **Net book value** | | | |
| **At 31 December 2018** | **1,581.6** | **5.3** | **1,586.9** |
| At 31 December 2017 | 1,503.0 | 5.3 | 1,508.3 |

Included in impairment losses is an amount of £10.0m (2017: £13.0m) in relation to one fleet, based on management's forecast value in use ("VIU") of the fleet versus its carrying value.

In determining the VIU management discounted its forecast cash flows using a discount rate based on what it considers to be a market pre-tax weighted average cost of capital ("WACC").

The cash flow projections considered current contracted rent, extension rent i.e. where an option exists to extend the lease and estimates of future re-lease rents. Forecast future rent was estimated taking into account current market conditions and past experience.

Whilst management considers the future cash flows to be highly subjective due to the longevity of the forecast period, it considers the VIU of assets to be most sensitive to changes in the discount rate assumption.

If the discount rate had been 0.5% higher/lower and all other variables remained constant the impairment would have increased by £11.5m / decreased such that an impairment would not have been considered necessary and provided headroom of £0.4m.

The Company entered into a sale and leaseback transaction in 2008 with a fellow group company, The Great Rolling Stock Company Ltd. The Company sold the rolling stock vehicles at market value and entered into a finance lease arrangement with The Great Rolling Stock Company Ltd. For details on the obligations under finance leases, refer to note 22.

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

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

Cumulative finance costs capitalised during the year and included in the cost of property, plant and equipment amounts to £5.0m (2017: £8.7m).

Included in rolling stock are assets under the course of construction of £262.6m (2017: £230.3m). No depreciation has been charged on these assets.

All rolling stock is acquired and held for use in operating leases. Other assets include office fixtures and fittings and computer equipment.

Rolling stock includes the following amounts where the Company is a lessee under a finance lease:

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| | £'m | £'m |
| **Net book value - capitalised finance leases** | | |
| Cost - capitalised finance leases | 1,980.0 | 1,898.9 |
| Accumulated depreciation | (1,007.1) | (913.1) |
| | 972.9 | 985.8 |

The Company leases rolling stock under non-cancellable finance lease agreements. The lease terms are up to 28 years with 18 years remaining (2017: 19 years), and the ownership of the assets lies within the Group.

### 12. Residual value exposures

The residual value exposure is the net book value of assets leased out by the Company under operating lease at the end of each expected lease term. Residual value exposure is monitored by lease on a periodic basis with any corrections being made through depreciation.

| | Rail Assets 2018 | Rail Assets 2017 |
|---|---|---|
| | £'m | £'m |
| **Expected net book value at lease expiry date** | | |
| Within one year | 329.2 | 134.1 |
| Between one and two years | 71.1 | 261.2 |
| Between two and four years | 57.5 | 57.0 |
| More than four years | 506.3 | 484.9 |
| Total | 964.1 | 937.2 |

## 13. Finance assets and liabilities by category

**31 December 2018**

| | Note | Financial assets at amortised cost |
|---|---|---|
| | | £'m |
| **Assets as per balance sheet** | | |
| Loans receivable | 15 | 45.6 |
| Contract assets | | 29.9 |
| Trade and other receivables (excluding prepayments) | 15 | 28.3 |
| Cash and cash equivalents | 15 | 12.3 |
| **Total** | | **116.1** |

| | Note | Liabilities at amortised cost |
|---|---|---|
| | | £'m |
| **Liabilities as per balance sheet** | | |
| Loans payable | 17 | 469.6 |
| Obligations under finance leases | 22 | 644.7 |
| Trade and other payables (excluding deferred income, other taxation and social security) | 18 | 66.4 |
| **Total** | | **1,180.7** |

**31 December 2017**

| | Note | Financial assets at amortised cost |
|---|---|---|
| | | £'m |
| **Assets as per balance sheet** | | |
| Loans receivable | 15 | 42.8 |
| Contract assets | | - |
| Trade and other receivables (excluding prepayments) | 15 | 28.0 |
| Cash and cash equivalents | 15 | 10.4 |
| **Total** | | **81.2** |

| | Note | Liabilities at amortised cost |
|---|---|---|
| | | £'m |
| **Liabilities as per balance sheet** | | |
| Loans payable | 17 | 282.7 |
| Obligations under finance leases | 22 | 689.6 |
| Trade and other payables (excluding deferred income and other taxation and social security) | 18 | 55.5 |
| **Total** | | **1,027.8** |

Note: Financial assets categorised as 'Financial assets at amortised cost' were previously classified as 'Loans and receivables' in 2017. Financial Liabilities categorised as 'Liabilities at amortised cost' were previously classified as 'Other financial liabilities at amortised cost'.'

