

Porterbrook Leasing Company Limited

Annual report and financial statements

For the Year Ended 31 December 2022

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Porterbrook Leasing Company Limited

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Porterbrook Leasing Company Limited

Strategic Report For the Year Ended 31 December 2022

The directors submit their Strategic Report for Porterbrook Leasing Company Limited (the Company, PLCL we, us or our) for the year to 31 December 2022.

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. 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 activity

The principal activity of the Company during the year was the leasing of rolling stock and other rail related transport assets 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).

Strategy

The Company invests in existing rolling stock to deliver the optimal value to the United Kingdom (UK) government, passenger service rail operators and other customers with emphasis on vehicles that support and improve reliability and which can be used across multiple routes as opposed to route-specific vehicles. The Company aims to continue to grow its business under this model whilst maintaining a considered and prudent financing policy. With regards to its rolling stock, the Company's strategy is centered around two key elements:

- Efficient deployment of existing stock to maximise utilisation, reliability, anticipated economic life and income generation
- Targeted maintenance, refurbishment and modification of existing stock to best position it in the market.

Market overview

The transport sector continued to recover from the impact of the Covid-19 pandemic amid economic and political turbulence in the year. Total UK rail passenger revenue in the second quarter of 2022 was £2.1 billion (bn) which is 70.4% of the £3bn from the same quarter in 2019 before the pandemic.

Office for Rail and Road figures published on 6th October 2022 show that a total of 13.5bn passenger kilometres (km) were recorded in the second quarter of 2022. This equates to 78.1% of the 17.3bn km in the same period in 2019.

The provision of sufficient rolling stock capacity remains key to rebuilding customer confidence, journeys and revenue.

The government's contribution to the operating costs of the railway was £13.3bn in the year to March 2022, which represented a reduction of £4.3bn (24.4%) from the previous year.

The rail reform agenda continued to develop over the course of 2022. The Great British Railways Transition Team (GBRTT) consultation on the direction of the Whole Industry Strategic Plan (WISP) concluded on 4th February. GBRTT published a summary report of the responses on 9th June.

On 15th June, the Department for Transport (DfT) published a Future of Freight plan. It restates the Williams Shapps Plan for Rail objectives to establish a Strategic Freight Unit, to introduce a duty on Great British Railways (GBR) to promote rail freight growth. GBRTT ran a consultation on the development of a rail freight target between 5th July and 27th September. A summary report of the response is due in the near future.

There has been significant change in the political landscape in 2022. On 19th October the Secretary of State informed the Transport Select Committee that the legislation required to establish GBR was subject to 'a few months' delay'. Following Rishi Sunak's appointment as Prime Minister on 25th October, Mark Harper was appointed Secretary of State with Huw Merriman appointed Minister of State at the DfT on 27th October 2022.

Porterbrook Leasing Company Limited

Strategic Report (continued) For the Year Ended 31 December 2022

Market overview (continued)

On 17th November Chancellor Jeremy Hunt made his autumn statement. He confirmed the core Northern Powerhouse Rail, East West Rail and HS2 to Manchester schemes will proceed and restated the government's commitment to protecting capital budgets, with investment of £600bn over the next five years. On 1st December the DfT published the High Level Output Specification (HLOS) and the Statement of Funds Available (SoFA) for England and Wales for Network Rail's Control Period 7 (CP7), which runs from April 2024 to March 2029. The HLOS and SoFA from Scottish Ministers was published on 3rd February 2023.

Business review

Review of the year

During 2022 the Company managed its operating leases with the train and freight operating companies in line with expectations. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are described in the primary financial statements on pages 15 to 18 and the notes to the financial statements on pages 19 to 45. The directors do not expect any significant change in the level of business in the foreseeable future except for:

- Fleets that have reached the end of their useful economic lives being withdrawn from service.

The Statement of Profit or Loss and Other Comprehensive Income on page 15 shows the Company achieved a profit before tax in the year of £282.7 (2021: £96.4m). Underlying gross capital and non-capital income reduced by £27.7m compared to 2021 as fleets came to the end of their useful economic lives. The reduction in cost of sales in 2022 reflected a lower level of maintenance activity in the year arising from the fleet's maintenance cycles and a reduction in depreciation. The Company also received dividends totalling £292.0m (2021: £149.1m) from its subsidiaries. As shown in the Statement of Financial Position on page 16 the Company had net assets of £212.0m (2021: £203.7m).

The Company disposed of certain off-lease assets and realised an opportunity to sell certain freight wagons achieving a profit on disposal of £4.6m (2021: £1.4m), the proceeds of which have been reinvested in improvements to existing assets. The assets sold had reached the end of their useful economic life. The Company donated several of these passenger vehicles to community projects that serve the areas where it operates within the UK.

Passenger rail operations and re-leasing developments

The lease arrangements between PLCL and South Western Railway for its Class 455 fleet were further extended in the year.

In March, PLCL signed new capital leases and maintenance reserve agreements with Govia Thameslink Railways (GTR). This secured revenues from the Class 377 and Class 387 fleets operated by GTR until March 2028.

In October, PLCL signed new capital and non capital leases with East Midlands Railway. This secured the Class 158s and Class 170s on lease for up to eight years until October 2030.

Fleet additions, modifications, refurbishment and utilisation

During the year, the final Class 769 FLEX modified vehicles were delivered to customers and commenced earning rentals. The FLEX enhancements to the units increase their capabilities and geographic footprint. Orders for Class 769 vehicles consist of 36, four car units leased to three operators with two units also supplied to a rail logistics operator.

The fleet modernisation programme of the Electrostar trains operating on the Southern, Gatwick Express and Great Northern networks continued with GTR. The first of 270 trains in the programme returned to passenger service in early 2021, having been upgraded at GTR's Selhurst depot. In 2022, 50 of the trains were upgraded, bringing the total number of units refreshed to 85 with the project expected to conclude in 2025. The new features range from real-time passenger information screens, LED lighting and USB/power points to passenger-counting technology, cameras for analysing the track in front of the trains and high-tech on-board operational systems that cut the time trains spend out of service for maintenance or repair. The improvement programme has been well received by the travelling public and external stakeholders.

In addition to the key financial measures, we also monitor the utilisation rate of operating lease assets as well as other non-financial indicators relating to asset maintenance and performance. The asset utilisation rate equated to 99.1% at the year end (2021: 99.3%). Utilisation rates are expected to remain high as the directors consider there will be alternative uses for any displaced fleets which have not reached the end of their useful lives, given the underlying demand for rail travel and resultant requirement for high quality, reliable rolling stock.

PLCL continued to work in partnership with customers to focus on further improving reliability through proactive interventions and enhanced data analytics.

Porterbrook Leasing Company Limited

Strategic Report (continued) For the Year Ended 31 December 2022

Other corporate matters

Environment

We recognize the importance of our environmental responsibilities and monitor our impact on the environment. We design and implement policies to reduce any damage that might be caused by our activities.

Environmental projects

The Group's investment in a range of innovative technologies to improve the environmental performance of our assets is ongoing and is as follows:

- **HydroFLEX:** The unit was showcased at the COP26 Climate Conference in 2021. Since then we have continued to develop and test the hydrogen propulsion system. We have obtained mainline safety approval for the unit;
- **HybridFLEX:** We have continued to work in partnership with Rolls Royce to develop a diesel-hybrid engine raft for our Turbostar fleet. The new power pack will reduce emissions of harmful gases, improve fuel savings and assist with operating the last 'clean mile' into stations using electric propulsion only. The train launched in July 2021 and entered passenger service with Chiltern in the first quarter of 2022. It has been running successfully in 2022 and options are being explored to roll out a new engine raft across the whole fleet; and
- **Eminox:** Trials of exhaust after treatment systems continued in 2022 with the technology being used on one of our Class 170 vehicles operated by East Midlands Railway. Harmful NOx emissions have been reduced by up to 80%.

Significant focus has been placed on environmental sustainability in 2023. Activities included:

- The publication of our third sustainability report in March 2022;
- The completion of a full materiality assessment in May 2022.

These improvements were reflected in our GRESB score, which increased from 99 out of 100 in 2021 to 100 out of 100 in 2022. We remained Global Transport Sector Leader, coming 1st out of 649 participants in the Infrastructure Assets category and retained a 5 star rating for the fourth consecutive year.

People and diversity

We recognise the benefit to our operations and the wider rail industry that will result from a diverse workforce. 29% (2021: 32%) of our staff are female, which compares favourably to the 17% (2021: 16%) comparator referenced by Women in Rail. The number of females in senior roles also remains at 33% (2021: 33%). Since 2020 we have collected ethnicity data and can evidence 10% diversity, based on declarations made by staff (2021: 9%).

Principal risks and uncertainties

Our business operates as part of the UK rail industry and is exposed to political and regulatory risks. The directors seek to mitigate these risks by ensuring compliance with the Porterbrook Code of Conduct and maintaining regular dialogue with as wide a range of industry stakeholders as possible, including and not limited to its customers, suppliers, the DfT and devolved authorities, the Office of Rail and Road, the Rail Delivery Group and Network Rail.

