

Porterbrook Maintenance Limited
Annual report and financial statements
Year ended 31 December 2018

Registered number: 3657463



Porterbrook Maintenance Limited

Contents

Strategic Report	1
Directors' Report	2
Independent Auditor's Report	4
Statement of Comprehensive Income	6
Balance Sheet	7
Statement of Changes in Equity	8
Cash Flow Statement	8
Notes to the Financial Statements	9

Strategic Report

The directors submit their strategic report for the year to 31 December 2018.

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

1. Principal activity

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

2. Principal risks and uncertainties

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

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

3. Business review

Overview

The Porterbrook group manages its operations on a consolidated basis. For this reason, the company's directors believe that further key performance indicators for the company, in addition to those included below, are not necessary or appropriate for an understanding of the development, performance or position of the business. The performance of the Porterbrook group, as a whole is discussed in the consolidated financial statements of Porterbrook Rail Finance Limited which are available from the address in note 19.

Review of the year

During 2018 the company successfully managed its heavy maintenance contracts and leased its assets to its parent company on operating lease arrangements in line with expectations. The financial position of the company, its cash flows, liquidity position and borrowing facilities are described in the primary financial statements on pages 6 to 8 and notes to the financial statements on pages 9 to 17.

The Statement of Comprehensive Income on page 6 shows the company made a profit before tax of £5.4m (2017: £6.2m). The directors do not expect any significant change in the level of the business in the foreseeable future. As shown in the Balance Sheet on page 7 the company had net assets of £50.3m (2017: £45.8m). Given its position within the Porterbrook group, the directors consider the state of the company's affairs to be satisfactory.

4. Other corporate matters

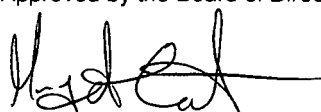
Payment policy

It is the company's policy to ensure payments are made in accordance with the terms and conditions agreed, except where the supplier fails to comply with those terms and conditions. Supplier invoices, which are included in trade creditors at 31 December 2018, were equivalent to 15 days' purchases (2017: 14 days), based on the average daily amount invoiced by suppliers during the year.

Environment

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

Approved by the Board of Directors



Director
Mary Grant
28 February 2019
Derby, UK

Directors' Report

The following directors, who served throughout the year and subsequently (except where indicated), submit their report together with the separate strategic report, financial statements and auditor's report for the year to 31 December 2018.

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

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

Statement of directors' responsibilities

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

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

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

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

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

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

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

Going Concern

The company was profit making in the year and although it had net current liabilities at 31 December 2018 of £0.9m (2017: £0.4m) the directors observe that the company has access to sufficient financial resources through its intermediate parent company, Porterbrook Rail Finance Limited, together with long term contracts with its customers. As a consequence, the directors believe that the company is well placed to manage its business risks successfully in the current economic environment.

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

Directors' Report (continued)

2. Dividends

The trading results for the year and the company's financial position at the end of the year are shown in the attached financial statements. The directors approved and paid a dividend of £nil on the equity shares of the company (2017: £33.2m)

The directors approved non-cumulative dividends on the company's irredeemable preference shares as follows:

Amount (£)	Date Ratified	Date Paid
54.16	6 February 2019	31 March 2018
54.76	6 February 2019	30 June 2018
55.36	6 February 2019	30 September 2018
55.36	6 February 2019	31 December 2018

3. Auditor

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

- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- the director has taken all steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provision of s418 of the Companies Act 2006.

The directors dispensed with the requirement to re-appoint auditors annually under sections 485 and 487 of the Companies Act 2006. Accordingly, Deloitte LLP will continue in office as auditor.

Approved by the Board of Directors



Director
Stephen McGurk

28 February 2019

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF PORTERBROOK MAINTENANCE LIMITED

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Porterbrook Maintenance Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its profit 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 which comprise:

- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity;
- the cash flow statement; and
- the related notes 1 to 19.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in 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 these matters.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in 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 in respect of these matters.

Responsibilities of directors

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

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF PORTERBROOK MAINTENANCE LIMITED (continued)

Auditor's responsibilities for the audit of the financial statements

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

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 auditor's report.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

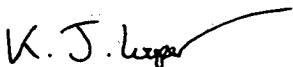
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

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

We have nothing to report in respect of these matters.