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

### 14. Investments

Details of the Company's investment in entities at 31 December 2018 are as follows:

| Entity | Year end | Principal activities | Place of business | Holding of investment | Percentage of interest % |
|---|---|---|---|---|---|
| Angel Locomotive Leasing Limited | 31 December | Dormant* | England and Wales | Direct holding of 1 ordinary share of £1 | 100% |

* Became dormant during the year.

### 15. Financial assets at amortised cost

**Loans receivable**

| | 31 December 2018 £'m | 31 December 2017 £'m |
|---|---|---|
| **Amounts falling due after more than one year** | | |
| Amounts owed by immediate parent company | 45.6 | 42.8 |

As at 31 December 2018, the Company had loans issued to Angel Trains Group Limited of £45.6m (2017: £42.8m). This loan is unsecured, bears interest at the weighted average cost of the Group's senior debt plus a margin and has no fixed maturity date.

The directors consider that the carrying amount of the Company's loans receivable approximates to their fair value.

The directors have given confirmation that the above loans will not be called for repayment within the next 12 months.

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

### 15. Financial assets at amortised cost (continued)

**Trade and other receivables**

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| | £'m | £'m |
| **Amounts falling due within one year** | | |
| Trade receivables | 0.2 | 1.6 |
| Prepayments and accrued income | 28.1 | 26.4 |
| | 28.3 | 28.0 |

The directors consider that the carrying amount of trade and other receivables approximates to their fair value.

**Cash and cash equivalents**
Cash and cash equivalents comprise of cash held by the Company and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates to their fair value.

### 16. Called up share capital

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| | £ | £ |
| **Authorised:** | | |
| 200,000,000 (2017: 200,000,000) Ordinary shares of £1 each | 200,000,000 | 200,000,000 |
| **Issued, called up and fully paid:** | | |
| 172,342,966 (2017: 172,342,966) Ordinary shares of £1 each | 172,342,966 | 172,342,966 |

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

### 17. Loans payable

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| | £'m | £'m |
| **Amounts falling due after one year** | | |
| Loans from group undertakings | 469.6 | 282.7 |

All the Company's carrying amounts are denominated in Sterling.

**17. Loans payable (continued)**

The effective interest rates paid were as follows:

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Loans from group undertakings | 7.40% | 7.64% |

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

The amounts are unsecured and bear interest at the weighted average cost of the Group's senior debt plus a margin and have no fixed maturity date. The directors have received confirmation from the lender that they will not be calling any loans for repayment within the next 12 months.

**18. Trade and other payables**

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| | £'m | £'m |
| **Due within one year:** | | |
| Trade payables | 4.1 | 10.3 |
| Other taxation and social security | 0.9 | 0.8 |
| Other payables | 3.8 | 3.1 |
| Accruals and deferred income | 58.2 | 43.9 |
| | 67.0 | 58.1 |
| **Due after one year:** | | |
| Other payables | 5.5 | 5.1 |
| | 72.5 | 63.2 |

Trade payables and accruals comprise amounts outstanding for trade purchases and ongoing costs.

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

**19. Current tax asset/(liabilities)**

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| | £'m | £'m |
| Amounts due from/(owed to) HM Revenue & Customs | 1.9 | (10.0) |

At 31 December 2018, the Company had current tax assets of £1.9m (2017: £10.0m current tax liabilities), which £1.9m (2017: £10.0m payable) is repayable from HM Revenue & Customs.

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

### 20. Deferred tax liabilities

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| | £'m | £'m |
| Deferred tax assets | 8.8 | 10.7 |
| Deferred tax liabilities | (164.1) | (163.6) |
| | (155.3) | (152.9) |

The following are the major deferred tax assets and liabilities recognised by the Company, and the movement thereon, during the current and prior reporting periods.

**Deferred tax assets**

| | Retirement benefit scheme | Deferred profit on sale and leaseback | Other | Total |
|---|---|---|---|---|
| | £'m | £'m | £'m | £'m |
| At 1 January 2017 | 4.4 | 8.2 | 0.6 | 13.2 |
| (Charge)/credit to the income statement for the year | 0.3 | (1.2) | 0.2 | (0.7) |
| Charge to equity for the year | (2.1) | - | - | (2.1) |
| Effect of change in tax rate to income statement | - | 0.1 | - | 0.1 |
| Effect of change in tax rate to equity | 0.2 | - | - | 0.2 |
| At 31 December 2017 | 2.8 | 7.1 | 0.8 | 10.7 |
| (Charge)/credit to the income statement for the year | 0.1 | (1.1) | (0.2) | (1.2) |
| Charge to equity for the year | (1.0) | - | - | (1.0) |
| Effect of change in tax rate to income statement | - | 0.1 | - | 0.1 |
| Effect of change in tax rate to equity | 0.1 | - | - | 0.1 |
| Adjustments to prior years | - | - | 0.1 | 0.1 |
| **At 31 December 2018** | **2.0** | **6.1** | **0.7** | **8.8** |