The Company is responsible for managing risk but has delegated day to day operational control thereof to its subsidiaries. We maintain a risk register which is managed by the Head of Risk, Quality and Assurance and is reported to the Audit and Risk Committee at their meetings. Our financial risk management objectives and policies, the policy for hedging each major type of transaction and our exposure to credit risk, market risk, residual value risk and liquidity risk are outlined in note 4 to the financial statements. Note 5 describes the capital management and resources policy, including the key financial covenants and ratios.

Our customers are responsible for the safe operation of our leased assets on the rail network. We manage safety and operational responsibilities through processes documented in a Business Management System and by employing suitably qualified staff, assessing their competencies on an ongoing basis and providing them with suitable training where necessary. Operational and safety matters are monitored by the Porterbrook Safety Committee and reported to the PLCL Board as required. Group entities are accredited by the Rail Industry Supplier Approval Scheme (RISAS) in respect of the procurement of vehicle overhaul, modification and engineering change. RISAS is a supplier accreditation sponsored by the rail industry and is awarded after a rigorous third-party audit. Accreditation was renewed in late 2022 (and will be due again in 2025). The reaccreditation audit identified good levels of compliance throughout, with zero non-conformances or observations raised, and only four opportunities for improvement recommended.

We remain in close contact with our customers to ensure that rail services continue to operate. This involves a safety conscious approach for all fleets. Regular contact is also maintained with the supply chain to ensure that maintenance materials are available when required. There is very limited direct impact of the UK's departure from the EU on the work force.

Porterbrook Leasing Company Limited

Strategic Report (continued) For the Year Ended 31 December 2022

Other corporate matters(continued)

Payment policy

It is the Company's policy to ensure payments are made to suppliers in accordance with the contractual 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 the end of the year, were equivalent to 24 days (2021: 27 days) purchases, based on the average daily amount invoiced by suppliers during the year.

Taxation

The Company is UK tax resident and HMRC classifies the Company as part of a large business. The Company works closely in a proactive and open manner with its HMRC Customer Compliance Manager on all tax matters. The Group published its updated tax strategy on the Porterbrook website during 2022 which was approved by the PHI Board of Directors on 29 September 2022.

Charitable contributions and Corporate Social Responsibility

We continued to support the Railway Children's 'Three Peaks Challenge by Rail' event (which was completed in June 2022) as headline sponsor. Charitable donations were made during the year amounting to £7,620 (2021: £16,788), principally to charities serving local communities in Derby and London as well as supporting the National Railway Museum (NRM) as a Silver Corporate member.

A £2.5m, five year sponsorship was agreed with the NRM for its 'Railway Future's Gallery' which they plan to open in 2025. It will be a multi-dimensional and interactive experience, which explores and imagines the role of the railway in the transport system of tomorrow.

We seek to ensure that life-expired trains can be used in the best way once they are out of service. Surplus vehicles are offered to heritage railways or for use in connection with community projects.

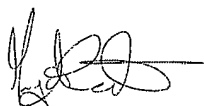
The Group continues to support local rail initiatives, particularly Community Rail Partnerships (CRP) and are corporate sponsors of Community Rail Networks (CRN) which represents CRPs across Great Britain. Our sponsorship for the CRN has been welcomed within the Department for Transport.

We continue to work closely with community stakeholders within education, local authorities, government, sport and leisure to support initiatives and interests where our offices are located.

Directors' statement of compliance with duty to promote the success of the Company

The directors have given due regard to the requirements of section 172 (1) (a) to (f) of the Companies Act 2006 in respect of how they have promoted the success of the Company for the benefit of all stakeholders as set out in the Statement of Corporate Governance contained in the Directors' Report.

This report was approved by the board on 28 February 2023 and signed on its behalf.



Ms M Grant
Director

Porterbrook Leasing Company Limited

Directors' Report For the Year Ended 31 December 2022

The directors present their report and the audited financial statements for the year ended 31 December 2022.

Directors

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

Sir A Montague (Chairman)
Mr H Abbott
Mr A Cox
Mr P d'Anthenay
Mr T Dugher
Ms M Grant
Mr A Harbora
Mr C McClure
Mr A Pitt
Mr S Rose
Mr J McDonagh (appointed 7 January 2022)
Mr J Pritchard (appointed 7 January 2022)
Mr R Zass (appointed 7 January 2022)
Mr B Ackroyd (appointed 21 March 2022)
Mrs R Tataru (appointed 30 September 2022)
Mr R Taylor (appointed 2 November 2022)
Mr J Vazquez Ruiz (resigned 30 September 2022)
Mr A Leonard (resigned 13 December 2022)
Mr P Coates (resigned 30 December 2022)

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 accounting 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 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 of accounting unless it is inappropriate 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 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.

Porterbrook Leasing Company Limited

Directors' Report (continued) For the Year Ended 31 December 2022

Going concern

The Company was profit making in the year but had net current liabilities at 31 December 2022 of £269.5m (2021: £124.9m). The Company has long term contracts with its customers which have contracted rentals of £254.5m (2021: £131.7m) as shown in note 23. These rentals are available to settle the Company's liabilities as they fall due. The Company also has access to the retained reserves of its subsidiary, Porterbrook Leasing Asset Company Limited and the financial support of its intermediate parent company, Porterbrook Rail Finance Limited. Porterbrook Rail Finance Limited has agreed to provide financial support to the Company. As a consequence, the directors believe that the Company is well placed to manage its business risks successfully in the current economic environment.

The Group, of which the Company is a part, is managed on a consolidated basis and hence the directors have also considered the forecast cash flows and the ability, as disclosed in the 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 to operate for the foreseeable future and so they continue to adopt the going concern basis in preparing the financial statements.

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 approved a dividend of £285.0m (2021: £80.0m) and the Company paid the dividend to its member. The directors have not recommended a further dividend on the equity shares of the Company (2021: £nil).

The directors approved dividends on its profit participating preference shares of £28,184 on 28 February 2023 (2021: £6,802). The dividends were paid on 28 February 2023.

Statement of corporate governance arrangements

The directors of each entity in the Group have applied the six Wates Corporate Governance Principles (Wates Principles) for the financial year ended 31st December 2022. The management of each such entity is the responsibility of its Board, subject to the duties and responsibilities imposed on directors (including pursuant to the Companies Act legislation), our "Corporate Governance and Delegated Authorities Mandate" (the Mandate) and certain of our other policies and procedures.

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

- the board of each of the main Group entities, including the Company; and
- three sub-committees: the Audit and Risk Committee, the Remuneration Committee and the Nomination Committee.

Meetings of the Boards and Committees referred to above are only quorate if the shareholder directors are present.

The Company's Board is responsible for setting our strategic direction, values and culture, which are then implemented by each such entity, to the extent relevant to it and subject to the duties and responsibilities imposed on its directors.

The directors consider that adherence to the Wates Principles facilitates compliance with the duties and responsibilities imposed on directors (including pursuant to section 172 Companies Act 2006).

The following describes how each of the Wates Principles, shown in *italics*, has been applied for the Company and each Group entity.

Porterbrook Leasing Company Limited

Directors' Report (continued) For the Year Ended 31 December 2022

Purpose and leadership

"An effective board develops and promotes the purpose of a company, and ensures that its values, strategy and culture align with that purpose"

The Company's shareholders are represented by non-executive directors who attend PLCL Board meetings on their behalf and have full voting rights in determining strategy and significant investments made by the Group.

Our strategy (the Strategy) is presented to the PLCL Board annually. It sets out business opportunities, risks and business enablers that underpin the achievement of our objectives. It also identifies the management initiatives and actions necessary to deliver the outcomes required thereby. It is considered by the PLCL Board and benchmarked against the expectations of the Company's shareholders, wider stakeholders and against the views of industry experts and independent non-executive directors. Following appropriate review and challenge, it is approved by the PLCL Board. Individual investment decisions are considered and approved by the PLCL Board as described in the Opportunities and Risk section below.

The Strategy is communicated to staff via team meetings and management forums. Members of the PLCL Board also attended an annual staff forum in 2022 where they were available to answer questions as well as share their views on the performance and future direction of the business.

Our Values of Respect, Integrity, Excellence, Delivery and Sustainability are widely communicated across the business and are central to the development of our business culture. Face to face Vision and Values meetings were held in 2022. Regular communication of the Group's values was achieved through internal news articles and team meetings. The Group's Charter that was issued in 2020 sets out a collaborative, employee-led standard of excellence and defines consistent behaviours expected at all levels in the business. The value of Respect was further supported by the issue of an Equal Opportunities and Diversity Policy in 2021. Values are further considered through the annual objective setting and performance appraisal processes, which are completed for all members of staff.

We have a Whistleblowing policy that provides staff and other parties with a mechanism to raise any concerns they may have about any allegations of misconduct and unethical practices to the Chairman, Chief Executive Officer or General Counsel.