Use of our report

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



Kieren Cooper (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Birmingham
United Kingdom
28 February 2019

Statement of Comprehensive Income

For the year ended 31 December 2018

	NOTES	2018 £000	2017 £000
Revenue	4	83,104	94,254
Cost of sales		(78,227)	(89,464)
Gross profit		4,877	4,790
Administrative expenses		(241)	(239)
Profit from operations	5	4,636	4,551
Investment income	4,8	774	1,682
Profit before tax		5,410	6,233
Tax	9	(970)	(1,083)
Net profit for the year and total comprehensive income		4,440	5,150

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

Balance Sheet

At 31 December 2018

	NOTES	2018 £000	2017 £000
Non-current assets			
Operating lease assets	10	38,971	40,611
Trade and other receivables	11	17,232	10,694
		<u>56,203</u>	<u>51,305</u>
Current assets			
Trade and other receivables	11	4,700	4,199
Total assets		<u>60,903</u>	<u>55,504</u>
Current liabilities			
Trade and other payables	12	(5,566)	(4,590)
Net current liabilities		<u>(866)</u>	<u>(391)</u>
Non-current liabilities			
Preference shares	13	(4)	(4)
Deferred tax	14	(5,070)	(5,087)
		<u>(5,074)</u>	<u>(5,091)</u>
Total liabilities		<u>(10,640)</u>	<u>(9,681)</u>
Net assets		<u>50,263</u>	<u>45,823</u>
Equity			
Share capital	15	50	50
Other reserves	16	43,926	43,926
Retained earnings		6,287	1,847
Equity attributable to equity holders of the parent		<u>50,263</u>	<u>45,823</u>

The financial statements of Porterbrook Maintenance Limited (registered number 3657463) were approved by the board of directors and authorised for issue on 28 February 2019. They were signed on its behalf by:



Director
Peter Coates

Statement of Changes in Equity

For the year ended 31 December 2018

	Issued capital £000	Other reserves £000	Retained earnings £000	Total equity £000
Balance at 1 January 2017	50	43,926	29,882	73,858
Net profit attributable to the company	-	-	5,150	5,150
Dividends Paid	-	-	(33,185)	33,185
Balance at 31 December 2017	50	43,926	1,847	45,823
Balance at 1 January 2018	50	43,926	1,847	45,823
Net profit attributable to the company	-	-	4,440	4,440
Balance at 31 December 2018	50	43,926	6,287	50,263

Cash Flow Statement

For the year ended 31 December 2018

There were no cash flows in the current or prior year.

Notes to the Financial Statements

For the year ended 31 December 2018

1. Significant accounting policies

Basis of preparation

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

In the application of the accounting policies detailed below, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The critical judgements are described where relevant below.

Adoption of new and revised standards

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

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers
Annual improvements to IFRS's	2014 - 2016 Cycle

The adoption has not had any significant impact on the amounts reported in these financial statements. The adoption of IFRS 15 Revenue from Contracts with Customers has not adjusted the Revenue from rendering of maintenance services as such services are consumed in line with their recharged profile.

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

IFRS 16	Leases
Annual improvements to IFRS's	2015 - 2017 cycle
IFRIC 23	Uncertainty over Tax Treatments

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

Revenue recognition

Revenue for maintenance services is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business, net of discounts, VAT and other sales-related taxes.

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

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

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases

The entity as lessor

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

Operating lease assets

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

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

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

Operating lease assets	30 years
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Notes to the Financial Statements (continued)

For the year ended 31 December 2018

1. Significant accounting policies (continued)

Impairment of Operating lease assets

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

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

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

Taxation

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

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

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The tax effects of income tax losses available to carry forward are recognised as an asset when it is probable that future taxable profits will be available, against which these losses can be utilised. Deferred tax is calculated at tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on the UK tax laws and rates that have been enacted or substantively enacted by the balance sheet date.

