

Porterbrook Holdings I Limited
Annual report and financial statements
For the Year Ended 31 December 2022

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Porterbrook Holdings I Limited

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Porterbrook Holdings I Limited

Group Strategic Report For the Year Ended 31 December 2022

The directors submit their Strategic Report for the year ended 31 December 2022 for the group (the Group, we, us or our) which comprises: Porterbrook Holdings I Limited (the Company) and all its subsidiaries as listed below (further details of which are shown in note 16 to the financial statements):

- 1) Porterbrook Leasing Mid Company Limited (PLMC)
- 2) Porterbrook Leasing Company Limited (PLCL)
- 3) Porterbrook Maintenance Limited
- 4) Porterbrook March Leasing (4) Limited
- 5) Porterbrook Leasing Asset Company Limited
- 6) Porterbrook Holdings II Limited
- 7) Porterbrook Rail Finance Limited (PRFL)
- 8) The Porterbrook Partnership
- 9) Porterbrook Investments I Limited

The purpose of this report is to provide information to the members of Company and as such it is only addressed to those members. The report may contain certain forward-looking statements including with respect to operations, performance and financial condition. 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 members should take this into account when considering any forward-looking statements. These statements reflect knowledge and information available at the date of preparation of this report and the Company undertakes no obligation to update them. Nothing in this report should be construed as a profit forecast.

Principal activities

The principal activity of the Company during the year was to act as a holding company. 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 principal activity of the Group is the leasing and maintenance of rolling stock and other rail related transport assets on operating lease agreements within the United Kingdom (UK).

Strategy

We invest in existing and new rolling stock to deliver the optimal value to the UK government, passenger service rail operators and other customers with an emphasis on vehicles that support and improve reliability and which can be used across multiple routes as opposed to route-specific vehicles. We aim to continue to grow our business under this model whilst maintaining a considered and prudent financing policy. Our rolling stock strategy is centred around three 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; and
- Continued investment in new rolling stock to respond to expected market developments and changes in landscape to maintain a diversified portfolio.

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 June 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 2022. GBRTT published a summary report of the responses on 9th June 2022.

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

Market overview (continued)

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.

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

Financial results

The Consolidated Statement of Profit or Loss and Other Comprehensive Income on page 16 shows the Group achieved a profit before tax of £137.0m (2021: £100.5m) and a profit after tax of £104.9m (2021: £3.8m). The Consolidated Cash Flow Statement on page 21 shows that the 2022 operating cash inflow was £232.0m (2021: £251.1m). The increase in profit before tax is due to reduced depreciation, lower interest charges and improved rates on cash deposits. There is also a significant gain on the fair value of interest rate swaps and a reduced deferred tax charge as the prior year comparative included the impact of the increase in corporation tax rates from 19% to 25%, effective 1st April 2023. 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 60 C1720 Aventura vehicles coming into service on c2c in 2023;
- New intermodal and box wagons being leased to freight operators.

The Group manages the performance of the business using various financial metrics as defined in the senior financing documents. EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) is a key metric and the performance for 2022 was £319.6m (2021: £340.1m). Performance against this metric is reduced when compared with the prior year for the reasons noted above. The key metrics used are compliance against two senior debt covenants in respect of interest cover (Adjusted EBITDA to interest on debt) and leverage (Net debt to EBITDA). Both covenants show headroom against the limits included in the senior debt facilities. Interest cover is 3.6x (2021: 3.3x) against a limit of 1.5x and leverage is 4.1x (2021: 4.1x) against a limit of 8.0x.

Net assets were in line with expectations at £1,020.5m (2021: £984.2m) and £1,266.5m (2021: £1,266.5m) as shown in the Consolidated Statement of Financial Position on page 17 and the Company Statement of Financial Position on page 18. The directors consider the Company's financial position to be satisfactory.

The movement in fair value of certain interest rate swaps held by the Group, which principally result from changes to the market expectation of future interest rates, and any debit valuation adjustments, are required to be included in finance costs in the Statement of Profit or Loss and Other Comprehensive Income. However, the directors have no control over the financial markets and therefore do not consider the movement part of our principal activities. We monitor this element of finance costs and the impact this has on our business results. We manage the interest rate risk as described in notes 3 and 21.

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.

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

Business review (continued)

Fleet additions, modifications, refurbishment, utilisation and premises

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.