**20. Deferred tax liabilities (continued)**

**Deferred tax liabilities**

| | Accelerated capital allowances |
|---|---|
| | £'m |
| At 1 January 2017 | 171.5 |
| Credit to the income statement for the year | (7.9) |
| Adjustment relating to prior years | (0.4) |
| Effect of change in tax rate | 0.4 |
| At 31 December 2017 | 163.6 |
| Credit to the income statement for the year | (3.0) |
| Adjustment relating to prior years | 3.9 |
| Effect of change in tax rate | (0.4) |
| **At 31 December 2018** | **164.1** |

The opening deferred tax balances are reflected at a hybrid rate of 17.14%, to reflect the projected average rate that deferred tax was expected to unwind at the 31 December 2017 balance sheet date.

The opening hybrid rate reflected changes to the UK Corporation tax system announced in the July 2015 Summer Budget Statement. The Finance (No. 2) Act 2015, which received Royal Assent on 18 November 2015, included legislation reducing the main rate of corporation tax from 20.00% to 19.00% from 1 April 2017. In the Finance Act 2016 which received Royal Assent on 15 September 2016, the main rate of corporation tax was reduced further to 17.00% from 1 April 2020.

The effect of change in tax rate has been reflected in the charge to the income statement for the year, and closing deferred tax assets or liabilities are provided for at a hybrid rate of 17.11%. This is based on the projected average rate that deferred tax at the balance sheet date is expected to unwind. The actual rates at which deferred tax will unwind are 19.00% during 2019, 17.25% during 2020 and 17.00% thereafter.

**21.Contract liabilities**

| | 31 December 2018 | 1 January 2018 (adjusted £'m) |
|---|---|---|
| | £'m | £'m |
| **Amounts falling due within one year** | | |
| Maintenance services | 19.8 | 21.9 |

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

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

### 22. Obligation under finance leases

| | Minimum lease payments 31 December 2018 | Minimum lease payments 31 December 2017 | Present value of minimum lease payments 31 December 2018 | Present value of minimum lease payments 31 December 2017 |
|---|---|---|---|---|
| | £'m | £'m | £'m | £'m |
| Amounts payable under finance leases | | | | |
| Within one year | 98.9 | 100.5 | 51.5 | 49.5 |
| In the second to fifth years inclusive | 336.9 | 360.4 | 165.8 | 174.9 |
| After five years | 636.4 | 711.8 | 427.4 | 465.2 |
| | 1,072.2 | 1,172.7 | 644.7 | 689.6 |
| Less: future finance charges | (427.5) | (483.1) | | |
| Present value of minimum lease obligations | 644.7 | 689.6 | | |
| Less: amounts due for settlement within 12 months (shown under current liabilities) | | | (51.5) | (49.5) |
| Amounts due for settlement after 12 months | | | 593.2 | 640.1 |

The interest rate inherent in the leases is fixed at the contract date for all of the lease term. The average effective interest rate contracted approximates 8.4% per annum and was revised from 6.9% on the 1st January 2011. The term of the finance lease is approximately 28 years.

The fair value of the leases payable based on cash flows discounted using a weighted average cost of borrowings rate of 5.35% (2017: 5.50%) as at 31 December 2018 was £768.7m (2017: £820.6m).

### 23. Capital commitments

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| | £'m | £'m |
| Commitments for the acquisition of property, plant and equipment | 416.4 | 793.3 |

At 31 December 2018, the Company had capital commitments of £416.4m (2017: £793.3m), being the capital expenditure authorised and contracted for but not provided for in the financial statements. This commitment is for a number of capital modification projects to the existing fleets and for the purchase of new rolling stock currently in production and due to be delivered during 2019.

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

### 24. Deferred profit

**Deferred profit on sale and leaseback transaction**

| | £'m |
|---|---|
| At 1 January 2017 | 48.0 |
| Profit recognised during the year | (6.4) |
| At 31 December 2017 | 41.6 |
| Profit recognised during the year | (5.8) |
| At 31 December 2018 | 35.8 |

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| | £'m | £'m |
| **Deferred profit** | | |
| Non-current | 29.9 | 35.8 |
| Current | 5.8 | 5.8 |

### 25. Contingent liabilities

The Company is guarantor in respect of the following group undertakings:

The Great Rolling Stock Company Limited and Willow Bidco Limited:
£1,340,000,000 (of which £707,025,000 (2017: £690,000,000) remains outstanding) Senior term and revolving credit facilities agreements.

Willow Holdco 1 Limited:
£275,000,000 (of which £275,000,000 (2017: £175,000,000) has been drawn down) Junior facility agreements.