Board composition

"Effective board composition requires an effective chair and a balance of skills, backgrounds, experience and knowledge, with individual directors having sufficient capacity to make a valuable contribution. The size of a board should be guided by the scale and complexity of the Company"

The composition of the Company's Board is in line with the structure as determined by the arrangements between its shareholders. The PLCL Board reflects the requirement for shareholder representation, non-executive industry expertise as well as the senior executive management team. The PLCL Board met seven times in 2022.

The roles of the Chairman and Chief Executive Officer are split, with responsibilities of the Chairman set out in his letter of appointment. The Chairman is an independent non-executive director. The PLCL Board is comprised of non-executive shareholder management representatives, independent non-executive industry experts and the core executive management team. Shareholder representatives are professional asset managers appointed by the shareholders and the industry specialists are recognised as long standing experts in the rail and rail leasing sector having previously held senior management positions within the industry. The composition and structure of the Board of each Group entity was initially considered following the acquisition of the Company in 2014 and is kept under consideration to ensure that each Board remains effective.

In 2022 the Chairman conducted a Board Effectiveness Review, assisted by an independent specialist firm with a deep understanding of board governance best practice. As a result, a number of changes to the way in which the Board functions were implemented. These changes included the establishment of a Nomination Committee.

Porterbrook Leasing Company Limited

Directors' Report (continued) For the Year Ended 31 December 2022

Director responsibilities

"The board and individual directors should have a clear understanding of their accountability and responsibilities. The board's policies and procedures should support effective decision making and independent challenge"

Decision making by each Group entity is subject to the duties and responsibilities imposed on directors (including pursuant to the Companies Act legislation) and the Mandate. The Mandate is reviewed and approved annually by the Audit and Risk Committee and details the authorities in respect of corporate transactions, appointment of staff and remuneration and limits for the approval of capital and operational expenditure. The Mandate is made available to all staff via our intranet.

The Audit and Risk, Remuneration and Nomination Committees have formal terms of reference which are periodically reviewed and approved. A summary of matters agreed and discussed at each Committee meeting is reported to the PLCL Board. In 2022 the Audit and Risk Committee met four times, the Remuneration Committee met twice and the new Nomination Committee met once.

A comprehensive set of papers is issued to all Board and Committee members a week in advance of each meeting. Safety, financial and operational information is reported to each PLCL Board meeting, where performance against the approved budget and strategic objectives is reviewed and challenged. Assurance in respect of our processes and controls is provided by an in-house Internal Audit function who provide regular updates to the Audit and Risk Committee summarising the audit work completed and resulting findings. Our annual reports and financial statements are also subject to external audit.

Governance arrangements are monitored against any changes in legislation or good practice by the General Counsel and Head of Risk, Quality and Assurance and considered formally by the Audit and Risk Committee annually.

Opportunity and risk

"A board should promote the long term sustainable success of the Company by identifying opportunities to create and preserve value, establishing oversight for the identification and mitigation of risks"

At the highest level, the Strategy identifies and drives the realisation of business opportunities and growth targets. Responsibility for the delivery of identified initiatives is allocated to a member of the executive management team and progress in delivery is reported at each PLCL Board meeting. Engineering innovation, including value adding enhancements to rolling stock assets, is identified by an established projects and innovation team.

Investment opportunities are managed through a formal Request for Approval to Proceed (RFAP) process. Investments with a cost of less than £2.5m are considered and approved by the senior executive team, based on a completed RFAP form, which documents the opportunity, the business case and a number of key financial hurdles, including an expected internal rate of return. Investment opportunities with a cost of £2.5m or more and proposals for the strategic re-lease of fleets are presented for consideration and approval by the PLCL Board.

Any new or emerging risks and trends for key risks are reported and reviewed at the Audit and Risk Committee; a review of the full Corporate Risk Register is completed by the Committee once a year.

Porterbrook Leasing Company Limited

Directors' Report (continued) For the Year Ended 31 December 2022

Remuneration

"A board should promote executive remuneration structures aligned to the long-term sustainable success of a company, taking into account pay and conditions elsewhere in the Company"

The Remuneration Committee is responsible for the review and approval of executive senior management pay. This Committee is chaired by, and comprised of, non-executive directors.

Any pay awards are proposed based on salary benchmarking with industry peer groups and guidance from professional advisors. All staff members are eligible to join a retirement benefit scheme with employer contribution rates applied consistently for all employees.

A discretionary annual bonus scheme is in place for all staff members including the executive management team. All employees have an individually agreed percentage of their salary allocated as a target bonus amount; the extent to which this target is achieved is based on the business meeting set objectives as well as employees meeting individually tailored business objectives. The same business objectives apply for all staff members with the resultant outcome also applied consistently for all staff. The award of any bonus payments, including the initial setting and subsequent achievement of objectives is reviewed and approved by the Remuneration Committee who retain the right to exercise discretion in deciding any bonus payments.

A Long Term Incentive Plan (LTIP) is in place for the core executive management team which is structured to reward the sustainable long term financial development of the Group. The terms of the LTIP, the setting of performance conditions and the vesting of any awards are reviewed and approved by the Remuneration Committee.

Stakeholder relationships and engagement

"Directors should foster effective stakeholder relationships aligned to the Company's purpose. The board is responsible for overseeing meaningful engagement with stakeholders, including the workforce, and having regard to their views when taking decisions"

External Stakeholders are managed via an Engagement Plan which covers relationships with customers, key suppliers and wider industry stakeholders including the DfT, passenger focus groups, the Office of Rail and Road, industry peers and political parties at both national and local levels. Stakeholder and customer surveys are undertaken annually to obtain feedback on our standing in the marketplace, the results of which are used to identify further initiatives to strengthen our position as a leading provider of rail leasing and asset management support.

Information provided to stakeholders is subject to appropriate management review and sign off. Regular financial and operational reporting processes are documented and internal controls to ensure accurate and complete reporting are subject to regular review and validation by Internal Audit.

Our financial position and outlook is set out in the Business review contained within the Strategic Report and the Going Concern section of the Directors' Report included in the Group's Annual report and financial statements.

The impact of the activities of the business on the environment are considered in the Sustainability Report and measured as part of an annual assessment of compliance with good practice in respect of the Environment, Social and Governance through participation in the GRESB process.

Engagement with staff is facilitated by the relatively small number of employees for a large private company. Staff are regularly given the opportunity to engage with senior management through staff forums and focus groups. Feedback from employees is also obtained through a variety of mechanisms, such as surveys, including those that support our Investors in People accreditation and exit interviews when a member of staff leaves the business.

News articles and updates are regularly communicated via the intranet as per our Internal Communications Strategy and "You Said, We Did" feedback is also provided on actions taken to either implement staff initiatives or address concerns raised. Team meetings are regularly held, supported by a centrally prepared Company Agenda which highlights activity and achievements by department.

Staff welfare continues to be a management focus, supported by regular communication, HR led focus groups, long service and high performance recognition rewards and a Health and Wellbeing Policy.

Streamlined Energy and Carbon Reporting (SECR)

PHI financial statements include the Company's and Group's disclosure for SECR reporting purposes. These financial statements are available from the address in note 27.

Porterbrook Leasing Company Limited

Directors' Report (continued) For the Year Ended 31 December 2022 Future developments

The Company expects the projects described in the Business review to continue through to completion. No other significant developments are expected.

Financial instruments

The major risks associated with the Company are described in note 5, along with its risk management policies and practices.

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 28 February 2023 and signed on its behalf.



Mr R Taylor
Director

Independent auditors' report to the members of Porterbrook Leasing Company Limited

Report on the audit of the financial statements

Opinion

In our opinion, Porterbrook Leasing Company Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2022 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 2022; the Statement of Profit or Loss and Other Comprehensive Income, the Statement of Cash Flows, and the Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

We have provided no non-audit services to the company or its controlled undertakings in the period under audit.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- Evaluating management's process of going concern assessment;
- Evaluating assumptions in the context of changes from prior periods, adequate support and consistency with each other and with related assumptions used in other areas of the company's business activities;
- Testing cash flow model for mathematical accuracy, reviewing and performing sensitivity analysis over the most judgemental/sensitive inputs;
- Obtaining and evaluating the directors' going concern assessment which reflects conditions up to the point of approval of the Annual Report; and
- Obtaining evidence to support the key assumptions and forecasts driving the directors' assessment. This included reviewing the directors' assessment of their financial position and forecasts, their assessment of liquidity as well as their review of the operational resilience and oversight of key third party service providers.

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.

Porterbrook Leasing Company Limited

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

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

Reporting on other information

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

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

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

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

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 2022 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 posting of inappropriate journal entries in order to increase

Porterbrook Leasing Company Limited

revenue, and management bias in accounting estimates and judgemental areas of the financial statements such as the impairment assessment of operating lease assets, non-capital lease revenue, and the present value of the retirement benefit obligation. 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;
- Challenging assumptions and judgements made by management in their significant accounting estimates, in particular in relation to impairment assessment of operating lease assets, non-capital lease revenue, and the present value of the retirement benefit obligation;
- Identification and testing of journal entries, in particular any journal entries posted with unusual amounts, unusual account combinations, unusual times or dates;
- Involving our actuarial and 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.