PLCL delivered 50 box wagons and 10 intermodal wagons to a freight operator, representing our re-entry into the freight market.

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.

In June 2021, PLMC entered into a 15-year lease for the Long Marston Rail Innovation Centre in Warwickshire. The facility covers 135-acres, with a 2 mile circular test track and over 12 miles of secure train storage facilities linked to the national rail network. PLMC has invested in the site, with a programme of targeted improvements. These include:

- Asset Management facility upgrade, installing pitted roads and recladding the external structure;
- Refurbishment of the existing office buildings;
- Replacement of various storage buildings;
- Refreshment of the paved surfaces around the site;
- Improved lighting, safe walkways and site security.

Disposals

The Group disposed of certain passenger vehicles, freight wagons and other operating lease assets achieving a profit on disposal of £4.3m (2021: £1.4m), the proceeds of which have been reinvested in existing and new assets. The assets sold had reached the end of their useful economic life. Several of these passenger vehicles were donated to community projects within the UK. Where appropriate vehicles have been stripped for spare parts (to aid the maintenance of in-life vehicles) before disposal.

Financing

The business is financed by a mix of equity and senior debt as disclosed in the notes to the financial statements. The terms of the senior debt and bonds, as well as the Group's credit rating, require compliance with certain covenants and ratios as disclosed in note 4. We forecast our covenants and ratios as part of its monthly financial reporting processes. Current forecasts indicate compliance with all debt covenants and rating agency expectations for the foreseeable future (being at least the 12 months following the approval date of this report, the Directors' Report and the financial statements).

We continue to pursue our strategy to manage financing activities in line with our ratings agency metrics and lender covenants whilst seeking to reduce the number of facilities that have bullet maturities. Loan repayments of £116.3m (2021: £108.7m) have been made in the year across our varied facilities.

PRFL refinanced its £500m undrawn revolving credit facility in October 2022, ahead of the initial expiry date in June 2023. The replacement facility is a £500m Sustainability Linked Loan with a margin benefit linked to the achievement of two environmental metrics. The facility has a 5-year term with two one-year extension options at lenders' discretion.

The next debt instrument maturity is PRFL's £270m public bond which expires in 2026.

Moody's Investors Service reaffirmed our credit rating in September 2022 as Baa2 Stable.

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

Business review (continued)

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%).

Other corporate matters

Payment policy

We seek to ensure payments are made in accordance with the contractual terms and conditions agreed with suppliers, except where they fail to comply with those terms and conditions. Supplier invoices, which are included in trade creditors at the end of the year, were equivalent to 26 days (2021: 32 days), based on the average daily amount invoiced by suppliers during the year.

Taxation

All companies within the Group are UK tax resident and HMRC classifies us as a large business. We work closely in a proactive and open manner with our HMRC Customer Compliance Manager on all tax matters. We published an updated tax strategy on the Porterbrook website during 2022, which was approved by the Company's Board of directors on 29th 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.

Porterbrook Holdings I Limited

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

Other corporate matters (continued)

Charitable contributions and Corporate Social Responsibility(continued)

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.

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 3 to the financial statements. Note 4 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.

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

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.

Andrew Cox

Mr A Cox
Director

Porterbrook Holdings I Limited

Directors' Report For the Year Ended 31 December 2022

The directors present their report and the consolidated 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 A Cox
Mr P d'Anthenay
Mr T Dugher
Mr A Harbora
Mr J McDonagh
Mr J Pritchard
Mr R Zaas
Mrs R Tataru (appointed 30 September 2022)
Mr J Vazquez Ruiz (resigned 30 September 2022)
Mr A Leonard (resigned 13 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 the directors have prepared the Group and the Company 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 Group and Company and of the profit or loss of the Group for that period. In preparing the financial statements, the directors are required to:

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

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

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

Results and dividends

The trading results for the year and the Group's and the Company's financial positions at the end of the year are shown in the attached financial statements. After assessing all available capital expenditure opportunities and retaining sufficient cash to enable the Group to pursue its strategic investment in rolling stock assets, the directors approved, and the Company paid dividends of £80.0m (2021: £80.0m) during the year.

The directors have not recommended a further dividend on the equity shares of the Company.

Financial risk management

The major risks associated with the Group are described in note 3 along with the Group's risk management policies and practices.