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

Pensions and other post-retirement benefits

Defined Benefit Railway Pension Scheme

The Railways Pension Scheme is a multi-employer defined benefit scheme. The company is part of the Porterbrook section of the scheme, along with its parent company, Porterbrook Leasing Company Limited. It is not possible to split the underlying assets and liabilities of the scheme between the two companies, so in accordance with IAS 19 (revised 2011) the entire defined benefit liability is recognised in the accounts of Porterbrook Leasing Company Limited, which is the sponsoring employer of the scheme. The company recognises a cost in each period equal to the contributions payable for the period.

Industry Wide Defined Contribution Arrangement

Payments to the defined contribution retirement benefit plan are recognised as an expense when employees have rendered service entitling them to the contributions.

Trade and other receivables

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

Trade and other payables

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

Profit from operations

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

1a Critical accounting judgements and key sources of estimation uncertainty

In the application of the groups accounting policies, which are described in note 1, the directors are required to make judgements that have a significant impact on the amounts recognised and to make estimates and assumptions about the carrying value of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are deemed to be relevant. Actual results may differ from these estimates.

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

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

1a Critical accounting judgements and key sources of estimation uncertainty (continued)

Key sources of estimation uncertainty

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

Impairment testing for Operating lease assets

The key assumptions used in impairment testing are

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

2. Financial risk

Financial risk management objectives

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

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

Policies and processes for managing the financial risk

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

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

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

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

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

The Chief Financial Officer presents the Compliance & Risk reports to the Porterbrook Management Committee and Board contain analysis of credit, market, liquidity and residual value risk.

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

Credit risk

Credit risk is the risk that counterparties will not meet their financial obligations and may result in the company failing to recover debts due. Credit risk occurs in relation to intercompany loan receivables. The group, on behalf of the company manages this risk by reviewing the balance sheet position of all group counterparties on a monthly basis.

Maximum exposure to credit risk without taking into account collateral or credit enhancements is £17,232,000 (2017: £10,694,000). This is equivalent to the outstanding intercompany debtors at 31 December 2018. The company holds no collateral or other credit enhancements to mitigate credit risk. There are no impaired financial assets and there are no financial assets past due but not impaired in the current or prior year.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

2. Financial risk (continued)**Liquidity risk**

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

Maturities of financial liabilities:

	On Demand £000	Over 5 years £000	Total £000
At 31 December 2018			
Trade and other payables	5,566	-	5,566
Preference shares	-	4	4
	<u>5,566</u>	<u>4</u>	<u>5,570</u>
At 31 December 2017	£000	£000	£000
Trade and other payables	4,590	-	4,590
Preference shares	-	4	4
	<u>4,590</u>	<u>4</u>	<u>4,594</u>

Market risk

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

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

Residual value risk

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

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

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

	2018 £000	2017 £000
Between 2-5 years	33,987	33,843
Total exposure	<u>33,987</u>	<u>33,843</u>

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

3. Capital management and resources

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

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

4. Revenue

The company's revenue is as follows:

	2018 £000	2017 £000
Rendering of maintenance services	77,283	88,446
Operating lease rentals	5,821	5,808
	83,104	94,254
Investment income (see note 8)	774	1,682
	<u>83,878</u>	<u>95,936</u>

5. Profit from operations

Profit from operations has been arrived at after charging:

	2018 £000	2017 £000
Staff costs (see note 6)	5,319	5,020
Depreciation of operating lease assets (see note 10)	<u>1,809</u>	<u>1,803</u>

Fees payable to the company's auditor for the audit of the company's annual accounts for the current year are £18,000 (2017: £17,000) and have been borne by the company's immediate parent undertaking, Porterbrook Leasing Company Limited, for which no recharge has been made in the current or prior year. Fees payable to Deloitte LLP and their associates for non-audit services to the company are not required to be disclosed because they are disclosed in the Porterbrook Rail Finance Limited consolidated financial statements.

6. Staff costs

The average monthly number of employees (including executive directors) was:

	2018 Number	2017 Number
Maintenance management staff	<u>67</u>	<u>71</u>

	2018 £000	2017 £000
Their aggregate remuneration comprised:		
Wages and salaries	4,302	4,105
Social security costs	516	484
Other pension costs (see note 17)	501	431
	<u>5,319</u>	<u>5,020</u>

7. Directors' emoluments

The directors did not receive any emoluments for their services to the company in the current or prior year and no apportionment of directors' remuneration has been made by any other group company (2017: £nil).