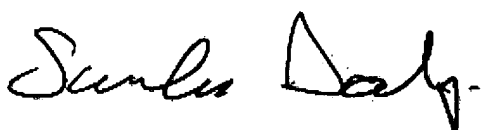
Other required reporting

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
28 February 2023

Porterbrook Leasing Company Limited

**Statement of Profit or Loss and Other Comprehensive Income
For the Year Ended 31 December 2022**

	Note	2022 £000	2021 £000
Revenue	6	382,789	411,772
Cost of sales	7	(227,569)	(281,877)
Gross profit		155,220	129,895
Administrative expenses		(7,367)	(5,501)
Profit on disposal of property, plant and equipment		4,581	1,362
Profit from operations		152,434	125,756
Investment income	11	292,727	149,323
Finance expense	12	(162,415)	(178,653)
Profit before tax		282,746	96,426
Tax expense	13	(836)	(28,418)
Profit for the year		281,910	68,008
Other Comprehensive Income:			
Items that will not be reclassified to profit or loss:			
Remeasurements of defined benefit pension schemes	24	15,252	5,648
Tax relating to items that will not be reclassified	13	(3,813)	(397)
Other Comprehensive Income for the year, net of tax		11,439	5,251
Total Comprehensive Income		293,349	73,259

The notes on pages 19 to 45 form part of these financial statements.

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

Porterbrook Leasing Company Limited
Registered number: 02912662

Statement of Financial Position
As at 31 December 2022

	Note	2022 £000	2021 £000
Assets			
Non-current assets			
Property, plant and equipment	15	894,264	968,995
Investment in subsidiaries	16	2,024,443	2,024,443
Employee benefit assets	24	2,666	-
		<u>2,921,373</u>	<u>2,993,438</u>
Current assets			
Corporation tax		1,178	942
Trade and other receivables	17	2,721	14,502
Cash and cash equivalents	26	38,203	105,141
		<u>42,102</u>	<u>120,585</u>
Total assets		<u>2,963,475</u>	<u>3,114,023</u>
Liabilities			
Non-current liabilities			
Trade and other liabilities	20	1,580,813	1,731,937
Loans and borrowings	18	683,454	742,965
Employee benefit liabilities	24	-	11,973
Deferred tax liability	13	175,552	179,147
		<u>2,439,819</u>	<u>2,666,022</u>
Current liabilities			
Trade and other liabilities	20	250,966	180,541
Loans and borrowings	18	60,679	63,758
		<u>311,645</u>	<u>244,299</u>
Total liabilities		<u>2,751,464</u>	<u>2,910,321</u>
Net assets		<u>212,011</u>	<u>203,702</u>
Issued capital and reserves			
Share capital	22	9,878	9,878
Retained earnings		202,133	193,824
Total equity		<u>212,011</u>	<u>203,702</u>

The financial statements on pages 15 to 45 were approved and authorised for issue by the board of directors on 28 February 2023 and were signed on its behalf by:

Mr R Taylor
Director



The notes on pages 19 to 45 form part of these financial statements.

Porterbrook Leasing Company Limited

**Statement of Changes in Equity
For the Year Ended 31 December 2022**

	Share capital	Retained earnings	Total equity
	£000	£000	£000
At 1 January 2021	9,878	200,606	210,484
Comprehensive income for the year			
Profit for the year	-	68,008	68,008
Other comprehensive income	-	5,251	5,251
	-	73,259	73,259
Total comprehensive income for the year			
Dividends	-	(80,041)	(80,041)
	-	(80,041)	(80,041)
At 31 December 2021	9,878	193,824	203,702
At 1 January 2022	9,878	193,824	203,702
Comprehensive income for the year			
Profit for the year	-	281,910	281,910
Other comprehensive income	-	11,439	11,439
	-	293,349	293,349
Total comprehensive income for the year			
Dividends	-	(285,040)	(285,040)
	-	(285,040)	(285,040)
Total contributions by and distributions to owners			
	-	(285,040)	(285,040)
At 31 December 2022	9,878	202,133	212,011

Porterbrook Leasing Company Limited

**Statement of Cash Flows
For the Year Ended 31 December 2022**

	Note	2022 £000	2021 £000
Cash flows from operating activities			
Profit from operations		152,434	125,756
Adjustments for			
Profit on disposal of property, plant and equipment		(4,581)	(1,362)
Depreciation		98,084	159,814
		<u>245,937</u>	<u>284,208</u>
Movements in working capital:			
Decrease in trade and other receivables		11,783	2,784
Decrease in trade and other payables		(59,667)	(88,411)
		<u>198,053</u>	<u>198,581</u>
Cash generated from operations			
Income taxes paid		(30,000)	(31,300)
Interest paid		(162,390)	(178,660)
		<u>5,663</u>	<u>(11,379)</u>
Net cash from/(used in) operating activities			
Cash flows from investing activities			
Purchase of property, plant and equipment		(23,039)	(39,073)
Disposal proceeds		5,341	1,366
Interest received		727	179
Dividends received		292,000	149,144
		<u>275,029</u>	<u>111,616</u>
Net cash from investing activities			
Cash flows from financing activities			
Dividends paid		(285,040)	(80,041)
Payment of lease liabilities		(62,590)	(100,992)
		<u>(347,630)</u>	<u>(181,033)</u>
Net cash used in financing activities			
Net cash decrease in cash and cash equivalents		<u>(66,938)</u>	<u>(80,796)</u>
Cash and cash equivalents at the beginning of year		105,141	185,937
Cash and cash equivalents at the end of the year	26	<u><u>38,203</u></u>	<u><u>105,141</u></u>

Porterbrook Leasing Company Limited

Notes to the Financial Statements For the Year Ended 31 December 2022

1. Accounting policies

1.1 Basis of preparation

Porterbrook Leasing Company 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 and in accordance with UK-adopted International Accounting Standards and the Companies Act 2006. The financial statements have been prepared under the historical cost convention. The principal accounting policies adopted are set out below and have been applied consistently, unless otherwise stated.

The financial statements of Porterbrook Leasing Company 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 are described in note 3 below.

The Company has taken advantage of the exemptions under Sections 400 and 401 Companies Act 2006 not to produce consolidated financial statements. Porterbrook Rail Finance Limited, a company incorporated in Jersey, is the smallest group of undertakings for which the Group's financial statements are drawn up and of which the Company is a member. The Group's financial statements can be obtained from the address in note 27.

1.2 Going concern

The financial statements are prepared on a going concern basis. The Company was profit making in the year but had net current liabilities at 31 December 2022 of £269.5m (2021: £124.9m). The Company has long term contracts with its customers which have committed rentals of £254.5m (2021: £131.7m) as shown in note 23. These committed rentals are available to settle the Company's liabilities as they fall due. The Company also has access to the retained reserves of its subsidiary, Porterbrook Leasing Asset Company Limited and the financial support of its intermediate parent company, Porterbrook Rail Finance Limited. As a consequence, the directors believe that the Company is well placed to manage its business risks successfully in the current economic environment.

The Group, of which the Company is a part, is managed on a consolidated basis and hence the directors have also considered the forecast cash flows and the ability, as disclosed in the financial statements of the intermediate parent company, Porterbrook Rail Finance Limited, in providing financial support. The Group continues to comply with all of its debt covenants, with strong operating cash flows generated by the Group's leasing and maintenance activities.

1.3 Adoption of new and revised standards

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

Annual improvements to IFRSs	2018 – 2020 cycle
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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 and IFRS 2	Disclosure of Accounting Policies
Amendments to IAS 8	Definition of Accounting Estimates
Amendments to IAS 12	Income Taxes

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

1.4 Revenue

Revenue 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. The Company has different types of lease agreements with its customers requiring different accounting treatments as follows:

Capital lease income from operating leases is recognised in revenue on a straight-line basis over the lease term. Capital leases are sold on a standalone basis, the allocation of lease income between capital and non-capital is based on contractual amounts. The Company's non-capital revenues under the whole life basis is recognised over

Porterbrook Leasing Company Limited

Notes to the Financial Statements For the Year Ended 31 December 2022

1. Accounting policies (continued)

1.4 Revenue (continued)

time and depicts the pattern of the provision of service to the end customer.

Non-capital lease income is deferred, and held on the Balance Sheet, to the extent that it relates to future maintenance expenditure. Deferred income is then released to revenue when related maintenance expenditure is incurred. The forecast of future maintenance expenditure is considered to be a significant accounting estimate. The forecast is maintained in a dedicated computer system which combines historic maintenance information with the vehicle maintenance instructions and estimates of event costs. The estimates on the quantum and timing of events and the associated event costs are reviewed and updated every six months.