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

Going concern

The directors believe that we have access to sufficient financial resources and have a portfolio of long-term lease and maintenance contracts and, as a consequence, the Group is well placed to manage its business risks successfully in the current economic environment.

The directors consider the adoption of the going concern basis in preparing the annual report and financial statements to be appropriate for the following reasons:

- We have stable and predictable revenues and cashflows arising from long-term capital and non-capital lease contracts. These are expected to generate significant cashflows in 2023. Note 24 shows committed capital revenue of £254.5m (2021: £131.7m);
- Although we had net current liabilities at the end of the year of £168.2m (2021: £107.2m), the 2022 forecasts show that cashflows will be sufficient to repay these liabilities as they fall due for payment in 2023. This includes settling £87.7m (2021: £116.4m) of loan facility amortisation, which falls due for payment within one year of the Statement of Financial Position date as well as the remaining current liabilities of £263.0m (2021: £199.4m) as they also fall due for payment. There are no debt facilities due to mature in 2023;
- The resources are available to settle liabilities as they fall due for payment in 2023. They include the cash balances held at the end of the year of £180.2m (2021: £193.4m), cashflows to be earned from our asset portfolio as well as a £500.0m (2021: £500.0m) undrawn loan facility. This facility can be accessed on three days' notice and, combined with the other sources of liquidity noted, are considered sufficient to cover all forecast cash outflows for at least the next 12 months;
- As noted by an external rating agency, our cashflows are highly predictable as major maintenance and capital expenditures are usually planned at least 12 months in advance. This provides a high level of confidence in the Group's budgets and forecasts;
- We achieved full compliance with its covenants for its bank, bond and institutional borrowings during the year and forecasts continuing compliance for the foreseeable future;
- There are no debt facilities due to mature until 2026.

Future developments

The Group expects the projects described in the Strategic Review to be completed. No other significant developments are expected.

Greenhouse gas emissions, energy consumption and energy efficiency action

Our Streamlined Energy and Carbon reporting (SECR) disclosure represents the carbon footprint of the business across Scopes One, Two and Three together with our chosen intensity metric and our total energy use of electricity. The carbon reporting period is the twelve months ending 31 December 2022. All emissions reported arise in the UK.

	2022	2021
Emissions resulting from activities for which we are responsible involving the combustion of gas or consumption of fuel for the purposes of transport (in tonnes of CO2 equivalent). Scope one and three.	129	110
Emissions resulting from the purchase of the electricity for our own use, including the purposes of transport (in tonnes of CO2 equivalent). Scope two.	82	46
Energy consumed from activities for which we are responsible involving the combustion of gas, or the consumption of fuel for the purposes of transport, and the annual quantity of energy consumed resulting from the purchase of electricity for our own use, including for the purposes of transport, in kWh	993,955	218,778

The intensity metric of carbon dioxide emissions in tonnes divided by number of full time employees has been chosen as the Group's carbon emissions relate to the provision of workplaces for employees and the ability for employees to travel for work commitments. The current year ratio is 1.23 (2021 : 0.84). The increase in emissions for the year is due to reporting electricity consumed at our Long Marston site.

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

Greenhouse gas emissions, energy consumption and energy efficiency action (continued)

The details of the calculation approaches chosen are listed below.

- Scope one - we report the emissions from its small fleet of company cars, by using the mileage records and engine size from internal records. The mileage figure is multiplied by the appropriate conversion figure from the UK government's Green House Gases (GHG) conversion listing
- Scope two - we report the emissions associated with the electricity it uses in its offices, which is taken directly from utility bills
- Scope three - we report the emissions from business travel where employees use their own vehicles, by using mileage records and emissions rates. The mileage figure is multiplied by the appropriate conversion figure from the UK government's GHG conversion listing.

The GHG protocol has been used as the methodology to calculate the Group's carbon footprint. The operational control approach has been taken. The emissions from the Group's fleet of rolling stock is not included as the Group does not exercise operational control over these assets.

An Energy Savings and Operations Scheme assessment has previously been completed. This highlighted several areas for potential energy efficiency improvements. Recent initiatives include the installation of electric charging points at our Derby premises and the addition of energy efficient lighting.

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 the Company'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.

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

Statement of corporate governance arrangements (continued)

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.

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

Statement of corporate governance arrangements (continued)

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.

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.

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

Statement of corporate governance arrangements (continued)

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.

Disclosure of information to the 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 and the Group'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 and the Group'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.