8. Investment income

	2018 £000	2017 £000
Interest receivable from group undertakings	<u>774</u>	<u>1,682</u>

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

9. Tax

	2018	2017
	£000	£000
Current Tax:		
Current charge for the year	1,005	811
Adjustments in respect of prior years	(18)	-
	<u>987</u>	<u>811</u>
Deferred tax (note 14)		
Current year	24	260
Prior year	(41)	12
	<u>(17)</u>	<u>272</u>
Tax expense for the year	<u>970</u>	<u>1,083</u>

Corporation tax is calculated at 19% (2017: 19.25%) of the estimated assessable profit for the year.

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

	2018	2017
	£000	£000
Profit before taxation	<u>5,410</u>	<u>6,233</u>
Tax at the UK corporation tax rate of 19% (2017: 19.25%)	1,028	1,200
Tax effect of expenses that are non-deductible in determining taxable profit	2	1
Non-taxable income	-	(109)
Effect on deferred tax balance of change in corporation tax rate from 19% to 17% effective 1 April 2020	(1)	(21)
Adjustment in respect of prior year	(59)	12
Tax expense for the year	<u>970</u>	<u>1,083</u>

10. Operating lease assets

	£000
Cost	
At 1 January 2017	54,080
Additions	52
At 31 December 2017 and 1 January 2018	<u>54,132</u>
Additions	169
At 31 December 2018	<u>54,301</u>
Accumulated depreciation and impairment	
At 1 January 2017	11,718
Charge for the year	1,803
At 31 December 2017 and 1 January 2018	<u>13,521</u>
Charge for the year	1,809
At 31 December 2018	<u>15,330</u>
Carrying amount	
At 31 December 2018	<u>38,971</u>
At 31 December 2017	<u>40,611</u>

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

10. Operating lease assets (continued)

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

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

The company did not recognise any impairment loss in the Statement of Comprehensive Income (2017: £nil) based on a discount rate of 5.3% (2017: 5.3%). The company has assessed the sensitivity of each CGU carrying value to changes in the key assumptions noted above. The analysis showed that the cash flow forecasts support the operating lease assets value under a range of scenarios. Increasing the discount rate to 5.8% does not lead to any impairment loss. Therefore the directors concluded there is no basis for an impairment charge at the year end.

11. Trade and other receivables

	2018 £000	2017 £000
Other debtors	7	14
Tax and social security	4,693	4,185
Amounts due from group companies	17,232	10,694
	<u>21,932</u>	<u>14,893</u>
Less: Amount due for settlement within 12 months (shown under current assets)	4,700	4,199
Amount due for settlement after 12 months	<u>17,232</u>	<u>10,694</u>

The directors consider that the carrying amount of receivables approximate to their fair value.

12. Trade and other payables

	2018 £000	2017 £000
Trade payables	3,766	3,770
Other payables and accruals	2	9
Corporation Tax	1,798	811
Amount due for settlement within 12 months (shown under current liabilities)	<u>5,566</u>	<u>4,590</u>

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

13. Preference shares

	2018 £000	2017 £000
Preference shares	<u>4</u>	<u>4</u>
These borrowings are repayable as follows:		
After five years	<u>4</u>	<u>4</u>

Preference shares are denominated in Pounds Sterling. The weighted average interest rate paid in the year was 5.0% (2017: 5.0%). The directors estimate the fair value of the company's preference shares is equal to the above carrying value.

On 14 October 2005 439,300 irredeemable preference shares were issued at a nominal value of £0.01 each. Under the terms of the preference shares, the holder is entitled to special dividends and to a 5% annualised non-cumulative dividend which accrues on a daily basis. Non-cumulative dividends of £220 have been paid in year (2017: £220). Dividends on the preference shares are shown within finance costs in the Statement of Comprehensive Income.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

13. Preference shares (continued)

On winding up, the preference shareholders have a preferential right to paid up capital together with any dividend payable and accrued up to and including the date of winding up. Preference shareholders are entitled to attend and vote at a General Meeting of the company where a resolution to abrogate or vary any of the rights and privileges attaching to the preference shares is proposed.