The Great Rolling Stock Company Limited
£4,000,000,000 (of which £1,153,600,000 (2017: £1,189,500,000) has been drawn down) Bond programme for the issuance of secured guaranteed notes.

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

### 26. Operating lease arrangements

**The Company as lessee**

| | Year ended 31 December 2018 £'m | Year ended 31 December 2017 £'m |
|---|---|---|
| Minimum lease payments under operating leases recognised as an expense in the year | 0.9 | 0.9 |

At the balance sheet date, the Company has outstanding commitments under non-cancellable operating leases, which fall due as follows:

| | 31 December 2018 £'m | 31 December 2017 £'m |
|---|---|---|
| **Buildings** | | |
| Within one year | 1.9 | 1.8 |
| In the second to fifth years inclusive | 4.7 | 5.7 |
| After five years | 0.6 | 1.1 |
| | 7.2 | 8.6 |

Operating lease payments represent rentals payable by the Company for its office properties. Leases have an average term of 9.3 years.

**The Company as lessor**

At the balance sheet date, the Company has contracted with train operating companies for the following future minimum lease payments:

| | 31 December 2018 £'m | 31 December 2017 £'m |
|---|---|---|
| Within one year | 364.4 | 383.7 |
| In the second to fifth years inclusive | 782.1 | 798.3 |
| After five years | 238.2 | 412.1 |
| | 1,384.7 | 1,594.1 |

**27. Risk management**

The major risks associated with the Company's business are market risk, credit risk and liquidity risk. The management of these risks are carried out at a group level by the ultimate parent company, Willow Topco Limited. The Group has established a comprehensive framework for managing these risks which are continually evolving as business activities change in response to market, credit, product and other developments.

**Market risk**

Market risk is defined as the risk of loss as a result of adverse changes in risk factors including interest rates and foreign exchange.

The Company's activities expose it primarily to the financial risks of changes in interest rates and foreign exchange rates. The significant interest rate risk arises from loans. The Company's loans are with other companies within the Group and are not hedged. The Company manages its foreign exchange risk partially by using forward foreign exchange contracts to hedge a portion of its foreign exchange exposure.

*Foreign currency risk management*

It is the policy of the Company to enter into forward foreign exchange contracts to cover specific foreign currency payments. The Company has undertaken contracts for the replacement of final drive components and door leaves on certain rolling stock vehicles, which are both denominated in Euro.

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

### 27. Risk management (continued)

**Market risk (continued)**

*Forward foreign exchange contracts*

The following table details the forward foreign currency contracts outstanding as at the end of year:

| | Average exchange rate | Foreign currency 31 December 2018 | Contract value 31 December 2018 | Fair value Assets 31 December 2018 |
|---|---|---|---|---|
| | £/€ | €'m | £'m | £'m |
| **31 December 2018** | | | | |
| **Buy Euro** | | | | |
| Within 1 year | - | - | - | - |
| | | - | - | - |

| | Average exchange rate | Foreign currency 31 December 2017 | Contract value 31 December 2017 | Fair value 31 December 2017 |
|---|---|---|---|---|
| | £/€ | €'m | £'m | £'m |
| **31 December 2017** | | | | |
| **Buy Euro** | | | | |
| Within 1 year | 1.2003 | 0.8 | 0.7 | - |
| | | 0.8 | 0.7 | - |

*Interest rate sensitivity analysis*

The other major sensitivity factor affecting the Company is movement in interest rates at the balance sheet date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at balance sheet date was outstanding since the beginning of the financial year.

A movement of +/- 1% in interest rates, when applied to statistical models and all other variables were held constant, will have the following impact on the profit in the financial statements.

| | Variability | 31 December 2018 | 31 December 2017 |
|---|---|---|---|
| | | £'m | £'m |
| Interest rates | +1% | (2.8) | (1.4) |
| Interest rates | -1% | 2.8 | 1.4 |

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

### 27. Risk management (continued)

**Liquidity risk**
Liquidity risk is the risk that the Company is unable to meet its obligations as they fall due.

Liquidity management within the Company focuses on both overall balance sheet structure and control, within prudent limits, of risk arising from the mismatch of maturities across the balance sheet and from the undrawn commitments and other contingent obligations. For details on loans payable refer to note 17.

For trade and other payables refer to note 18. The Company policy is to negotiate and agree terms and conditions with its suppliers. The table below analyses the Company's financial liabilities into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date. The amounts included in the table are the contractual undiscounted cash flows. As a result, these amounts will not reconcile to the amounts disclosed on the balance sheet.