Andrew Cox

Mr A Cox
Director

Independent auditors' report to the members of Porterbrook Holdings I Limited

Report on the audit of the financial statements

Opinion

In our opinion, Porterbrook Holdings I Limited's group financial statements and company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2022 and of the group's profit and the group's and company's cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards as applied in accordance with the provisions of the Companies Act 2006; 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 Consolidated and Company Statements of Financial Position as at 31 December 2022; the Consolidated Statement of Profit or Loss and Other Comprehensive Income, the Consolidated and Company Statements of Cash Flows, and the Consolidated and Company Statements 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 group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

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

- Evaluating management's process of going concern assessment on an entity-by-entity and group basis;
- 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 group's and company's business activities;
- Testing the 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;
- Obtaining evidence to support the key assumptions and forecasts driving the directors' assessment. This includes reviewing the directors' assessment of their financial position and forecasts, their assessment of liquidity and loan covenant compliance as well as their review of the operational resilience and oversight of key third party service providers; and
- Assessing the ability of the group to draw upon their £500m undrawn loan facility to meet current liabilities if required.

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 group's and 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 Holdings I Limited

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the group's and 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 group and company and their 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 group's and 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 group or 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 group 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 Holdings I Limited

revenue, and management bias in accounting estimates and judgemental areas of the financial statements such as impairment assessments of goodwill, 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 and the Audit and Risk Committee;
- Challenging assumptions and judgements made by management in their significant accounting estimates, in particular in relation to impairment assessments of goodwill, 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 and 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.

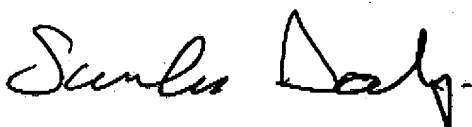
Other required reporting

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 company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.



Sandra Dowling (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
1 March 2023

Porterbrook Holdings I Limited

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

	Note	2022 £000	2021 £000
Revenue	5	384,132	412,418
Cost of sales	6	(225,195)	(263,065)
Gross profit		158,937	149,353
Administrative expenses		(8,690)	(6,397)
Profit on disposal of property, plant and equipment		4,343	1,438
Profit from operations		154,590	144,394
Finance expense	11	(19,717)	(44,078)
Investment income	10	2,167	183
Profit before tax		137,040	100,499
Tax expense	12	(32,179)	(96,736)
Profit for the year		104,861	3,763
Other Comprehensive Income			
Items that will not be reclassified to profit or loss			
Remeasurements of defined benefit pension schemes	25	15,252	5,648
Tax relating to items that will not be reclassified	12	(3,813)	(397)
Other Comprehensive Income for the year, net of tax		11,439	5,251
Total Comprehensive Income		116,300	9,014

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

Porterbrook Holdings I Limited
Registered number: 09251107

Consolidated Statement of Financial Position
As at 31 December 2022

	Note	2022 £000	2021 £000
Assets			
Non-current assets			
Property, plant and equipment	13	2,180,968	2,292,335
Goodwill	15	937,643	937,643
Employee benefit assets	25	2,666	-
		<u>3,121,277</u>	<u>3,229,978</u>
Current assets			
Current tax assets		609	562
Trade and other receivables	17	2,987	14,688
Cash and cash equivalents	26	180,236	193,420
		<u>183,832</u>	<u>208,670</u>
Total assets		<u>3,305,109</u>	<u>3,438,648</u>
Liabilities			
Non-current liabilities			
Trade and other liabilities	18	123,417	173,652
Loans and borrowings	22	1,435,122	1,537,015
Derivative financial liabilities	21	19,709	68,019
Employee benefit liabilities	25	-	11,973
Deferred tax liability	12	354,327	347,935
		<u>1,932,575</u>	<u>2,138,594</u>
Current liabilities			
Trade and other liabilities	18	263,806	199,948
Loans and borrowings	22	88,220	115,898
		<u>352,026</u>	<u>315,846</u>
Total liabilities		<u>2,284,601</u>	<u>2,454,440</u>
Net assets		<u>1,020,508</u>	<u>984,208</u>
Issued capital and reserves attributable to owners of the parent			
Share capital	23	-	-
Retained earnings		1,020,508	984,208
TOTAL EQUITY		<u>1,020,508</u>	<u>984,208</u>