14. Deferred tax

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

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

	Operating Leased Assets £000	Tax losses £000	Total £000
At 1 January 2017	4,988	(173)	4,815
Charge to income	101	180	281
Prior period adjustment effect on income	12	-	12
Effect of change in corporation tax rate from 19% to 17% effective 1 April 2020	(14)	(7)	(21)
At 31 December 2017 and 1 January 2018	<u>5,087</u>	<u>-</u>	<u>5,087</u>
Prior period adjustment effect on income	(41)	-	(41)
Charge to income	25	-	25
Effect of change in corporation tax rate from 19% to 17% effective 1 April 2020	(1)	-	(1)
At 31 December 2018	<u>5,070</u>	<u>-</u>	<u>5,070</u>

A deferred tax asset was recognised in respect of tax losses as the directors forecasted that the losses would reverse against future taxable profits.

15. Share capital

	2018 £000	2017 £000
Authorised:		
100,000 ordinary shares of £1 each (2017: 100,000)	<u>100</u>	<u>100</u>
Allotted, called up and fully paid:		
50,000 ordinary shares of £1 each (2017: 50,000)	<u>50</u>	<u>50</u>

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

16. Other reserves

	Other Non-Distributable Reserve £000
Balance at 31 December 2017 and 31 December 2018	<u>43,926</u>

The Other Non-Distributable Reserve relates to a transfer from retained earnings in respect of Special Dividends paid on the irredeemable preference shares in 2005.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

17. Retirement benefit schemes

The company participated in the following schemes during the year:

Defined Benefit Railways Pension Scheme

The company is part of the Porterbrook shared cost section within the main Railways Pension Scheme. The scheme, administered by Railway Pension Management & Investment, provides defined benefits to members based on final pensionable salaries. In accordance with IAS 19 (revised 2011) 'Employee Benefits', the scheme is classified as a defined benefit plan that shares risks between entities under common control. The sponsoring employer of the scheme is the immediate parent company, Porterbrook Leasing Company Limited. As there is no contractual agreement for charging the net defined benefit cost for the plan as a whole measured in accordance with IAS 19 (revised 2011) to individual group entities, the defined benefit cost is recognised in the accounts of the sponsoring employer of the scheme. In accordance with IAS 19 (revised 2011), Porterbrook Maintenance Limited recognises a cost in the year to 31 December 2018 of £322,000 (2017: £336,000) equal to the contributions payable for the year.

Formal actuarial valuations of the assets and liabilities of the schemes are carried out on a triennial basis by an independent professionally qualified actuary, Willis Towers Watson Limited. The latest formal actuarial valuation was made as at 31 December 2016. In addition, there is an annual review by the appointed actuary. The annual review can be found in the financial statements of the immediate parent company, Porterbrook Leasing Company Limited. Copies of Porterbrook Leasing Company Limited's financial statements can be obtained from the address in note 19.

Industry Wide Defined Contribution Arrangement

From 1 March 2010 the company offered membership of the Railways Pension Scheme Industry Wide Defined Contribution Arrangement. Porterbrook Maintenance Limited recognised a cost of £179,000 for the year to 31 December 2018 (2017: £94,000).

18. Related party transactions

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

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

Trading transactions

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

	Income		Expenditure		Amounts owed by related parties		Amounts owed to related parties	
	2018	2017	2018	2017	2018	2017	2018	2017
	£000	£000	£000	£000	£000	£000	£000	£000
Parent company	83,878	95,936	-	-	17,232	10,694	-	-

Transactions with the parent company disclosed above relate to recharges of specific items of expenditure, along with a management fee, and interest on outstanding intercompany balances. A trading account is maintained between the companies.

Key management personnel

There were no related party transactions during the year (2017: None), or existing at the balance sheet date, with the company's, or parent company's, key management personnel. Please see the financial statements of the Porterbrook Leasing Company Limited for further information on remuneration of key management personnel of the entity which is paid by other group entities.

19. Parent undertaking and controlling party

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

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

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

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