

Porterbrook Maintenance Limited
Annual report and financial statements
For the Year Ended 31 December 2021

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Porterbrook Maintenance Limited

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Porterbrook Maintenance Limited

Strategic Report For the Year Ended 31 December 2021

The directors submit their Strategic Report for Porterbrook Maintenance Limited (the Company) for the year to 31 December 2021.

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. These reflect knowledge and information available at the date of preparation of this report and the company undertakes no obligation to update them during the year. Nothing in this report should be construed as a profit forecast.

Principal activities

The principal activities of the Company were 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. The Company is part of the Porterbrook Holdings I Limited (PHI) group of companies (the Group).

Principal risks and uncertainties

The financial risk management objectives and policies of the Company; the policy for hedging each major type of transaction; and the exposure of the Company to credit risk, market risk, residual value risk and liquidity risk are outlined in note 5 to the financial statements. Note 6 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 PHI which do not form part of this report.

Business review

Overview

The Group manages its operations on a consolidated basis. For this reason, the Company's directors believe that further key performance indicators for the Company, in addition to those included below, are not necessary or appropriate for an understanding of the development, performance or position of the business. The performance of the Group, as a whole is discussed in the consolidated financial statements of PHI (the Group Financial Statements) which are available from the address in note 24.

Review of the year

During 2021 the Company successfully managed its heavy maintenance contracts and leased its assets to fellow Group companies 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 and notes to the financial statements.

The Statement of Profit or Loss and Other Comprehensive Income on page 9 shows the Company made a profit before tax of £5.7m (2020: £5.9m). The directors do not expect any significant change in the level of the business in the foreseeable future. As shown in the Statement of Financial Position on page 10 the company had net assets of £52.4m (2020: £49.3m). Given its position within the Group, the directors consider the state of the Company's affairs to be satisfactory.

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 2021, were equivalent to 24 days' purchases (2020: 14 days), based on the average daily amount invoiced by suppliers during the year.

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**Strategic Report (continued)
For the Year Ended 31 December 2021**

Other corporate matters (continued)

Environment

The 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 the Group's policies. Initiatives designed to minimise the Group's impact on the environment include recycling and reducing energy consumption and are monitored on a monthly basis by the intermediate parent company.

This report was approved by the board on 1 March 2022 and signed on its behalf.



Mr P Coates
Director

Porterbrook Maintenance Limited

Directors' Report For the Year Ended 31 December 2021

The directors present their report and the financial statements for the year ended 31 December 2021.

Directors

The directors who served during the year and subsequently (except where indicated) were:

Ms M Grant
Mr P Coates
Mr C McClure
Mr S Rose (appointed 30 March 2021)
Mr S McGurk (resigned 1 September 2021)

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

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK-adopted international standards.

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

- select suitable accounting policies and then apply them consistently;
- state whether applicable UK-adopted international accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and 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 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 also responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

Going concern

The Company was profit making in the year and had net current liabilities at 31 December 2021 of £1.4m (2020: net current assets £0.7m) 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. The directors therefore 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.

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Directors' Report (continued) For the Year Ended 31 December 2021

Results and 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 did not approve a dividend in 2021 (2020: £10.0m).

The directors approved non-cumulative dividends on its irredeemable preference shares of £220 (2020: £220). The dividends were paid on the final day of each quarter.

Statement of corporate governance arrangements

The Directors have given due regard to 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, PHI.

The directors of each entity in the Group formed by PHI and its subsidiaries have applied the six Wates Corporate Governance Principles (Wates Principles) for the financial year ended 31 December 2021. 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 section 172 Companies Act 2006). The directors of the Company are all directors of PLCL.

Risk management

Details of the Company risk management practices are included in the strategic report.

Disclosure of information to independent auditors

Each of the persons who are directors at the time when this Directors' Report is approved has confirmed that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Independent auditors

The independent auditors, PricewaterhouseCoopers LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the board on 1 March 2022 and signed on its behalf.