The financial statements on pages 16 to 55 were approved and authorised for issue by the board of directors on 28 February 2023 and were signed on its behalf by:

Andrew Cox
Mr A Cox
 Director

Porterbrook Holdings I Limited
Registered number: 09251107

Company Statement of Financial Position
As at 31 December 2022

	Note	2022 £000	2021 £000
Assets			
Non-current assets			
Investment in subsidiary companies	16	1,266,476	1,266,476
		<u>1,266,476</u>	<u>1,266,476</u>
Total assets		<u>1,266,476</u>	<u>1,266,476</u>
Liabilities			
Current liabilities			
Trade and other liabilities	18	13	-
		<u>13</u>	<u>-</u>
Total liabilities		<u>13</u>	<u>-</u>
Net assets		<u>1,266,463</u>	<u>1,266,476</u>
Issued capital and reserves attributable to owners of the parent			
Share capital	23	-	-
Retained earnings		1,266,463	1,266,476
		<u>1,266,463</u>	<u>1,266,476</u>
TOTAL EQUITY		<u>1,266,463</u>	<u>1,266,476</u>

The Company's profit for the year was £79,987,000 (2021 - £80,000,000).

The financial statements on pages 16 to 55 were approved and authorised for issue by the board of directors on 28 February 2023 and were signed on its behalf by:

Andrew Cox
Mr A Cox
 Director

The notes on pages 23 to 55 form part of these financial statements.

Porterbrook Holdings I Limited

**Consolidated 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	-	1,055,194	1,055,194
Profit for the year	-	3,763	3,763
Other comprehensive expense	-	5,251	5,251
	-	9,014	9,014
Total comprehensive income for the year	-	(80,000)	(80,000)
Dividends	-	(80,000)	(80,000)
Total contributions by and distributions to owners	-	(80,000)	(80,000)
At 31 December 2021	-	984,208	984,208
At 1 January 2022	-	984,208	984,208
Profit for the year	-	104,861	104,861
Other comprehensive income	-	11,439	11,439
	-	116,300	116,300
Total comprehensive income for the year	-	(80,000)	(80,000)
Dividends	-	(80,000)	(80,000)
Total contributions by and distributions to owners	-	(80,000)	(80,000)
At 31 December 2022	-	1,020,508	1,020,508

The notes on pages 23 to 55 form part of these financial statements.

Share capital at 1 January 2021, 31 December 2021 and 31 December 2022 was £0.80.

Porterbrook Holdings I Limited

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

	Retained earnings £000	Total equity £000
At 1 January 2021	1,266,476	1,266,476
Profit for the year	80,000	80,000
	<u>80,000</u>	<u>80,000</u>
Total comprehensive income for the year		
Dividends	(80,000)	(80,000)
	<u>(80,000)</u>	<u>(80,000)</u>
Total contributions by and distributions to owners		
	<u>(80,000)</u>	<u>(80,000)</u>
At 31 December 2021	1,266,476	1,266,476
	<u>1,266,476</u>	<u>1,266,476</u>
At 1 January 2022	1,266,476	1,266,476
Profit for the year	79,987	79,987
	<u>79,987</u>	<u>79,987</u>
Total comprehensive income for the year		
Dividends	(80,000)	(80,000)
	<u>(80,000)</u>	<u>(80,000)</u>
Total contributions by and distributions to owners		
	<u>(80,000)</u>	<u>(80,000)</u>
At 31 December 2022	1,266,463	1,266,463
	<u>1,266,463</u>	<u>1,266,463</u>

The notes on pages 23 to 55 form part of these financial statements.

Share capital at 1 January 2021, 31 December 2021 and 31 December 2022 was £0.80.

Porterbrook Holdings I Limited

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

	Note	2022 £000	2021 £000
Cash flows from operating activities			
Profit from operations		154,590	144,394
Adjustments for			
Profit on disposal of property, plant and equipment		(4,343)	(1,438)
Depreciation		165,506	196,200
Total operating cash flows before movements in working capital		315,753	339,156
Movements in working capital			
Decrease in trade and other receivables		11,700	2,638
Increase in trade and other payables		17,894	31,708
Cash generated from operations		345,347	373,502
Income taxes paid		(30,000)	(31,300)
Interest paid		(82,317)	(91,139)
Net cash from operating activities		233,030	251,063
Cash flows from investing activities			
Bank interest receivable		2,167	183
Purchase of property, plant and equipment		(54,265)	(55,902)
Disposal proceeds		5,544	1,443
Net cash used in investing activities		(46,554)	(54,276)
Cash flows from financing activities			
Borrowings repaid		(116,346)	(108,667)
Fees paid on borrowings		(2,640)	-
Dividends paid		(80,000)	(80,000)
Payment of lease liabilities		(674)	(678)
Net cash used in financing activities		(199,660)	(189,345)
Net cash (decrease)/increase in cash and cash equivalents		(13,184)	7,442
Cash and cash equivalents at the beginning of year		193,420	185,978
Cash and cash equivalents at the end of the year	26	180,236	193,420

