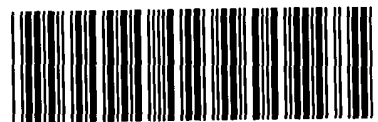


**Porterbrook Maintenance Limited**  
**Annual report and financial statements**  
**Year ended 31 December 2019**

Registered number: 3657463

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# Porterbrook Maintenance Limited

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## Strategic Report

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

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

### 1. Principal activity

The principal 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 2019 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 18.

The Statement of Comprehensive Income on page 6 shows the company made a profit before tax of £5.8m (2018: £5.5m). The directors do not expect any significant change in the level of the business in the foreseeable future. As shown in the Balance Sheet on page 7 the company had net assets of £54.9m (2018: £50.3m). 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 2019, were equivalent to 22 days' purchases (2018: 15 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  
Peter Coates  
9 March 2020  
Derby, UK

## Directors' Report

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

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

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

#### **Statement of directors' responsibilities in respect of the financial statements**

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with International 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. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- 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;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

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

#### **Directors' confirmations**

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 they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

#### **Going Concern**

The company was profit making in the year and had net current assets at 31 December 2019 of £0.6m (2018: liabilities £0.9m) the directors observe that the company has access to sufficient financial resources through its immediate parent company, Porterbrook Leasing Company Limited and 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.

### 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 (2018: £nil)

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

Amount (£)	Date Ratified	Date Paid
54.16	13 February 2020	31 March 2019
54.76	13 February 2020	30 June 2019
55.36	13 February 2020	30 September 2019
55.36	13 February 2020	31 December 2019

## Directors' Report (continued)

### 3 Compliance with s172 Companies Act

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

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

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

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

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

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

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

### 4. Auditor

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

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

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

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

Approved by the Board of Directors



Director Peter Coates

9 March 2020  
Derby, UK

# **INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF PORTERBROOK MAINTENANCE LIMITED**

## **Report on the audit of the financial statements**

### **Opinion**

In our opinion, Porterbrook Maintenance Limited's financial statements:

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

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

### **Basis for opinion**

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

### *Independence*

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

### **Conclusions relating to going concern**

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

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

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

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

### **Reporting on other information**

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

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

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

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

### *Strategic Report and Directors' Report*

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

## INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF PORTERBROOK MAINTENANCE LIMITED (continued)

### Reporting on other information (continued)

#### *Strategic Report and Directors' Report (continued)*

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

### Responsibilities for the financial statements and the audit

#### *Responsibilities of the directors for the financial statements*

As explained more fully in the Statement of Directors' responsibilities in respect of the financial statements, 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](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

#### *Use of this report*

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

### Other required reporting

#### **Companies Act 2006 exception reporting**

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

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

We have no exceptions to report arising from this responsibility.



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

## Statement of Comprehensive Income

For the year ended 31 December 2019

	NOTES	2019 £000	2018 £000
Revenue	4	73,525	83,104
Cost of sales	4	(68,584)	(78,227)
<b>Gross profit</b>		<u>4,941</u>	<u>4,877</u>
Administrative expenses		(344)	(241)
<b>Profit from operations</b>	5	<u>4,597</u>	<u>4,636</u>
Investment income	4,8	1,167	774
<b>Profit before tax</b>		<u>5,764</u>	<u>5,410</u>
Tax	9	(1,097)	(970)
<b>Net profit for the year and total comprehensive income</b>		<u><u>4,667</u></u>	<u><u>4,440</u></u>

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



## Balance Sheet

At 31 December 2019

	NOTES	2019 £000	2018 £000
<b>Non-current assets</b>			
Operating lease assets	10	37,387	38,971
Trade and other receivables	11	21,997	17,232
		<u>59,384</u>	<u>56,203</u>
<b>Current assets</b>			
Trade and other receivables	11	5,939	4,700
<b>Total assets</b>		<u>65,323</u>	<u>60,903</u>
<b>Current liabilities</b>			
Trade and other payables	12	(5,369)	(5,566)
<b>Net current asset/(liabilities)</b>		<u>570</u>	<u>(866)</u>
<b>Non-current liabilities</b>			
Preference shares	13	(4)	(4)
Deferred tax	14	(5,020)	(5,070)
		<u>(5,024)</u>	<u>(5,074)</u>
<b>Total liabilities</b>		<u>(10,393)</u>	<u>(10,640)</u>
<b>Net assets</b>		<u>54,930</u>	<u>50,263</u>
<b>Equity</b>			
Share capital	15	50	50
Other reserves	16	43,926	43,926
Retained earnings		10,954	6,287
<b>Total equity</b>		<u>54,930</u>	<u>50,263</u>

The financial statements of Porterbrook Maintenance Limited (registered number 3657463) were approved by the board of directors and authorised for issue on 9 March 2020. They were signed on its behalf by:



Director  
Peter Coates

## Statement of Changes in Equity

For the year ended 31 December 2019

	Issued capital £000	Other reserves £000	Retained earnings £000	Total equity - £000
Balance at 1 January 2018	50	43,926	1,847	45,823
Net profit attributable to the company	-	-	4,440	4,440
<b>Balance at 31 December 2018</b>	<b>50</b>	<b>43,926</b>	<b>6,287</b>	<b>50,263</b>
Balance at 1 January 2019	50	43,926	6,287	50,263
Net profit attributable to the company	-	-	4,667	4,667
<b>Balance at 31 December 2019</b>	<b>50</b>	<b>43,926</b>	<b>10,954</b>	<b>54,930</b>

## Cash Flow Statement

For the year ended 31 December 2019

	NOTE	2019 £000	Restated 2018 £000
<b>Profit from operations</b>		<b>4,597</b>	<b>4,636</b>
<b>Adjustments for:</b>			
Depreciation		1,815	1,809
Increase in receivables		(6,004)	(7,039)
Increase/(Decrease) in payables		454	(11)
<b>Cash generated from/(used by) operations</b>		<b>862</b>	<b>(605)</b>
Tax paid		(1,798)	-
<b>Net cash used by operating activities</b>		<b>(936)</b>	<b>(605)</b>
<b>Investing activities</b>			
Interest received		1,167	774
Purchase of property, plant and equipment		(231)	(169)
<b>Net cash from investing activities</b>		<b>936</b>	<b>605</b>
<b>Net movement in cash and cash equivalents</b>		<b>-</b>	<b>-</b>
Cash and cash equivalents at beginning of year		-	-
<b>Cash and cash equivalents at end of year</b>		<b>-</b>	<b>-</b>

## Notes to the Financial Statements

For the year ended 31 December 2019

### 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) and IFRS Interpretations Committee interpretations as adopted by the European Union that are effective at the company's reporting date. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities held at fair value through profit or loss. The principal accounting policies adopted are set out below.

In the application of the accounting policies detailed below, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The critical judgements are described where relevant below. The cashflow statement has been restated and included in this financial year as there are cash payments made on behalf of the company by other group entities. These transactions were incorrectly not disclosed in the prior year financial statements.

#### Going concern

These financial statements are prepared on a going concern basis. The company continues to be profit making and benefits from long term contracts and the support of its parent undertaking, Porterbrook Leasing Company Limited.

#### Adoption of new and revised standards

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

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

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

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

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

The directors do not expect the adoption of the Standards listed above will have an impact on the financial statements of the company and company in future years, except as noted below

#### 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

##### *The entity as lessor*

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. 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	35 years
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## Notes to the Financial Statements (continued)

For the year ended 31 December 2019

### 1. Significant accounting policies (continued)

#### **Impairment of Operating lease assets**

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

At each balance sheet date, or more frequently when events or changes in circumstances dictate, 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.

## Notes to the Financial Statements (continued)

For the year ended 31 December 2019

### 1. Significant accounting policies (continued)

#### 1a Critical accounting judgements and key sources of estimation uncertainty

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

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

#### *Key sources of estimation 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.

**Notes to the Financial Statements (continued)**

For the year ended 31 December 2019

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

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

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

The Chief Financial Officer presents the Compliance & Risk reports to the Porterbrook Audit and Risk 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 £21,997,000 (2018: £17,232,000). This is equivalent to the outstanding intercompany debtors at 31 December 2019. 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.

**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
<b>At 31 December 2019</b>			
Trade and other payables	5,369	-	5,369
Preference shares	-	4	4
	<u>5,369</u>	<u>4</u>	<u>5,373</u>
<b>At 31 December 2018</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Trade and other payables	5,566	-	5,566
Preference shares	-	4	4
	<u>5,566</u>	<u>4</u>	<u>5,570</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.

**Notes to the Financial Statements (continued)**

For the year ended 31 December 2019

**2. Financial risk (continued)****Residual value risk (continued)**

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

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

	2019 £000	2018 £000
Between 2-5 years	33,284	33,987
Total exposure	<u>33,284</u>	<u>33,987</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.

**4. Revenue and Cost of sales**

The company's revenue is as follows:

	2019 £000	2018 £000
Rendering of maintenance services	67,704	77,283
Operating lease rentals	<u>5,821</u>	<u>5,821</u>
	73,525	83,104
Investment income (see note 8)	<u>1,167</u>	<u>774</u>
	<u>74,692</u>	<u>83,878</u>

The company's cost of sales is as follows

	2019 £000	2018 £000
Maintenance costs	61,277	71,099
Staff costs	<u>5,492</u>	<u>5,319</u>
Depreciation	<u>1,815</u>	<u>1,809</u>
	<u>68,584</u>	<u>78,227</u>

**5. Profit from operations**

Profit from operations has been arrived at after charging:

	2019 £000	2018 £000
Staff costs (see note 6)	5,492	5,319
Depreciation of operating lease assets (see note 10)	<u>1,815</u>	<u>1,809</u>

Fees payable to the company's auditor for the audit of the company's annual accounts for the current year are £18,000 (2018: £18,000) 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.