Mr P Coates
Director

Independent auditors' report to the members 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 2021 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; 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 Statement of Financial Position as at 31 December 2021; Statement of Profit or Loss and Other Comprehensive Income, the Statement of Changes in Equity, and the Statement of Cash Flows for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

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

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

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

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

Reporting on other information

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

Porterbrook Maintenance Limited

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

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

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

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 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

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

- Discussions with management and internal audit, including consideration of known or suspected instances of non-compliance with laws and regulations and fraud;
- Understanding management's internal controls designed to prevent and detect irregularities;
- Reviewing relevant meeting minutes, including those of the Board of Directors;

Porterbrook Maintenance Limited

- Challenging assumptions and judgements made by management in their significant accounting estimates, in particular in relation to the impairment assessment of operating lease assets;
- Identification and testing of journal entries, in particular any journal entries posted with unusual amounts, unusual account combinations, unusual times or dates;
- Involving our valuation experts in the audit; and
- Reviewing internal audit reports.

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

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

Use of this report

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

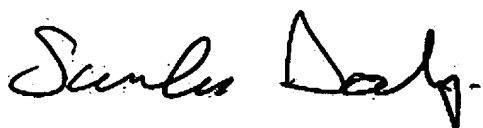
Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.



Sandra Dowling (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
1 March 2022

Porterbrook Maintenance Limited

**Statement of Profit or Loss and Other Comprehensive Income
For the Year Ended 31 December 2021**

	Note	2021 £000	2020 £000
Revenue	7	75,792	83,662
Cost of sales	8	(71,088)	(78,860)
Gross profit		4,704	4,802
Administrative expenses		(183)	(187)
Profit from operations		4,521	4,615
Finance income	12	1,170	1,271
Profit before tax		5,691	5,886
Tax expense	13	(2,602)	(1,502)
Profit for the year and total comprehensive income		3,089	4,384

The notes on pages 13 to 27 form part of these financial statements.

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

Porterbrook Maintenance Limited
Registered number: 03657463

Statement of Financial Position
As at 31 December 2021

	Note	2021 £000	2020 £000
Assets			
Non-current assets			
Property, plant and equipment	15	33,822	35,570
Trade and other receivables	16	27,094	18,616
		<u>60,916</u>	<u>54,186</u>
Current assets			
Trade and other receivables	16	3,191	4,025
Cash and cash equivalents	23	485	-
		<u>3,676</u>	<u>4,025</u>
Total assets		<u>64,592</u>	<u>58,211</u>
Liabilities			
Non-current liabilities			
Preference shares	18	4	4
Deferred tax liability	13	7,093	5,579
		<u>7,097</u>	<u>5,583</u>
Current liabilities			
Trade and other liabilities	17	5,092	3,314
Total liabilities		<u>12,189</u>	<u>8,897</u>
Net assets		<u>52,403</u>	<u>49,314</u>
Issued capital and reserves			
Share capital	19	50	50
Other reserves		43,926	43,926
Retained earnings		8,427	5,338
Total equity		<u>52,403</u>	<u>49,314</u>

The financial statements on pages 9 to 27 were approved and authorised for issue by the board of directors on 1 March 2022 and were signed on its behalf by:



Mr P Coates
Director

The notes on pages 13 to 27 form part of these financial statements.

Porterbrook Maintenance Limited

**Statement of Changes in Equity
For the Year Ended 31 December 2021**

	Share capital £000	Other reserves £000	Retained earnings £000	Total equity £000
At 1 January 2020	50	43,926	10,954	54,930
Comprehensive income for the year				
Profit for the year	-	-	4,384	4,384
	-	-	4,384	4,384
Total comprehensive income for the year				
Dividends	-	-	(10,000)	(10,000)
Total distributions to owners	-	-	(10,000)	(10,000)
At 31 December 2020	50	43,926	5,338	49,314
At 1 January 2021	50	43,926	5,338	49,314
Comprehensive income for the year				
Profit for the year	-	-	3,089	3,089
	-	-	3,089	3,089
Total comprehensive income for the year				
At 31 December 2021	50	43,926	8,427	52,403

Porterbrook Maintenance Limited

**Statement of Cash Flows
For the Year Ended 31 December 2021**

	2021 £000	2020 £000
Cash flows from operating activities		
Profit from operations	4,521	4,615
Adjustments for		
Depreciation	1,820	1,818
	<u>6,341</u>	<u>6,433</u>
Movements in working capital:		
(Increase)/decrease in trade and other receivables	(7,644)	5,295
Increase/(decrease) in trade and other payables	1,778	(908)
	<u>475</u>	<u>10,820</u>
Cash generated from operations		
Income taxes paid	(1,088)	(2,090)
	<u>(613)</u>	<u>8,730</u>
Net cash (used in)/from operating activities		
Cash flows from investing activities		
Purchase of property, plant and equipment	(72)	(1)
Interest receivable	1,170	1,271
	<u>1,098</u>	<u>1,270</u>
Net cash from investing activities		
Cash flows from financing activities		
Dividends paid	-	(10,000)
	<u>-</u>	<u>(10,000)</u>
Net cash from/(used in) financing activities		
Net cash increase in cash and cash equivalents	<u>485</u>	<u>-</u>
Cash and cash equivalents at the beginning of year	-	-
Cash and cash equivalents at the end of the year	<u>485</u>	<u>-</u>