Porterbrook Holdings I Limited

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

	2022 £000	2021 £000
Cash flows from operating activities		
Result from operations	(13)	(37)
Movements in working capital		
Decrease in trade and other payables	13	-
Cash generated from operations	-	(37)
Net cash from/(used in) operating activities	-	(37)
Cash flows from investing activities		
Dividends received	80,000	80,037
Net cash from investing activities	80,000	80,037
Cash flows from financing activities		
Dividends paid	(80,000)	(80,000)
Net cash used in financing activities	(80,000)	(80,000)
Net cash increase in cash and cash equivalents	-	-
Cash and cash equivalents at the beginning of year	-	-
Cash and cash equivalents at the end of the year	-	-

The notes on pages 23 to 55 form part of these financial statements.

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

1. Accounting policies

1.1 Basis of preparation

Porterbrook Holdings I Limited is a private company limited by shares incorporated and domiciled in England and Wales under the Companies Act 2006. The financial statements have been prepared under a going concern basis as noted within the Directors' Report. The financial statements are presented in British Pounds and rounded to the nearest thousand pounds. The financial statements have been prepared under the historical cost convention except for derivative contracts which are held at fair value through profit or loss.

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

- Level 1 Quoted prices in active markets for identical assets or liabilities.
- Level 2 Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 Inputs for the asset or liability that are not based on observable market data.

These valuation techniques maximise the use of observable market data where it is available and relies as little as possible on entity specific estimates.

The principal accounting policies adopted are set out below and have been applied consistently except where indicated.

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

The Company has taken the exemption under section 408 of the Companies Act 2006 to not display its Statement of Profit or Loss and Other Comprehensive Income.

The Group has taken the exemption under the qualifying partnership rules to not append the subsidiary partnership to these annual financial statements on the basis that the partnership result is included within these consolidated financial statements.

1.2 Adoption of new and revised Standards and Interpretations

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

Annual improvements to IFRSs	2018 – 2020 cycle
------------------------------	-------------------

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 Group and the Company in future years.

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

1. Accounting policies (continued)

1.3 Going concern

The financial statements are prepared on a going concern basis. The Group has stable and predictable revenues and cashflows arising from long-term capital and non-capital lease contracts. These contracts are expected to generate significant cashflows in 2022. Note 24 shows committed capital revenue of £254.5m (2021: £131.7m).

Although the Group had net current liabilities at the end of the year of £168.2m (2021: £107.2m), the Group's 2023 forecasts show that cashflows will be sufficient to repay these liabilities as they fall due for payment in 2023. This includes settling £87.7m (2021: £116.4m) of loan facility amortisation, which falls due for payment within one year of the Statement of Financial Position date as well as the remaining current liabilities of £263.0m (2021: £199.4m) as they also fall due for payment. There are no debt facilities due to mature in 2023.

The Group's liquid resources available to settle liabilities as they fall due for payment in 2023, include the cash balances held at the end of the year of £180.2m (2021: £193.4m), cashflows to be earned from the Group's asset portfolio as well as a £500.0m undrawn loan facility. This undrawn facility can be accessed on three days' notice and combined with the other sources of liquidity noted are considered sufficient to cover all forecast cash outflows for at least the next 12 months.

As noted by an external rating agency, the Group's cashflows are highly predictable as major maintenance and capital expenditures are usually planned at least 12 months in advance. This provides a high level of confidence in the Group's budgets and forecasts.

The Group achieved full compliance with its covenants for its bank, bond and institutional borrowings during the year and forecasts continuing compliance for the foreseeable future, including under stress test scenarios.

1.4 Business combinations and goodwill

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair value at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations, which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised.