The following tables detail the remaining maturity for financial liabilities.

| | Within one year | In the second to fifth years inclusive | Over five years | Total |
|---|---|---|---|---|
| **31 December 2018** | **£'m** | **£'m** | **£'m** | **£'m** |
| Trade and other payables (excluding deferred income and other taxation and social security) | 60.8 | 5.5 | - | 66.3 |
| Loans from group undertakings | - | 469.6 | - | 469.6 |
| Interest payable | 34.5 | - | - | 34.5 |
| Obligations under finance leases | 98.9 | 336.9 | 636.4 | 1,072.2 |
| | 194.2 | 812.0 | 636.4 | 1,642.6 |

| | Within one year | In the second to fifth years inclusive | Over five years | Total |
|---|---|---|---|---|
| **31 December 2017** | **£'m** | **£'m** | **£'m** | **£'m** |
| Trade and other payables (excluding deferred income and other taxation and social security) | 50.5 | 5.0 | - | 55.5 |
| Loans from group undertaking | - | 282.7 | - | 282.7 |
| Interest payable | 21.2 | - | - | 21.2 |
| Obligations under finance leases | 100.5 | 360.4 | 711.8 | 1,172.7 |
| | 172.2 | 648.1 | 711.8 | 1,532.1 |

**27. Risk management (continued)**

**Capital risk management**
The Company manages its capital to ensure that the Company will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The capital structure of the Company consists of debt, which includes the borrowings disclosed in note 17, cash and cash equivalents and share capital disclosed in note 16 and retained earnings.

**Credit risk**
Credit risk is the risk arising from the possibility that the Company will incur losses from the failure of counterparties and customers to meet their obligations.

The Company's principal financial assets are cash and cash equivalents, contract assets, trade and other receivables and loans receivable, owed by other members of the group. The carrying amount of financial assets recorded in the financial statements represents the Company's maximum exposure to credit risk and is a guarantor as disclosed in Note 25. The Company does not hold collateral over these balances.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-ratings agencies.

The Company's credit risk is primarily attributable to its trade, operating lease receivables and contract assets, although this is also considered limited as lease rentals are mainly payable in advance.

**Trade, other receivables and contract assets ageing analysis**

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| | £'m | £'m |
| Not due | 58.2 | 28.0 |
| Total | 58.2 | 28.0 |

The Company has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

**28. Retirement benefit scheme**

**Defined benefit plan**

The Company operates a defined benefit scheme of its own for qualifying employees in the UK, the Angel Trains Shared Cost Section ("Section") of the Railways Pension Scheme (the "Main Scheme"). The Section has separately identifiable assets and liabilities from the remainder of the Main Scheme.

Provision for the costs of these benefits is charged to the income statement over the average remaining future service lives of the eligible employees.

The most recent actuarial valuation of plan assets and the present value of the defined benefit obligation was carried out at 31 December 2018 by independent actuaries. The results of these calculations have been based on the results of the last formal valuation of the scheme as at 31 December 2016, allowing for adjustments, on an approximate basis, to allow for differences between the valuation and IAS 19 calculations. The contribution rate for the Company's scheme is split between the Company and the employee at 17.9% and 9.6% respectively (2017: 17.0% and 8.6%) of pensionable salaries.

**28. Retirement benefit scheme (continued)**

**Defined benefit plan (continued)**

The discounted mean term of the Section's Defined Benefit Obligation ("DBO") was 22 years based on the results of the valuation as at 31 December 2016.

The Company is exposed to a number of risks relating to the Section including assumptions not being borne out in practice. The most significant risks are as follows:

- Asset volatility: There is the risk that a fall in asset values is not matched by a corresponding reduction in the value placed on the Section's DBO. The Section holds a proportion of growth assets, which are expected to outperform corporate and government bond yields in the long-term but gives exposure to volatility and risk in the short-term.
- Change in bond yields: A decrease in corporate bond yields will increase the value placed on the Section's DBO, although this will be partially offset by an increase in the value of the Section's corporate bond holdings.
- Inflation risk: The majority of the Section's DBO is linked to inflation where higher inflation will lead to a higher value being placed on the DBO. Some of the Section's assets are either unaffected by inflation or loosely correlated with inflation (e.g. growth assets), meaning that an increase in inflation will generally increase the deficit.
- Life expectancy: An increase in life expectancy will lead to an increased value being placed on the Section DBO. Future mortality rates cannot be predicted with certainty.
- Contribution rate: The Scheme Rules give the Scheme Actuary the power to set the contribution rates for the Company if no agreement can be reached between the Trustee and the Company.