Other maintenance expenditure is taken to the Statement of Profit or Loss and Other Comprehensive Income, unless it adds value to the asset (in which case it is capitalised) or it is anticipated that it can be recovered by rentals (in which case it is held in the Statement of Financial Position as a prepayment). Losses forecast during a lease period are provided for when anticipated.

Maintenance reserve receipts are held as creditors. Specific balances are then repaid upon the completion of maintenance expenditure events.

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. Income from the disposal of tangible fixed assets is recognised when substantially all of the risks and rewards of ownership of the asset have passed to the purchaser.

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.

When the Company is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease.

(ii) The Company as a lessee

The Company assesses whether a contract is or contains a lease, at inception of a contract. The Company recognises a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low-value assets. For these leases, the Company recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Company uses its incremental borrowing rate. Lease payments included in the measurement of the lease liability comprise fixed lease payments (including in-substance fixed payments), less any lease incentives.

The lease liability is included in the 'Loans and borrowings' line in the Statement of Financial Position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Company remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

Porterbrook Leasing Company Limited

Notes to the Financial Statements For the Year Ended 31 December 2022

1. Accounting policies (continued)

1.5 Leasing (continued)

(ii) The Company as a lessee (continued)

The Company did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are included in 'Property, Plant and Equipment', as applicable, in the Statement of Financial Position. The right-of-use assets are presented as a separate line in the Statement of Financial Position.

The Company applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in note 1.14.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Company has not used this practical expedient.

1.6 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred

1.7 Dividends

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

1.8 Employee benefits: Defined contribution

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

1.9 Employee benefits: Defined benefit

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 subsidiary, Porterbrook Maintenance 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 financial statements of the Company, which is the sponsoring employer of the scheme.

The cost of providing benefits is determined using the projected unit credit method, with updates to the actuarial valuation being performed at each balance sheet date by qualified actuaries. Remeasurement comprising actuarial gains and losses and the return in scheme assets (excluding interest) are recognised immediately in the Statement of Financial Position with a charge or credit to the Statement of Profit or Loss and Other Comprehensive Income in the period in which they occur. Remeasurement recorded in the Statement of Profit or Loss and Other Comprehensive Income is not recycled. Past service cost is recognised in the Statement of Profit or Loss and Other Comprehensive Income in the period of scheme amendment. Net interest is calculated by applying the discount rate to the net defined benefit liability. Defined benefit costs are split into three categories: current service costs, net interest expense and remeasurement. The Company presents the components within costs of sales in the Statement of Profit or Loss and Other Comprehensive Income, except for net interest expense which is presented in finance expenses (see note 24).

Porterbrook Leasing Company Limited

Notes to the Financial Statements For the Year Ended 31 December 2022

1. Accounting policies (continued)

1.10 Employee benefits

Short-term and other long-term employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Company in respect of services provided by employees up to the reporting date.

1.11 Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax. Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

(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 assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

Deferred tax 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 Leasing Company Limited

Notes to the Financial Statements For the Year Ended 31 December 2022

1. Accounting policies (continued)

1.12 Financial instruments

Financial assets and financial liabilities are recognised when an entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

1.13 Property, plant and equipment

Operating lease assets include rolling stock plus other items of equipment leased to customers. Plant and machinery include motor vehicles and un-leased spares.

Assets are 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 'profits on disposal'. Repairs and renewals are charged to the Statement of Profit or Loss and Other Comprehensive Income when the expenditure is incurred.

Assets in the course of construction are carried at cost, less any recognised impairment losses. Cost includes professional fees and for qualifying assets, borrowing costs capitalised in accordance with the Company's accounting policies. Depreciation of these assets, on the same basis as other assets, commences when the assets are ready for their intended use.

Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Depreciation is provided on all other items of property, plant and equipment so as to write off their carrying value over their expected useful economic lives. It is provided at the following range:

Operating lease assets	20 to 35 years
Plant and machinery	2 to 10 years
Right of use assets	over the lease term

The depreciation rate for operating lease assets where the economic benefit is not consumed on a straight line is adjusted to reflect this.

Porterbrook Leasing Company Limited

Notes to the Financial Statements For the Year Ended 31 December 2022

1. Accounting policies (continued)

1.14 Impairment of tangible assets

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 (CGU) to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or CGU) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

1.15 Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments issued by an entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

1.16 Trade and other receivables

Trade receivables are measured at initial recognition at fair value and are subsequently measured at amortised cost using the effective interest rate method. Appropriate expected credit loss allowances for estimated irrecoverable amounts are recognised in profit or loss. The allowance recognised is measured as the expected credit loss allowance method as stated by IFRS 9 Financial Instruments.

1.17 Contract assets and other payables

Contract assets represent deferred costs for maintenance events. Other payables arise if a maintenance lease rental is in excess of the revenue received to date.

1.18 Interests in subsidiary undertakings

Investments are carried at cost less any provision for impairment. Such investments are assessed for indicators of impairment at each balance sheet date. They are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the investment, the estimated future cash flows of the investment have been impaired.

1.19 Cash and cash equivalents

Cash comprises bank balances with less than three months' maturity and money market deposits with a maturity of a comparable term. Intercompany balances are not treated as cash equivalents and are shown in payables and receivables.

1.20 Profit from operations

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

Porterbrook Leasing Company Limited

Notes to the Financial Statements For the Year Ended 31 December 2022

2. 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.

3. Significant 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.

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

Revenue recognition of the Company's non-capital lease income

The forecast of future maintenance expenditure and the release of associated deferred non-capital income is considered to be a critical accounting estimate. The forecast is maintained in a dedicated computer system which combines historic maintenance information with the vehicle maintenance instructions and estimates of event costs. The assumptions on the quantum and timing of events and the associated event costs are reviewed and updated every six months. The rentals received under the plan are fixed monthly values, with a yearly update for indexation, and are expected to be received over the maintenance life of the vehicle. The revenue levels in each year depend on the timing of maintenance events and the mix of fleets on these arrangements. Any surplus following the contracted periods are considered when the next contracts are agreed, to reflect that part of the maintenance costs already funded.

The key assumptions used in the production of the maintenance plan are maintenance costs and timing of events. Management use the maintenance instructions of each class of train and where contracted the relevant costs to ascertain the future maintenance expenditure. If these costs are not contracted, then management use historical information to form an assessment of the expected amounts.

These assumptions are sensitive to changes and accordingly are considered key sources of estimation uncertainty. They impact the maintenance charge included in cost of sales in the Statement of Profit or Loss and Other Comprehensive Income. If the maintenance charge had increased/(decreased) by 10% in the year due to the timing of events, the associated revenue and profit from operations included in the Statement of Profit or Loss and Other Comprehensive Income would have increased/(decreased) by £5,773,000 and £1,644,000 respectively.

Impairment testing of the Company's operating lease assets

The key assumptions used in the impairment testing are:

- **Discount rates:** The 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. Cash flow forecasts are prepared for the full life of each CGU with more detailed forecasts for the forthcoming five years as part of the most recent financial budget and plan 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.

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

Porterbrook Leasing Company Limited

Notes to the Financial Statements For the Year Ended 31 December 2022

3. Accounting estimates and judgements (continued)

	2022 £000	2021 £000
0.50% increase in discount rate	54,000	65,000
0.40% (2021: 0.60%) decrease in discount rate	(46,000)	(83,000)
10% reduction in uncontracted revenue	(107,000)	(136,000)
10% increase in uncontracted revenue	107,000	136,000
1 year reduction in useful economic life	(95,000)	(110,000)
1 year increase in useful economic life	93,000	114,000

4. Financial instruments - fair values and risk management

4.1 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 parent 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.

Porterbrook Leasing Company Limited

Notes to the Financial Statements For the Year Ended 31 December 2022

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

4.2 Market risk

Market risk is the potential for increases in costs or decreases in the value of net assets caused by movements in the levels and prices of financial instruments. The Company has limited exposure to foreign exchange rate risk, as it has minimal 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.

The intercompany borrowing from Porterbrook Rail Finance Limited (as disclosed in note 20) carried a fixed rate of interest, but this rate could be varied by the lender giving notice of one business day. A 100 basis point increase in the rate payable on the Porterbrook Rail Finance Limited loan would have resulted in a reduction in profit before tax of £8,785,000 (2021: £8,327,000) and a decrease in the net assets of £7,116,000 (2021: £6,745,000). A 100 basis point decrease in the rate payable on the loan would have resulted in an increase in profit before tax of £8,785,000 (2021: £8,327,000) and an increase in the net assets of £7,116,000 (2021: £6,745,000).

4.3 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 the following areas:

Sales ledger receivables

Credit risk in this area is managed through regular contact with customers and monitoring of overdue balances. The Company retains the right to repossess its operating lease assets should operating lease rentals not be paid when due. The credit risk associated with trade receivables is deemed to be low. The Company also monitors credit risk in relation to the total committed operating lease receipts due from lessees. These committed receipts are disclosed in note 23.