1.5 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company made up to the Statement of Financial Position date. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the Consolidated Statement of Profit or Loss and Other Comprehensive Income from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group. All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

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

1. Accounting policies (continued)

1.6 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. The Group 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 Group's non-capital revenue under the whole life basis is recognised over time and depicts the pattern of the provision of services to the end customer.

Non-capital lease income is deferred, and held on the Statement of Financial Position, 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 contain both accounting estimates and judgements. 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.

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.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

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.

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 on the Statement of Financial Position as a prepayment). Losses forecast during a lease period are provided for when anticipated.

1.7 Profit/(Loss) from operations

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

1.8 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.

1.9 Dividends

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

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

1. Accounting policies (continued)

1.10 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 Group 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.

(ii) The Group as a lessee

The Group assesses whether a contract is or contains a lease, at inception of a contract. The Group 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 Group 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 Group 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 Consolidated 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 Group 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

The Group 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 Group 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 the 'Property, Plant and Equipment', as applicable, in the Consolidated Statement of Financial Position.

The Group applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in note 1.16.

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 Group has used this practical expedient.

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

1. Accounting policies (continued)

1.11 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.

1.12 Employee benefits: Defined benefit

During the year, the Group participated in the Railways Pension Scheme. The Railways Pension Scheme is a multi-employer defined benefit scheme. Porterbrook Leasing Company Limited and Porterbrook Maintenance Limited who are part of the Group, are members of the Porterbrook section of the scheme. 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 obligation is recognised in the financial statements of Porterbrook Leasing Company Limited, 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 Statement of Financial Position 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 year in which they occur. Remeasurement recorded in the Statement of Profit or Loss and Other Comprehensive Income is not recycled. Past service costs and credits are recognised in the Statement of Profit or Loss and Other Comprehensive Income in the year 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 Group presents net interest expense in finance costs, the other components are presented within costs of sales in the Statement of Profit or Loss and Other Comprehensive Income (see note 25).

1.13 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 consolidated 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 Group'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 Group 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.

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

1. Accounting policies (continued)

1.13 Taxation (continued)

(ii) Deferred tax (continued)

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 Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

1.14 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 'profit 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 loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. 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 Group 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

1.15 Impairment of goodwill

The directors consider the potential impairment of goodwill to be a source of estimation uncertainty.

Goodwill is not amortised but is reviewed on an annual basis. For the purpose of impairment testing, goodwill is allocated to the Group's cash generating unit (CGU) which is expected to benefit from the synergies of the acquisition. The CGU is tested annually for impairment, or more frequently when there is an indication of impairment. If the recoverable amount of the cash generating unit is less than the carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets in the CGU on a pro rata basis. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a CGU, the attributable amount of goodwill is included in the determination of the profit and loss on disposal.

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

1. Accounting policies (continued)

1.16 Impairment of tangible assets

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

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

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

1.17 Financial instruments

Financial assets and financial liabilities are recognised when a Group 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.

1.18 Financial liabilities and equity instruments

All financial liabilities are measured at amortised cost using the effective interest method, except for derivative liabilities, which are held at fair value through profit or loss.

Debt and equity instruments issued by a Group 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.

1.19 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 the profit and loss. The allowance recognised is measured as the expected credit loss allowance method as stated by IFRS 9 Financial Instruments.

1.20 Contract assets and other liabilities

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

1.21 Cash and cash equivalents

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

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

1. Accounting policies (continued)

1.22 Interest in subsidiary undertakings

Investments are carried at cost less any provision for impairment. Such investments are assessed for indicators of impairment at each Statement of Financial Position 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.

1.23 Derivative financial instruments

The Group enters into derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks, including foreign exchange forward contracts and interest rate swaps. Further details of derivative financial instruments are disclosed in note 21.

Derivatives are initially recognised at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

2. Accounting estimates and judgements

In the application of the Group'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 Group'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 judgement. 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.

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

2. Accounting estimates and judgements (continued)

Impairment testing of the Group's operating lease assets

The key assumptions used in this testing are:

- **Discount rates:** Forecast cashflows 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 CGU for each impairment test.
- **Future lease terms:** Management estimate 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 a 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, this does not give rise to an impairment charge.