Porterbrook Maintenance Limited

Notes to the Financial Statements For the Year Ended 31 December 2021

1. Accounting policies

1.1 Basis of preparation

Porterbrook Maintenance Limited is a private company limited by shares incorporated and domiciled in England and Wales under the Companies Act 2006. The financial statements have been prepared under a going concern basis as noted within the directors' report. The financial statements have been prepared under the historical cost convention. The principal accounting policies adopted are set out below and have been applied consistently, unless otherwise stated.

On 31 December 2020, IFRS as adopted by the European Union at that date was brought into UK law and became UK-adopted International Accounting Standards, with future changes being subject to endorsement by the UK Endorsement Board. Porterbrook Maintenance Limited transitioned to UK-adopted International Accounting Standards in its financial statements on 1 January 2021. This change constitutes a change in accounting framework. However, there is no impact on recognition, measurement or disclosure in the period reported as a result of the change in framework.

The financial statements of Porterbrook Maintenance Limited have been prepared in accordance with UK-adopted International Accounting Standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards.

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 and key sources of estimation uncertainty are described in note 4 below.

1.2 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, PLCL.

1.3 Adoption of new and revised standards

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

Interest Rate Benchmark Reform	Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16
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At the date of authorisation of these financial statements, certain Standards and Interpretations have not been applied in these financial statements as they were in issue but not yet effective.

Amendments to IAS 1	Classification of Liabilities as Current or Non-current
Annual improvements to IFRSs	2018 – 2020 cycle
Amendments to IAS 1 and IFRS 2	Disclosure of Accounting Policies
Amendments to IAS 8	Definition of Accounting Estimates

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

1.4 Revenue

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.

Porterbrook Maintenance Limited

Notes to the Financial Statements For the Year Ended 31 December 2021

1. Accounting policies (continued)

1.5 Leasing

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.

(i) The Company as a lessor

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

1.6 Dividends

Dividends paid on ordinary shares are recognised in equity in the period in which they are approved.

1.7 Defined contribution schemes

Contributions to defined contribution pension schemes are charged to the Statement of Profit or Loss and Other Comprehensive income in the year to which they relate.

1.8 Defined benefit schemes

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, PLCL. 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 financial statements of PLCL, which is the sponsoring employer of the scheme. The Company recognises a cost in each period equal to the contributions payable for the period.

1.9 Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

(i) Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before tax' as reported in the Statement of Profit or Loss and Other Comprehensive Income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

(ii) Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Porterbrook Maintenance Limited

Notes to the Financial Statements For the Year Ended 31 December 2021

1. Accounting policies (continued)

1.10 Property, plant and equipment

Property, plant and equipment comprises 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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1.11 Impairment of tangible assets

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

At each Statement of Financial Position 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 Profit or Loss and Other 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.

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

When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

1.12 Trade and other receivables

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

1.13 Trade and other liabilities

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

1.14 Profit from operations

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

Porterbrook Maintenance Limited

Notes to the Financial Statements For the Year Ended 31 December 2021

2. Reporting entity

Porterbrook Maintenance Limited (the Company) is a limited company incorporated in the United Kingdom. The Company's registered office is at Ivatt House, 7 The Point, Pinnacle Way, Pride Park, Derby, DE24 8ZS. The Company's principal activity is the leasing of rolling stock and other rail related transport assets on operating lease agreements.

3. Functional and presentation currency

These financial statements are presented in pound sterling, which is the Company's functional currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

4. Accounting estimates and judgements

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

In the preparation of these financial statements there are not considered to be any significant judgements.

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 are the key sources of estimation uncertainty that the directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Impairment testing of operating lease assets

The key assumptions used in impairment testing are:

Discount rates: The Company's forecast cash flows are discounted using a market based interest rate in the respective impairment reviews. Significant estimates are 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 cash generating unit for each impairment test.