Bank deposits

The Company monitors this risk through discussions with knowledgeable counterparties leading to the application of a mandate which manages concentration and counterparty credit risk. The Company retains the right to move its cash deposits to other financial institutions if the credit risk in relation to bank deposits is considered too high.

The maximum exposure to credit risk without taking into account collateral or credit enhancements is £40,415,000 (2021: £108,878,000). This is equivalent to the outstanding intercompany debtors, sales ledger balances and bank deposits at 31 December 2022. Excluding intercompany amounts, the exposure is £40,402,000 (2021: £108,878,000).

There are no impaired financial assets. In the year ended 31 December 2022 the Company did not impair any sales ledger balances (2021: nil).

Collateral is not held to mitigate credit risk in relation to sales ledger balances, but is held in relation to advance payments made to suppliers for construction in progress. The collateral is held in the form of bank and supplier guarantees, and had a value of £6,175,000 at 31 December 2022 (2021: £6,175,000).

Porterbrook Leasing Company Limited

Notes to the Financial Statements For the Year Ended 31 December 2022

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

4.4 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	Up to 3 months £000	3 - 12 months £000	2 - 5 years £000	Over 5 years £000	Total £000
2022						
Trade and other payables	61,222	13,370	176,374	11,169	1,569,616	1,831,751
Lease liabilities	-	15,865	44,814	254,999	428,355	744,033
	<u>61,222</u>	<u>29,235</u>	<u>221,188</u>	<u>266,168</u>	<u>1,997,971</u>	<u>2,575,784</u>
	On demand £000	Up to 3 months £000	3 - 12 months £000	2 - 5 years £000	Over 5 years £000	Total £000
2021						
Trade and other payables	59,801	15,417	105,323	34,489	1,697,448	1,912,478
Lease liabilities	-	14,719	41,908	232,436	495,938	785,001
	<u>59,801</u>	<u>30,136</u>	<u>147,231</u>	<u>266,925</u>	<u>2,193,386</u>	<u>2,697,479</u>

4.5 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:

	2022 £000	2021 £000
Within one year	142,210	350,560
Between 1-2 years	16,390	148,845
Between 2-5 years	127,157	61,075
More than 5 years	235,502	105,862
Total exposure	<u>521,259</u>	<u>666,342</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.

Porterbrook Leasing Company Limited

Notes to the Financial Statements For the Year Ended 31 December 2022

5. 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.

6. Revenue

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

	2022 £000	2021 £000
Capital lease revenue	324,498	341,940
Non-capital lease revenue	57,726	67,993
Other income	565	1,839
	<u>382,789</u>	<u>411,772</u>

Revenue on maintenance services is a combination of invoiced rentals plus release of previously deferred income. All revenue is initially deferred and then released to match the profile of actual maintenance costs. Adjusting the key assumptions relating to non-capital lease income affects the timing of revenue recognition in the profit and loss account in future periods.

The contract assets in note 17 relate to the Company's rights to consideration for services provided but not invoiced at the reporting date. The contract assets are reduced as the customer is invoiced for maintenance services in accordance with the contracted invoicing profile and the necessary performance obligation is satisfied.

Current year movements on other payables in note 20 are attributed to the maintenance of rolling stock. (i.e. the recognition of revenue, maintenance events incurred, amounts invoiced, and consideration for services received in advance of performing the maintenance activity).

The other payables in note 20 relate to consideration received from customers for the maintenance of rolling stock in advance of the related maintenance services being provided. These relate to both contracted and uncontracted maintenance services. Revenue will be recognised during the course of the non-capital lease term for these services. A liability will remain at the end of the current non-capital lease term. This is considered to be industry practice and in-line with regulation. Depending on the nature of the future lease term this amount may be released to revenue or paid out to future lessees.

7. Cost of Sales

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

	2022 £000	2021 £000
Employee benefit expenses	12,827	11,714
Lease payments and depreciation	78,129	95,890
Maintenance costs	39,030	49,326
Depreciation	91,175	118,925
Other costs	6,408	6,022
	<u>227,569</u>	<u>281,877</u>

Porterbrook Leasing Company Limited

**Notes to the Financial Statements
For the Year Ended 31 December 2022**

8. Profit from operations

Profit for the year has been arrived at after charging/(crediting):

	2022 £000	2021 £000
Depreciation	91,175	118,925
Depreciation - right of use assets	6,909	40,889
Profit on disposal of property, plant and equipment	(4,581)	(1,362)
Employee benefit expenses	12,827	11,714
Auditors' remuneration	460	395
	=====	=====

Fees payable to the Company's auditors for the audit of the Company's annual financial statements for the current year are £175,000 (2021: £150,000), the remainder in the table above relates to audit fees paid on behalf of other Group companies for which no recharge is made. There were no fees payable for non-audit services in the current or prior year.

9. Employee benefit expenses

	2022 £000	2021 £000
Employee benefit expenses (including directors) comprise:		
Wages and salaries	9,666	8,969
Social security costs	1,300	1,124
Defined contribution pension cost	617	393
Defined benefit scheme cost	1,244	1,228
	=====	=====
	12,827	11,714

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

	2022 Number	2021 Number
Administration staff	39	40
Commercial staff	47	49
	=====	=====
	86	89

Porterbrook Leasing Company Limited

Notes to the Financial Statements For the Year Ended 31 December 2022

10. Directors' emoluments

The directors' aggregate emoluments in respect of qualifying services were:

	2022 £000	2021 £000
Emoluments receivable	3,754	3,081

The total emoluments of the highest paid director were £1,194,655 (2021: £1,055,260). The highest paid director is a deferred member of the Company's defined benefit scheme, and had a deferred pension at the point of leaving the scheme of £22,097 (2021: £22,097).

The number of directors who accrued benefits under company pension schemes was as follows

	2022 Number	2021 Number
Defined benefit scheme	2	2
Money purchase scheme	2	2
	4	4

The non-operational directors did not receive any emoluments for their services to the Company in the current year and no apportionment of directors' remuneration has been made by the parent entity, Porterbrook Holdings Limited.

11. Investment income

	2022 £000	2021 £000
Interest on bank deposits	727	179
Dividends received	292,000	149,144
	292,727	149,323

12. Finance expense

	2022 £000	2021 £000
Lease interest payable to group undertakings	56,502	60,953
Interest on lease liabilities	971	1,901
Dividends paid on profit participating shares	28	7
Interest payable to group undertakings	104,702	115,575
Interest payable on defined benefit pension scheme	212	217
	162,415	178,653

Porterbrook Leasing Company Limited

**Notes to the Financial Statements
For the Year Ended 31 December 2022**

13. Tax expense

13.1 Income tax recognised in profit or loss

	2022	2021
	£000	£000
Current tax		
Current tax on profits for the year	8,462	4,969
Adjustments in respect of prior years	126	113
Total current tax	8,588	5,082
Deferred tax expense		
Origination and reversal of timing differences	(8,058)	23,358
Adjustments in respect of prior years	306	(22)
Total deferred tax	(7,752)	23,336
	836	28,418
Tax expense	836	28,418

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:

	2022	2021
	£000	£000
Profit for the year	281,910	68,008
Income tax expense (including income tax on associate, joint venture and discontinued operations)	836	28,418
Profit before income taxes	282,746	96,426
Tax using the Company's domestic tax rate of 19% (2021:19%)	53,722	18,321
Expenses not deductible for tax purposes	55	29
Other movements	(370)	(320)
Adjustments to tax charge in respect of prior periods	432	91
Dividends from UK companies	(55,480)	(28,337)
Effect on the deferred tax balance of the increase in corporation tax rate from 19% to 25% effective 1 April 2023	2,477	38,634
Total tax expense	836	28,418

Notes to the Financial Statements For the Year Ended 31 December 2022

13.2 Deferred tax balances

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 Company expects that £14,678,000 will be released within 12 months of the Statement of Financial Position date. The remaining £160,874,000 will be released more than 12 months after the Statement of Financial Position date.