**Technical Provision shortfall**

The full actuarial valuation of the Section as at 31 December 2016 highlighted a Technical Provisions shortfall of £2.5m and a £2.7m shortfall under the Rules basis, after including certain reserve requirements. Whilst in previous years the Company has contributed 100% to bridge funding deficits it is not doing so on this occasion. The active members have been asked to contribute to the extent the shortfall relates to them on the usual 65% employer / 35% employee split i.e. the Company will contribute 65% of the shortfall that relates to the active members. As a result the deficit relating to the active members is £0.37m. The Company will fund 100% of the remaining shortfall relating to the pensioners and deferred members, giving a total funding requirement from the Company of £2.32m.

A consultation process to agree a recovery plan with the active members concluded in January 2018. The recovery plan, that has been agreed by the trustees, will be over a 6 year period, commencing 1 April 2019. The Company (as employer) will make six annual instalments from this date of £0.48m and the active members will contribute 1.83% of Section Pay over the same period.

In addition to the above, the Future Joint Service Contribution Rate increased to 19.1% employer and 10.3% employee (65%:35% split), from 1 July 2018.

**28. Retirement benefit scheme (continued)**

**Membership data**

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| **Active members** | | |
| Number | 55 | 63 |
| Annual payroll (£m) | 4.0 | 4.5 |
| Average age | 49.1 | 48.5 |
| **Deferred members** | | |
| Number | 120 | 124 |
| Total deferred pension (£m) | 0.6 | 0.6 |
| Average age | 51.2 | 51.1 |
| **Pension members (including dependants)** | | |
| Number | 57 | 50 |
| Annual pension payroll (£m) | 1.2 | 1.1 |
| Average age | 65.3 | 65.0 |

**Asset data**

The fair value of plan assets at the balance sheet date is analysed as follows:

| | Value at 31 December 2018 | Value at 31 December 2017 |
|---|---|---|
| | £'m | £'m |
| Growth assets | 45.4 | 45.6 |
| Government bonds | 9.5 | 11.9 |
| Non-government bonds | 4.5 | 2.1 |
| Other assets | 0.1 | 0.5 |
| **Total asset value** | **59.5** | **60.1** |

The plan assets do not include any of the Company's own financial instruments, nor any property occupied by, or other assets used by, the Company.

The expected rates of return on individual categories of plan assets are determined by reference to relevant indices published by the London Stock Exchange. The overall expected rate of return is calculated by weighting the individual rates in accordance with the anticipated balance in the plan's investment portfolio.

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

### 28. Retirement benefit scheme (continued)

**Summary of assumptions**

The significant actuarial assumptions were as follows:

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Discount rate | 3.0 % | 2.7 % |
| Price inflation (RPI measure) | 3.2 % | 3.2 % |
| Increase to deferred pensions (CPI measure) | 2.1 % | 2.1 % |
| Future pension increases | 2.1 % | 2.1 % |
| Expected rate of salary increase | 3.0% for one year then 2.0% for two years then 2.8% thereafter | 3.2% for the next year then 2.8% thereafter |

Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics and experience in the UK.

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

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Male currently age 65 | 22.8 | 22.8 |
| Male currently age 45 | 24.5 | 24.5 |
| Female currently age 65 | 23.8 | 23.8 |
| Female currently age 45 - other | 25.7 | 25.7 |

**28. Retirement benefit scheme (continued)**

**Defined benefit liability at end of year**

The amount recognised in the balance sheet in respect of the Company's defined benefit retirement benefit plan is as follows:

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| | £'m | £'m |
| **Defined benefit obligation at end of year** | | |
| Active members | (26.3) | (31.2) |
| Deferred members | (18.0) | (18.8) |
| Pensioner members | (28.9) | (26.6) |
| Total | (73.2) | (76.6) |
| Value of assets at end of year | 59.5 | 60.1 |
| Fund status at end of year | (13.7) | (16.5) |
| Adjustment for the members' share of deficit | 1.7 | - |
| **Net defined benefit liability at end of year** | **(12.0)** | **(16.5)** |

**Reconciliation of net defined benefit liability**

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| | £'m | £'m |
| Opening net defined benefit liability | (16.5) | (25.7) |
| Employer's share of pension expense | (2.0) | (2.7) |
| Employer contributions | 1.0 | 0.9 |
| Total gain recognised in Other comprehensive income | 5.5 | 11.0 |
| **Closing net defined benefit liability** | **(12.0)** | **(16.5)** |

**Pension expense**

| | Year ended 31 December 2018 | Year ended 31 December 2017 |
|---|---|---|
| | £'m | £'m |
| Employer's share of service cost | 1.4 | 2.0 |
| Employer's share of administration costs | 0.1 | 0.1 |
| Past service cost adjustment (for GMP equalisation) | 0.1 | - |
| Total employer's share of service cost | 1.6 | 2.1 |
| Employer's share of net interest on defined benefit liability | 0.4 | 0.6 |
| **Employer's share of pension expense** | **2.0** | **2.7** |