Future lease terms: Management estimates the future use of the existing fleet based on historical experience and current market data. The Company prepares cash flow forecasts for the full life of each cash generating unit with more detailed forecasts for the forthcoming five years as part of the most recent financial budget approved by the board of directors. The assumptions chosen are not disclosed due to their sensitive nature.

Useful Economic Life of rolling stock: The useful economic lives of assets are reviewed on a periodic basis and adjusted if appropriate considering the likely franchise that the rolling stock will be leased to.

The key assumptions described above are used in the calculation of the recoverable amount of this asset class. Sensitivities of the Porterbrook Holdings I Limited Group's assumptions are displayed in the Group financial statements available from the address in note 24.

Porterbrook Maintenance Limited

Notes to the Financial Statements For the Year Ended 31 December 2021

5. Financial instruments - fair values and risk management

5.1 Financial risk management objectives and policies

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

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

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

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

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

The second comprises the Company's 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 Audit and Risk Committee, which is supported, in the areas of credit and residual risk, by the Porterbrook Head of Audit and Risk. Reporting to the Chief Financial Officer, the role of the Head of Audit and Risk includes development of financial risk measurement methodologies, financial risk monitoring and financial risk reporting.

The Finance and Compliance and Risk reports presented to the 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.

5.2 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.

5.3 Credit risk management

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 and cash and cash equivalents. 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 £27,579,000 (2020: £18,616,000). This is equivalent to the outstanding intercompany debtors and cash and cash equivalents at 31 December 2021. The Company holds no collateral or other credit enhancements to mitigate credit risk. There are no impaired financial assets.

Porterbrook Maintenance Limited

Notes to the Financial Statements For the Year Ended 31 December 2021

5. Financial instruments - fair values and risk management (continued)

5.4 Liquidity risk management

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.

	On demand £000	Over 5 years £000	Total £000
At 31 December 2021			
Trade and other payables	5,092	-	5,092
Preference shares	-	4	4
	<u>5,092</u>	<u>4</u>	<u>5,096</u>

5.4 Liquidity risk management (continued)

	On demand £000	Over 5 years £000	Total £000
At 31 December 2020			
Trade and other payables	3,314	-	3,314
Preference shares	-	4	4
	<u>3,314</u>	<u>4</u>	<u>3,318</u>

5.5 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 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:

	2021 £000	2020 £000
Between 1-2 years	31,537	33,290
Total exposure	<u>31,537</u>	<u>33,290</u>

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

6. Capital management and resources

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

Porterbrook Maintenance Limited

Notes to the Financial Statements For the Year Ended 31 December 2021

7. Revenue

The following is an analysis of the Company's revenue for the year from continuing operations:

	2021 £000	2020 £000
Rendering of maintenance services	69,971	77,841
Operating lease rentals	5,821	5,821
	<u>75,792</u>	<u>83,662</u>

All revenue arises in the UK.

8. Cost of Sales

An analysis of the Company's cost of sales is as follows:

	2021 £000	2020 £000
Depreciation	1,820	1,818
Employee benefits	4,978	5,964
Maintenance costs	64,290	71,078
	<u>71,088</u>	<u>78,860</u>

9. Profit from operations

Profit from operations has been arrived at after charging:

	2021 £000	2020 £000
Depreciation	1,820	1,818
Staff costs	4,978	5,964

Fees payable to the Company's auditor for the audit of the Company's annual financial statements for the current year are £30,000 (2020: £21,000) and have been borne by the Company's immediate parent undertaking, PLCL, for which no recharge has been made in the current or prior year. There were no fees payable for non-audit services in the current or prior year.

Porterbrook Maintenance Limited

**Notes to the Financial Statements
For the Year Ended 31 December 2021**

10. Employee benefit expenses

	2021	2020
	£000	£000
Employee benefit expenses (including directors) comprise:		
Employee benefits	4,127	4,858
Other pension costs	401	546
Social security contributions and similar taxes	450	560
	4,978	5,964

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

	2021	2020
	No.	No.
Maintenance management staff	80	78
Total	80	78

11. 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 (2020: £nil).