The following is the analysis of deferred tax liabilities/(assets) presented in the Statement of Financial Position:

	2022	2021
	£000	£000
Deferred tax liabilities	175,552	179,147

	Opening balance £000	Recognised in Profit or Loss £000	Recognised in OCI £000	Adjustment 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
2022						
Property, plant and equipment	182,134	(9,843)	-	482	2,593	175,366
Defined benefit obligations	(2,987)	(347)	3,813	(176)	(117)	186
	<u>179,147</u>	<u>(10,190)</u>	<u>3,813</u>	<u>306</u>	<u>2,476</u>	<u>175,552</u>

	Opening balance £000	Recognised in Profit or Loss £000	Recognised in OCI £000	Adjustment 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	158,619	(15,139)	-	20	38,634	182,134
Defined benefit obligations	(3,204)	(138)	397	(42)	-	(2,987)
	<u>155,415</u>	<u>(15,277)</u>	<u>397</u>	<u>(22)</u>	<u>38,634</u>	<u>179,147</u>

Porterbrook Leasing Company Limited

**Notes to the Financial Statements
For the Year Ended 31 December 2022**

14. Dividends

	2022 £000	2021 £000
Ordinary shares		
Dividends paid for the year on ordinary shares	285,040	80,041
	285,040	80,041

15. Property, plant and equipment

	Operating lease assets £000	Plant and machinery £000	Right of use assets £000	Total £000
Cost or valuation				
At 1 January 2021	3,454,749	6,307	194,843	3,655,899
Additions	39,073	-	-	39,073
Disposals	(79,923)	-	-	(79,923)
At 31 December 2021	3,413,899	6,307	194,843	3,615,049
Additions	23,039	-	1,076	24,115
Disposals	(126,577)	(2)	-	(126,579)
At 31 December 2022	3,310,361	6,305	195,919	3,512,585
	Operating lease assets £000	Plant and machinery £000	Right of use assets £000	Total £000
Accumulated depreciation and impairment				
At 1 January 2021	2,425,961	6,307	133,891	2,566,159
Charge owned for the year	118,925	-	40,889	159,814
Disposals	(79,919)	-	-	(79,919)
At 31 December 2021	2,464,967	6,307	174,780	2,646,054
Charge owned for the year	91,175	-	6,909	98,084
Disposals	(125,815)	(2)	-	(125,817)
At 31 December 2022	2,430,327	6,305	181,689	2,618,321
Net book value				
At 1 January 2021	1,028,788	-	60,952	1,089,740
At 31 December 2021	948,932	-	20,063	968,995
At 31 December 2022	880,034	-	14,230	894,264

Porterbrook Leasing Company Limited

Notes to the Financial Statements For the Year Ended 31 December 2022

15. Property, plant and equipment (continued)

The Company tests the operating lease assets for impairment at each reporting date, or more frequently if there are indicators of impairment. The operating lease assets are combined according to the external lease contracts, which are the 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;
- **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;
- **Useful Economic Life of rolling stock:** The useful economic lives of assets are reviewed on a periodic basis and adjusted if appropriate.

The Company used a pre-tax discount rate of 7.7% (2021: 5.5%) in its impairment testing.

Assets under construction

Included in the above is £14,655,000 (2021: £42,719,000) of operating lease assets in the course of construction which has not been depreciated. Depreciation will commence when construction is complete.

Revalued assets

If operating lease assets had not been revalued they would have been included at cost of £2,724,029,000 (2021: £2,784,977,000) and accumulated depreciation of £1,883,044,000 (2021: £1,882,224,000) at the Statement of Financial Position date. Other fixed assets have not been revalued.

Carrying amount of operating lease assets

The carrying amount of the Company's operating lease assets includes an amount of £771,025,000 (2021: £800,523,000) in respect of right of use assets.

16. Subsidiaries

Details of the Company's material subsidiaries at the end of the reporting period are as follows, which are all incorporated and operate in the UK. The Company holds 100% of the ownership interest and voting power, due to the interest in the ordinary share capital. All subsidiaries have the same registered address as that set out in note 29.

Name of subsidiary

Principal activity

- 1) Porterbrook Maintenance Limited
- 2) Porterbrook March Leasing (4) Limited
- 3) Porterbrook Leasing Asset Company Limited

Provision of heavy maintenance services and operating leasing
Operating leasing
Finance leasing

1) Porterbrook Maintenance Limited

Interests in Porterbrook Maintenance Limited include 439,300 irredeemable preference shares (PS) at a nominal value of £0.01 each. Under the terms of the PS, the holder is entitled to special dividends and a 5% annualised non-cumulative dividend which accrues on a daily basis. Non-cumulative dividends of £220 (2021: £220) have been received in the year and are shown within investment income on the Statement of Profit or Loss and Other Comprehensive Income.

	2022 £000	2021 £000
Investments in subsidiary companies	2,024,443	2,024,443
	<u>2,024,443</u>	<u>2,024,443</u>

Porterbrook Leasing Company Limited

**Notes to the Financial Statements
For the Year Ended 31 December 2022**

17. Trade and other receivables

	2022	2021
	£000	£000
Trade receivables	2,199	3,747
Contract assets	30	10,343
Prepayments and accrued income	479	412
Amounts owed by group companies	13	-
	<u>2,721</u>	<u>14,502</u>

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

18. Loans and borrowings

		2022	2021
		£000	£000
Non-current			
Profit participating shares	22	100	100
Lease liabilities	19	683,354	742,865
		<u>683,454</u>	<u>742,965</u>
Current			
Lease liabilities	19	60,679	63,758
		<u>60,679</u>	<u>63,758</u>
Total loans and borrowings		<u>744,133</u>	<u>806,723</u>

The carrying value of loans and borrowings classified as financial liabilities measured at amortised cost approximates fair value.

Porterbrook Leasing Company Limited

Notes to the Financial Statements For the Year Ended 31 December 2022

19. Lease liabilities

	2022 £000	2021 £000
Amounts payable under leases		
Year 1	60,679	63,758
Year 2	63,610	60,593
Year 3	60,077	63,350
Year 4	63,488	59,797
Year 5	67,824	63,187
After 5 years	428,355	495,938
	744,033	806,623

The Company does not face a significant liquidity risk in respect of its lease liabilities. All lease obligations are denominated in sterling. The average remaining lease term is 9 years (2021: 10 years). Interest rates were fixed at the contract date and the average effective borrowing rate was 7.7% (2021: 7.7%). All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

20. Trade and other payables

	2022 £000	2021 £000
Trade payables	18,513	24,814
Amounts due to other group companies	1,458,534	1,559,073
Other payables	337,445	309,784
Other payables - tax and social security payments	17,287	18,807
Total trade and other payables	1,831,779	1,912,478
Less: current portion - trade payables	(18,513)	(24,814)
Less: current portion - other payables	(232,453)	(155,727)
Total current portion	(250,966)	(180,541)
Total non-current position	1,580,813	1,731,937

The carrying value of trade and other payables classified as financial liabilities measured at amortised cost approximates fair value.

Other payables include maintenance reserve receipts invoiced to customers under maintenance reserve agreements. These amounts will be paid out to current and future lessees upon completion of rolling stock maintenance events. Such amounts are not anticipated to be recognised in the Statement of Comprehensive Income.

Amounts due to other group companies includes an intercompany loan payable to Porterbrook Rail Finance Limited that has a final maturity date in 2036. The loan contained an acceleration clause allowing repayment to be called on the provision of one day's notice. However, the Company had an unconditional right to resist enforcement action and the loan's maturity is therefore regarded as taking place after more than 12 months. The loan has been classified as a non-current liability.

Porterbrook Leasing Company Limited

Notes to the Financial Statements For the Year Ended 31 December 2022

21. Capital commitments

Capital expenditure in relation to operating lease assets committed, but not provided in the financial statements amounted to £138,070,000 (2021: £155,555,000).

22. Share capital

Authorised

	2022 Number	2022 £000	2021 Number	2021 £000
Shares treated as equity				
Ordinary shares of £1.00 each	100,000,000	100,000	100,000,000	100,000
	<u>100,000,000</u>	<u>100,000</u>	<u>100,000,000</u>	<u>100,000</u>
Shares treated as liability				
Profit participating 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

	2022 Number	2022 £000	2021 Number	2021 £000
Ordinary shares of £1.00 each				
At 1 January and 31 December	<u>9,877,568</u>	<u>9,878</u>	<u>9,877,568</u>	<u>9,878</u>
	2022 Number	2022 £000	2021 Number	2021 £000
Profit participating shares of £1.00 each				
At 1 January and 31 December	<u>100,000</u>	<u>100</u>	<u>100,000</u>	<u>100</u>

On 24 October 2008, the Company created a class of profit participating shares (PPS) which carry the following rights:

- The right to an annual preferential dividend equal to the higher of LIBOR on £100,000 or 0.01% of the Company's post tax distributable profits; and
- A right on the winding up of the Company to receive 0.1% of the assets available to be distributed to shareholders.

Apart from as described above the shares carry no other rights to participate in profits (by dividend or otherwise) or capital (on a winding-up or otherwise); and no voting rights (including no right to petition for the winding-up of the Company).

During the prior year, the terms of the PPS were amended to reflect a new reference rate. The reference rate was converted from LIBOR to compound SONIA plus a credit adjustment spread.

Porterbrook Leasing Company Limited

Notes to the Financial Statements For the Year Ended 31 December 2022

23. Leases

(i) Leases as a lessee

The Company has recognised liabilities for the leases of land and buildings shown below:

Lease liabilities are due as follows:

	2022	2021
Lease liabilities included in the Statement of Financial Position at 31 December	15,659	21,622
Non-current	7,003	14,491
Current	8,656	7,131

The following amounts in respect of leases have been recognised in profit or loss:

	2022 £000	2021 £000
Interest expense on lease liabilities	971	1,901
Depreciation of right of use assets	6,909	40,889

The interest rate used in the calculation of the right of use assets and lease liability is 5.3% (2021: 5.3%).