**28. Retirement benefit scheme (continued)**

**Other comprehensive income (OCI)**

| | Year ended 31 December 2018 £'m | Year ended 31 December 2017 £'m |
|---|---|---|
| Loss due to liability experience | 0.8 | 0.8 |
| Gain due to liability assumption changes | (5.1) | (8.5) |
| Return on plan assets, less/(greater) than discount rate | 1.1 | (3.3) |
| Impact of moving to shared cost approach from 1 January 2018 | (2.3) | - |
| **Total gain recognised in the OCI** | **(5.5)** | **(11.0)** |

**Reconciliation of defined benefit obligation (DBO)**

| | 31 December 2018 £'m | 31 December 2017 £'m |
|---|---|---|
| Opening defined benefit obligation | 76.6 | 81.6 |
| Service cost | 1.7 | 2.0 |
| Interest cost on DBO | 2.0 | 2.1 |
| Loss on DBO - experience | 0.5 | 0.8 |
| Gain on DBO - demographic assumptions | (0.4) | (2.5) |
| Gain on DBO - financial assumptions | (5.6) | (6.0) |
| Actual benefit payments | (1.7) | (1.4) |
| Past service cost | 0.1 | - |
| **Closing defined benefit obligation** | **73.2** | **76.6** |

**28. Retirement benefit scheme (continued)**

**Reconciliation of value of assets**

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| | £'m | £'m |
| Opening fair value of plan assets | 60.1 | 55.9 |
| Interest income on assets | 1.6 | 1.4 |
| Return on plan assets, (less)/greater than discount rate | (1.4) | 3.3 |
| Employer contributions | 1.0 | 1.0 |
| Actual benefit payments | (1.7) | (1.4) |
| Administration costs | (0.1) | (0.1) |
| **Closing fair value of plan assets** | **59.5** | **60.1** |

The Reconciliation of Defined Benefit Obligation (DBO) and Reconciliation of Value of Assets tables above show the movement in the assets and DBO of the Section as a whole. Some of the figures therefore differ from those in the remaining disclosures, which reflect the Company's share of the costs and DBO associated with the Section.

**DBO sensitivity analysis to significant actuarial assumptions**

| | Sensitivity | Year ended 31 December 2018 Approximate change in DBO | Year ended 31 December 2017 Approximate change in DBO |
|---|---|---|---|
| | | £'m | £'m |
| Discount rate | -1.0% p.a | (17.4) | (19.1) |
| Price inflation (CPI measure) | +0.5% p.a | (7.9) | (8.8) |
| Salary increases | +0.5% p.a | (1.2) | (1.7) |
| Life expectancy | +1 year | (2.1) | (2.2) |

The sensitivity figures as at 31 December 2018 are based on the DBO as noted in 'Reconciliation of defined benefit obligation' table above.

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

### 29. Dividends

| | Year ended 31 December 2018 | Year ended 31 December 2017 | Year ended 31 December 2018 | Year ended 31 December 2017 |
|---|---|---|---|---|
| | Pence per share | Pence per share | £'m | £'m |
| **Dividends** | 85.30 | 37.89 | 147.0 | 65.3 |

Dividends of £147.0m (2017: £65.3m) were paid by the Company during the year to 31 December 2018.

### 30. Parent companies

The Company's immediate parent company is Angel Trains Group Limited with registered office at 123 Victoria Street, London, SW1E 6DE.

The Company's ultimate holding company, ultimate controlling party, and the parent of the largest group into which the Company is consolidated is Willow Topco Limited which is incorporated and registered in Jersey. The registered office is 27 Hill Street, St Helier, JE2 4UA, Jersey.

Willow Bidco Limited is the parent undertaking of the smallest group of undertakings to consolidate these financial statements. The consolidated financial statements of Willow Bidco Limited can be obtained from 27 Hill Street, St Helier, JE2 4UA, Jersey.

### 31. Related party transactions

In addition to the subsidiary listed in note 14 and parent companies listed in note 30, the Company had related party relationships with the directors and the following members of the Group:

Angel Trains Holding Limited *
Angel Trains Rolling Stock Limited *
Willow Holdco 1 Limited *
Willow Holdco 2 Limited *
Angel Infrastructure Limited **
Willow Rolling Stock UK Limited ***
The Great Rolling Stock Company Limited **
Angel Leasing Company Limited **
Angel Trains Consulting Limited **
Angel Trains Capital Limited **

* The registered office is 27 Hill Street, St Helier, JE2 4UA, Jersey.
** The registered office is 123 Victoria Street, London, SW1E 6DE.
*** The registered office is c/o CMS Cameron McKenna LLP, Saltire Court, 20 Castle Terrace, Edinburgh, Scotland, EH1 2EN.