12. Finance income

	2021	2020
	£000	£000
Interest receivable from group companies	1,170	1,271
	1,170	1,271

Porterbrook Maintenance Limited

**Notes to the Financial Statements
For the Year Ended 31 December 2021**

13. Tax expense

13.1 Income tax recognised in profit or loss

	2021 £000	2020 £000
Current tax		
Current tax on profits for the year	1,216	1,209
Adjustments in respect of prior years	(128)	(266)
Total current tax	<u>1,088</u>	<u>943</u>
Deferred tax expense		
Origination and reversal of timing differences	1,515	504
Adjustments in respect of prior years	(1)	55
Total deferred tax	<u>1,514</u>	<u>559</u>
	<u><u>2,602</u></u>	<u><u>1,502</u></u>
Total tax expense		
Tax expense	<u>2,602</u>	<u>1,502</u>
	<u><u>2,602</u></u>	<u><u>1,502</u></u>

The reasons for the difference between the actual tax charge for the year and the standard rate of corporation tax in the United Kingdom applied to profits for the year are as follows:

	2021 £000	2020 £000
Profit for the year	3,089	4,384
Income tax expense	2,602	1,502
Profit before income taxes	<u>5,691</u>	<u>5,886</u>
Tax using the Company's domestic tax rate of 19% (2020:19%)	1,081	1,118
Adjustments to tax charge in respect of prior periods	(129)	(211)
Effect on the deferred tax balance of the increase in corporation tax rate from 19% to 25% effective 1 April 2023	1,650	-
Effect on the deferred tax balance of the increase in corporation tax rate from 17% to 19% effective 1 April 2020	-	595
Total tax expense	<u><u>2,602</u></u>	<u><u>1,502</u></u>

Porterbrook Maintenance Limited

**Notes to the Financial Statements
For the Year Ended 31 December 2021**

13. Tax expense (continued)

13.2 Deferred tax balances

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 2021, which provided for an increase in the main rate of corporation tax from 19% to 25% effective April 2023, was substantively enacted on 24 May 2021. The impact of the increase in tax rate is reflected in the current reporting period. The disclosed rate change adjustments below are calculated by reference to the respective forecast closing deferred tax balances.

The following is the analysis of deferred tax liabilities presented in the Statement of Financial Position:

	2021 £000	2020 £000
Deferred tax liabilities	7,093	5,579
	<u>7,093</u>	<u>5,579</u>

	Opening balance £000	Recognised in Profit or Loss £000	Adjustments in respect of prior year £000	Effect of change in corporation tax rate from 19% to 25% effective 1 April 2023 £000	Closing balance £000
2021 Property, plant and equipment	5,579	(135)	(1)	1,650	7,093
	<u>5,579</u>	<u>(135)</u>	<u>(1)</u>	<u>1,650</u>	<u>7,093</u>

	Opening balance £000	Recognised in Profit or Loss £000	Adjustments in respect of prior year £000	Effect of change in corporation tax rate from 17% to 19% effective 1 April 2020 £000	Closing balance £000
2020 Property, plant and equipment	5,020	(90)	55	594	5,579
	<u>5,020</u>	<u>(90)</u>	<u>55</u>	<u>594</u>	<u>5,579</u>

14. Dividends

	2021 £000	2020 £000
Ordinary shares		
Dividends paid for the year ended	-	10,000
	<u>-</u>	<u>10,000</u>

Porterbrook Maintenance Limited

Notes to the Financial Statements For the Year Ended 31 December 2021

15. Property, plant and equipment

	Operating lease assets £000
Cost or valuation	
At 1 January 2020	54,532
Additions	1
	<hr/> 54,533
At 31 December 2020	54,533
Additions	72
	<hr/> 54,605
At 31 December 2021	<hr/> <hr/> 54,605
	Operating lease assets £000
Accumulated depreciation	
At 1 January 2020	17,145
Charge owned for the year	1,818
	<hr/> 18,963
At 31 December 2020	18,963
Charge owned for the year	1,820
	<hr/> 20,783
At 31 December 2021	<hr/> <hr/> 20,783
Net book value	
At 1 January 2020	37,387
At 31 December 2020	35,570
At 31 December 2021	33,822

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 cash flows, the key assumptions of which include:

Discount rates: Management estimate discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks of the CGU; and

Future lease terms: Management forecast the future use of the existing fleet based on their judgement and experience. The 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; and

Useful Economic Life of Rolling Stock: The useful economic lives of assets are reviewed on a periodic basis and adjusted if appropriate.

The Company did not recognise any impairment loss in the Statement of Profit or Loss and Other Comprehensive Income (2020: £nil) based on a discount rate of 5.5% (2020: 5.4%). 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 6.0%, reducing the future lease term by 10% and reducing the useful economic life by one year do not lead to any impairment loss. Therefore the directors concluded there is no basis for an impairment charge at the year end.