**Notes to the Financial Statements (continued)**

For the year ended 31 December 2019

**6. Staff costs**

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

	2019 Number	2018 Number
Maintenance management staff	<u>75</u>	<u>67</u>

	2019 £000	2018 £000
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Their aggregate remuneration comprised:		
Wages and salaries	4,408	4,302
Social security costs	500	516
Other pension costs (see note 17)	<u>584</u>	<u>501</u>
	<u>5,492</u>	<u>5,319</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 (2018: £nil).

**8. Investment income**

	2019 £000	2018 £000
Interest receivable from group undertakings	<u>1,167</u>	<u>774</u>

**9. Tax**

	2019 £000	2018 £000
Current Tax:		
Current charge for the year	1,131	1,005
Adjustments in respect of prior years	<u>16</u>	<u>(18)</u>
	1,147	987
Deferred tax (note 14)		
Current year	(35)	24
Prior year	<u>(15)</u>	<u>(41)</u>
	(50)	(17)
Tax expense for the year	<u>1,097</u>	<u>970</u>

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

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

	2019 £000	2018 £000
Profit before taxation	<u>5,764</u>	<u>5,410</u>
Tax at the UK corporation tax rate of 19% (2018: 19%)	1,095	1,028
Tax effect of expenses that are non-deductible in determining taxable profit	2	2
Effect on deferred tax balance of change in corporation tax rate from 19% to 17% effective 1 April 2020	(1)	(1)
Adjustment in respect of prior year	<u>1</u>	<u>(59)</u>
Tax expense for the year	<u>1,097</u>	<u>970</u>



**Notes to the Financial Statements (continued)**

For the year ended 31 December 2019

**10. Operating lease assets**

	£000
<b>Cost</b>	
At 1 January 2018	54,132
Additions	169
At 31 December 2018 and 1 January 2019	<u>54,301</u>
Additions	231
At 31 December 2019	<u>54,532</u>
<b>Accumulated depreciation and impairment</b>	
At 1 January 2018	13,521
Charge for the year	1,809
At 31 December 2018 and 1 January 2019	<u>15,330</u>
Charge for the year	1,815
At 31 December 2019	<u>17,145</u>
<b>Carrying amount</b>	
At 31 December 2019	<u>37,387</u>
At 31 December 2018	<u>38,971</u>

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 (2018: £nil) based on a discount rate of 5.3% (2018: 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 5.7% and reducing the future lease term by one year 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**

	2019 £000	2018 £000
Other debtors	3	7
Tax and social security	5,936	4,693
Amounts due from group companies	<u>21,997</u>	<u>17,232</u>
	27,936	21,932
Less: Amount due for settlement within 12 months (shown under current assets)	5,939	4,700
Amount due for settlement after 12 months	<u>21,997</u>	<u>17,232</u>

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

**12. Trade and other payables**

	2019 £000	2018 £000
Trade payables	4,218	3,766
Other payables and accruals	4	2
Corporation Tax	<u>1,147</u>	<u>1,798</u>
Amount due for settlement within 12 months (shown under current liabilities)	<u>5,369</u>	<u>5,566</u>

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

**Notes to the Financial Statements (continued)**

For the year ended 31 December 2019

**13. Preference shares**

	2019 £000	2018 £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% (2018: 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 (2018: £220). Dividends on the preference shares are shown within finance costs in the Statement of Comprehensive Income.

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 liabilities recognised by the company and the movements thereon during the current and prior year.

	Operating Leased Assets £000
<b>At 1 January 2018</b>	5,087
Prior period adjustment effect on income	(41)
Charge to income	25
Effect of change in corporation tax rate from 19% to 17% effective 1 April 2020	<u>(1)</u>
<b>At 31 December 2018 and 1 January 2019</b>	5,070
Prior period adjustment effect on income	(15)
Credit to income	(34)
Effect of change in corporation tax rate from 19% to 17% effective 1 April 2020	<u>(1)</u>
<b>At 31 December 2019</b>	<u>5,020</u>

**15. Share capital**

	2019 £000	2018 £000
<b>Authorised:</b>		
100,000 ordinary shares of £1 each (2018: 100,000)	<u>100</u>	<u>100</u>
<b>Allotted, called up and fully paid:</b>		
50,000 ordinary shares of £1 each (2018: 50,000)	<u>50</u>	<u>50</u>

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

**Notes to the Financial Statements (continued)**

For the year ended 31 December 2019

**16. Other reserves**

Other Non-  
Distributable  
Reserve  
£000

Balance at 31 December 2018 and 31 December 2019

43,926

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.

**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 2019 of £324,000 (2018: £322,000) 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 £259,000 for the year to 31 December 2019 (2018: £179,000).

**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	
	2019 £000	2018 £000	2019 £000	2018 £000	2019 £000	2018 £000	2019 £000	2018 £000
Parent company	74,691	83,878	-	-	21,997	17,232	-	-

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 (2018: None), or existing at the balance sheet date, with the company's, or parent company's, key management personnel. Please see the financial statements of the Porterbrook Leasing Company Limited for further information on remuneration of key management personnel of the entity which is paid by other group entities.

## Notes to the Financial Statements (continued)

For the year ended 31 December 2019

### 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.