(ii) Operating leases - lessor

The following table summarises the undiscounted lease rentals receivable after the reporting date.

	2022 £000	2021 £000
Not later than one year	254,473	131,664
in the second to fifth years inclusive	782,578	294,528
Later than five years	225,922	86,946
Total undiscounted lease rentals receivable	1,262,973	513,138

Capital lease income from operating lease contracts in which the Company acts as a lessor is as below:

	2022 £000	2021 £000
Capital lease income	324,498	341,940

Porterbrook Leasing Company Limited

Notes to the Financial Statements For the Year Ended 31 December 2022

24. Employee benefits

Defined contribution arrangement

The Company offers membership of the Railways Pension Scheme Industry Wide Defined Contribution Arrangement. The Company recognised a cost of £617,000 for the year to 31 December 2022 (2021: £393,000).

Defined benefit Railways Pension Scheme

The Company is part of the Porterbrook shared cost section (the section) within the main Railways Pension Scheme. The section, which is administered by Railpen, provides defined benefits to members based on final pensionable salaries. The section is open to new entrants and is a funded defined benefits scheme. The section is a shared cost arrangement with required contributions shared between the Company and its employees with the Company contributing 60% and the remaining 40% contributed by active employees.

Formal actuarial valuations of the assets and liabilities of the Section 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 results of these reviews are included in these financial statements. The present value of the defined benefit obligation and the related current service cost were measured using the projected unit credit method.

The Company has agreed with the trustees that contributions will continue to be paid in line with those set following the latest formal actuarial valuation.

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

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

	2022 % pa	2021 % pa
Summary of assumptions		
Discount rate	4.65	1.80
Price inflation	3.20	3.35
Increases to deferred pensions	2.90	2.90
Pension increases	2.90	2.90
Salary increases	2.00	2.00

Demographic assumptions have been set based upon an analysis of the experience of the Section's membership carried out as part of the 2019 formal valuation. The assumption for mortality is based upon the "S3PA Base tables" standard mortality tables, adjusted for actual experience. The assumed age at death of a pensioner aged 65 with pensionable pay under £35,000 pa is 87.9 years (2021: 87.0 years) male and 89.3 years (2021: 88.1 years) female. The discounted mean term of the defined benefit obligation is 17 years (2021: 18 years).

Porterbrook Leasing Company Limited

**Notes to the Financial Statements
For the Year Ended 31 December 2022**

24. Employee benefits (continued)

	2022	2021
	£000	£000
Asset data at end of year		
Equities	34,629	39,222
Government bonds	9,569	11,426
Non-government bonds	8,206	7,207
Other assets	321	386
	52,725	58,241

In terms of the distinction between quoted and unquoted assets; the assets are predominantly held in pooled funds with unit prices rather than being classified as directly quoted stocks. This is because there is typically no active market in these funds as units can only be bought from or sold to the fund manager. All assets are classed as unquoted assets.

	2022	2021
	£000	£000
Defined benefit asset/(liability) at year end		
Defined benefit obligation at year end	(48,282)	(78,196)
Value of assets at year end	52,725	58,241
Funded status at year end	4,443	(19,955)
Adjustment for members share of deficit	(1,777)	7,982
Defined benefit asset/(liability) at year end	2,666	(11,973)

	2022	2021
	£000	£000
Reconciliation of defined benefit asset/(liability)		
Defined benefit liability	(11,973)	(16,925)
Employer's share of pension expense	(1,452)	(1,560)
Pension liability - contributions	839	864
Actuarial gain recognised in Other Comprehensive Income	15,252	5,648
Defined benefit asset/(liability)	2,666	(11,973)

Porterbrook Leasing Company Limited

**Notes to the Financial Statements
For the Year Ended 31 December 2022**

24. Employee benefits (continued)

	2022 £000	2021 £000
Amounts recognised in Profit or Loss		
Pension liability - current service cost	1,240	1,343
Total employers' share of service cost	1,240	1,343
Interest expense	212	217
Total pension expense	1,452	1,560
	2022 £000	2021 £000
Impact on Statement of Profit or Loss and Other Comprehensive Income		
Actuarial (loss)/gain - adjustments (experience)	(1,723)	390
Actuarial (loss)/gain - change in financial assumptions	19,869	497
Return on plan assets (excluding interest)	(3,335)	4,337
Actuarial (loss)/gain - change in demographic assumptions	441	424
	15,252	5,648
	2022 £000	2021 £000
Reconciliation of defined benefit obligation		
Opening defined benefit obligation	78,196	79,795
Service cost	1,953	2,116
Interest cost	1,392	1,025
Actuarial (gain)/loss on defined benefit obligation - experience	2,412	(1,128)
Actuarial gain on defined benefit obligation - demographic assumptions	(735)	(706)
Actuarial (gain)/loss on defined benefit obligation - financial assumptions	(33,115)	(828)
Actual benefit payments and transfers out	(1,821)	(2,078)
Closing defined benefit obligation	48,282	78,196

Porterbrook Leasing Company Limited

Notes to the Financial Statements
For the Year Ended 31 December 2022

24. Employee benefits (continued)

	2022 £000	2021 £000
Reconciliation of value of assets		
Opening value of Section assets	58,241	51,586
Interest income on assets	1,039	663
Return on section assets greater than discount rate	(5,559)	7,228
Employers contributions	839	864
Employee contributions	99	100
Actual benefit payments	(1,821)	(2,078)
Administration costs	(113)	(122)
Closing value of Section assets	52,725	58,241

	2022 £000	2021 £000	2020 £000	2019 £000	2018 £000
Historic information					
Defined benefit obligation at end of year	(48,282)	(78,196)	(79,795)	(69,819)	(56,363)
Value of assets at end of year	52,725	58,241	51,586	48,697	43,609
Funded status at end of year	4,443	(19,955)	(28,209)	(21,122)	(12,754)
Adjustment for members' share of deficit	(1,777)	7,982	11,284	8,449	5,102
Defined benefit liability at end of year	2,666	(11,973)	(16,925)	(12,673)	(7,652)

	Inc/ (Dec) in DBO	Sensitivity
Defined benefit obligation (DBO) sensitivity analysis 2022		
Discount rate	1,966	-0.25% p/a
	(1,966)	+0.25% p/a
Price inflation	(1,299)	-0.25% p/a
	1,299	+0.25% p/a
Life expectancy	(1,331)	-1 year
	1,331	+1 year

	Inc/ (Dec) in DBO £000	Sensitivity
Defined benefit obligation (DBO) sensitivity analysis 2021		
Discount rate	3,929	-0.25% p/a
	(3,929)	+0.25% p/a
Price inflation	(3,109)	-0.25% p/a
	3,109	+0.25% p/a
Life expectancy	(3,074)	-1 year
	3,074	+1 year

Porterbrook Leasing Company Limited

Notes to the Financial Statements For the Year Ended 31 December 2022

25. Related party transactions

25.1 Trading transactions

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

	2022 £000	Expenditure 2021 £000
Porterbrook Rail Finance Limited	70,346	78,405
Parent company	69,893	89,072
Subsidiaries	224,366	232,359
	<u>224,366</u>	<u>232,359</u>

25.2 Loans to related parties

	2022 £000	2021 £000
Porterbrook Rail Finance Limited	878,543	832,661
Parent company	36,476	215,507
Subsidiaries	1,212,238	1,295,911
	<u>1,212,238</u>	<u>1,295,911</u>

25.3 Loans from related parties

Porterbrook Holdings I Limited	13	-
	<u>13</u>	<u>-</u>

25.4 Compensation of key management personnel

The remuneration of the directors and other members of key management personnel during the year was as follows:

	2022 £000	2021 £000
Short-term benefits	3,622	3,373
Post-employment benefits	168	212
Other long-term benefits	693	600
	<u>4,483</u>	<u>4,185</u>

Porterbrook Leasing Company Limited

Notes to the Financial Statements For the Year Ended 31 December 2022

25. Related party transactions (continued)

25.5 Group entities

The Company 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 March Leasing (4) Limited (a)
Porterbrook Maintenance Limited (a)
Porterbrook Leasing Asset Company Limited (a)

The Registered office of the subsidiaries 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

26. Notes supporting statement of cash flows

	2022 £000	2021 £000
Cash at bank available on demand	38,168	35,139
Money market deposits	35	70,002
Cash and cash equivalents in the statement of financial position	38,203	105,141
Cash and cash equivalents in the statement of cash flows	38,203	105,141

27. Parent undertaking and controlling party

At the year end, the Company's immediate parent company was Porterbrook Leasing Mid 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 is the smallest group of undertakings, respectively, for which group statements are drawn up and of which the Company is a member.

Copies of the Group's financial statements, which include the results of the Company, are available from the registered office, Ivatt House, 7 The Point, Pinnacle Way, Pride Park, Derby, DE24 8ZS.