Porterbrook Maintenance Limited

Notes to the Financial Statements For the Year Ended 31 December 2021

16. Trade and other receivables

	2021 £000	2020 £000
Amounts due from group companies	27,094	18,616
Other receivables	3,191	4,025
Total trade and other receivables	30,285	22,641
Less: current portion - other receivables	(3,191)	(4,025)
Total non-current portion	27,094	18,616

The carrying value of trade and other receivables classified as loans and receivables approximates fair value.

17. Trade and other liabilities

	2021 £000	2020 £000
Trade payables	4,280	2,633
Other payables	812	681
Total trade and other liabilities	5,092	3,314

The carrying value of trade and other payables classified as financial liabilities measured at amortised cost approximates fair value and is due for settlement within one year.

18. Preference shares

	2021 £000	2020 £000
Preference shares	4	4
	4	4

Preference shares are repayable after more than five years.

Preference shares are denominated in Pound Sterling. The weighted average interest rate paid in the year was 5.0% (2020: 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 the year (2020: £220). Dividends on the preference shares are shown within finance costs in the Statement of Profit or Loss and Other 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.

Porterbrook Maintenance Limited

Notes to the Financial Statements For the Year Ended 31 December 2021

19. Share capital

Authorised

	2021 Number	2021 £000	2020 Number	2020 £000
Shares treated as equity				
Ordinary shares of £1.00 each	100,000	100	100,000	100
	<u>100,000</u>	<u>100</u>	<u>100,000</u>	<u>100</u>

Issued and fully paid

	2021 Number	2021 £000	2020 Number	2020 £000
Ordinary shares of £1.00 each				
At 1 January and 31 December	50,000	50	50,000	50
	<u>50,000</u>	<u>50</u>	<u>50,000</u>	<u>50</u>

20. 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, PLCL. 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 financial statements of the sponsoring employer of the scheme. In accordance with IAS 19 (revised 2011), the Company recognises a cost in the year to 31 December 2021 of £220,000 (2020: £282,000) 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 2019. In addition, there is an annual review by an appointed actuary. The annual review can be found in the financial statements of the immediate parent company, PLCL. Copies of PLCL's financial statements can be obtained from the address in note 24.

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 £181,000 for the year to 31 December 2021 (2020: £264,000).

21. Reserves

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.

22. Related party transactions

22.1 Trading transactions

During the year, group entities entered into the following trading transactions with related parties:

Porterbrook Maintenance Limited

Notes to the Financial Statements For the Year Ended 31 December 2021

22. Related party transactions (continued)

22.1 Trading transactions (continued)

	2021 £000	Income 2020 £000
Parent company	76,962	84,933
	<u>76,962</u>	<u>84,933</u>

The following balances were outstanding at the end of the reporting period:

	Amounts owed by related parties	
	2021 £000	2020 £000
Parent company	27,094	18,616
	<u>27,094</u>	<u>18,616</u>

22.2 Compensation of key management personnel

There were no related party transactions during the year (2020: none), or existing at the Statement of Financial Position date, with the Company's, or parent company's, key management personnel. Please see the financial statements of the PLCL for further information on remuneration of key management personnel of the entity which is paid by other group entities.

22.3 Group entities

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

Porterbrook Holdings I Limited (a)
Porterbrook Holdings II Limited (a)
Porterbrook Investments I Limited (a)
The Porterbrook Partnership (b)
Porterbrook Rail Finance Limited (c)
Porterbrook Leasing Mid Company Limited (a)
Porterbrook Leasing Company Limited (a)
Porterbrook March Leasing (4) Limited (a)
Porterbrook Leasing Asset Company Limited (a)

The Registered office of the above entities is shown below:

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

Porterbrook Maintenance Limited

Notes to the Financial Statements For the Year Ended 31 December 2021

23. Notes supporting statement of cash flows

	2021 £000	2020 £000
Cash at bank available on demand	485	-
Cash and cash equivalents in the statement of financial position	485	-
Cash and cash equivalents in the statement of cash flows	485	-

24. Parent undertaking and controlling party

At the year end, the Company's immediate parent company was Porterbrook Leasing Company Limited, a company incorporated in England and Wales that owns 100% of the share capital of the company.

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

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

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