**31. Related party transactions (continued)**

**Trading transactions**

During the year, the Company had the following transactions with related parties:

**31 December 2018**

| | Income/ Interest received | Purchases/ Interest paid | Amounts owed by related parties | Amounts owed to related parties |
|---|---|---|---|---|
| | £'m | £'m | £'m | £'m |
| Parent | 3.1 | - | 45.6 | - |
| Fellow subsidiaries | 251.9 | 84.3 | 0.1 | 1,114.3 |
| **Total** | 255.0 | 84.3 | 45.7 | 1,114.3 |

*During the year, the Company exercised a call option and purchased the rolling stock at a fixed price of £248.6m and subsequently sold it to Angel Trains Rolling Stock Limited.

**31 December 2017**

| | Income/ Interest received | Purchases/ Interest paid | Amounts owed by related parties | Amounts owed to related parties |
|---|---|---|---|---|
| | £'m | £'m | £'m | £'m |
| Parent | 3.0 | - | 42.8 | - |
| Fellow subsidiaries | 3.5 | 72.9 | - | 972.3 |
| **Total** | 6.5 | 72.9 | 42.8 | 972.3 |

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. In addition to the above, intercompany balances in respect of group relief payable are disclosed in note 19.

**Directors emoluments**

| | Year ended 31 December 2018 | Year ended 31 December 2017 |
|---|---|---|
| | £'m | £'m |
| Aggregate emoluments | 1.6 | 1.7 |

Retirement benefits are accruing to 4 directors (2017: 3) under a defined benefit scheme. Retirement benefits are accruing to 1 director (2017: 1) under a money purchase pension scheme.

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (continued)

### 31. Related party transactions (continued)

**Highest paid director**

| | Year ended 31 December 2018 | Year ended 31 December 2017 |
|---|---|---|
| | £'m | £'m |
| Total emoluments and amounts (excluding shares) receivable under long-term incentive scheme | 0.4 | 0.6 |

For the year, the highest paid director had accrued an annual pension of £51,452 and a lump sum of £38,302 (2017: annual pension £40,753 and a lump sum £18,703).

### 32. Non-cash transactions

During the year, the Company entered into the following non-cash investing and financing activities which are not reflected in the Statement of Cash Flows.

- The Company received interest of £2.8m by way of increasing loans receivable by £2.8m.
- The Company incurred finance cost of £28.8m by way of increasing loans payable by £28.8m.
- The Company received dividends from a subsidiary of £2.1m by way of decreasing loans payable by £2.1m.

### 33. Reconciliation of liabilities arising from financing activities

| | 1 January 2018 | Financing cash flows | Other changes | 31 December 2018 |
|---|---|---|---|---|
| | £'m | £'m | £'m | £'m |
| Loans from related parties | 282.7 | 160.2 | 26.7 | 469.6 |
| Finance leases | 689.6 | (44.6) | (0.3) | 644.7 |
| | **972.3** | **115.6** | **26.4** | **1,114.3** |

Other changes include interest accrual and other non cash settlements during the year.

## 34. Structured entities

During the year, the Company exercised a call option with a subsidiary of a bank ("Bank Co.") and purchased rolling stock at a fixed price of £248.6m and subsequently sold it to Angel Trains Rolling Stock Limited.

During 2016, management had assessed the nature of interest and risks that the Company had on Bank Co., that was incorporated initially with the purpose to enter into certain agreements relating to the procurement and leasing of certain rolling stock to be manufactured by a manufacturing company ("Manufacturer").

The Company entered into a call/put option at a fixed price for the purchase of property, plant and equipment with Bank Co.. The Company had no exposure to the change in fair value of the property, plant equipment. In the event of a Bank Co. default the Company could have terminated the option agreement and was not exposed to the credit risk of Bank Co.. In the event of a Manufacturer default the Company could have terminated the option agreement and was not exposed to the credit risk. The Company would not have received any dividend, interest or tax benefits. The Company therefore had no exposure or rights to variable returns from its involvement in Bank Co.. Consequently, management concluded it was an unconsolidated structured entity.

**Risks associated with unconsolidated structured entities**

The following table summarises the carrying values recognised in the balance sheet as at 31 December 2018:

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| | £'m | £'m |
| | Assets | Assets |
| Balance sheet line item of asset | | |
| Property, Plant and equipment | - | 3.0 |

**Maximum exposure to loss**

The following table summarises the maximum exposure to loss from its involvement with structured entities, by nature:

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| | £'m | £'m |
| | Maximum exposure to loss | Maximum exposure to loss |
| Structured entity type | | |
| Asset backed | - | 3.0 |

## 35. Events after the balance sheet date

There have been no significant events between the year end and the date of approval of the financial statements which would require a change or an additional disclosure in the financial statements.