	2022 £000	2021 £000
0.50% increase in discount rate	(90,000)	(125,000)
0.40% (2021: 0.60%) decrease in discount rate	76,000	163,000
10% reduction in uncontracted revenue	(168,000)	(246,000)
10% increase in uncontracted revenue	168,000	246,000
1 year reduction in useful economic life of rolling stock	(115,000)	(130,000)
1 year increase in useful economic life of rolling stock	113,000	140,000

Impairment testing of the Group's goodwill

The key assumptions used in this testing are:

- **Discount rates:** Forecast cashflows are discounted using a market based interest rate in the respective impairment reviews. Significant estimation is included in the calculation of these rates due to the varied nature of the inputs into the model. Third party external valuers are used to establish the inputs into the pricing model. These rates reflect current market assessments of the time value of money and the risks of the CGU for each impairment test.
- **Future lease terms:** Management estimate the future use of the existing fleet based on their historical experience and current market data. This knowledge is also used to reflect the expected use of future growth fleets. 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 and plan approved by the board of directors. The assumptions chosen are not disclosed due to their sensitive nature.
- **Growth:** The extent of growth is estimated as a forecast market share of published industry growth forecasts and the cashflows reflect expected rates of return.
- **Useful Economic Life of rolling stock:** The useful economic lives of assets are reviewed on a periodic basis and adjusted if appropriate, considering the likely customer that the rolling stock will be leased to. The useful lives of growth fleets reflect best estimates from management.

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

2. Accounting estimates and judgements (continued)

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 Goodwill asset as a whole, this does not give rise to an impairment charge.

	2022 £000	2021 £000
0.40% decrease in discount rate	397,000	364,000
0.40%(2021: 0.50%) increase in discount rate	(336,000)	(379,000)
10% reduction in uncontracted revenue	(412,000)	(201,000)
10% increase in uncontracted revenue	412,000	201,000
10% reduction in estimated market share for growth fleets	(82,000)	(64,000)
10% increase in estimated market share for growth fleets	82,000	65,000
1 year reduction in useful economic life of rolling stock	(37,000)	(35,000)
1 year increase in useful economic life of rolling stock	33,000	33,000

3. Financial instruments - fair values and risk management

3.1 Financial risk management objectives and policies

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

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

Policies and processes for managing the financial risk

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

The execution of the financial management policies is delegated by the PLCL Board to the Audit and Risk Committee, which is supported, in the areas of credit and residual value risk, by the 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 PLCL Board contain analysis of credit, market, liquidity and residual value risk.

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

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

3.2 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 majority of market risk arises as a result of interest rates. The Group has no material exposure to foreign exchange rate risk, as it has no significant transactions with overseas stakeholders.

The Group is exposed to interest rate risk on certain of its external borrowings, on which interest is charged at floating rates. This interest rate risk is managed at Group level through the use of derivative financial instruments, on which interest is paid at fixed rates and received at floating rates. The use of derivative financial instruments is documented in a hedging policy agreement between the Group and the senior bank lenders.

The Group reviews its exposure to interest rate risk on a quarterly basis, or more frequently if there are material changes to contracted forecast cash flows and reports the results to the Audit and Risk Committee. If interest rate exposure is above trigger levels, further cover is sought through new derivative contracts. As such the Group is not materially exposed to changes in interest rates, although net exposures could arise in individual companies.

A 100 basis point increase in interest rates would result in an increase in Group profit before tax of £1,458,000 (2021: £1,575,000) and an increase in Group net assets of £1,181,000 (2021: £1,276,000). A 100 basis point decrease in interest rates would result in a decrease in Group profit before tax of £1,458,000 (2021: £1,575,000) and a decrease in Group net assets of £1,181,000 (2021: £1,276,000).

3.3 Credit risk management

Credit risk is the risk that counterparties will not meet their financial obligations and may result in the Group failing to recover debts due. The credit risk associated with trade receivables is assumed to be low. 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 Group retains the right to repossess its operating lease assets should operating lease rentals not be paid when due. The Group also monitors credit risk in relation to the total committed operating lease receipts due from lessees. These committed receipts are disclosed in note 24.
- **Bank deposits:** The Group monitors this risk through discussions with knowledgeable counterparties leading to the application of a mandate which manages concentration and counterparty credit risk. The Group 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.
- **Intercompany loan receivables:** The Group manages this risk by reviewing the balance sheet position of all Group counterparties on a monthly basis.

The Group's maximum exposure to credit risk without taking into account collateral or credit enhancements is £182,489,000 (2021: £197,303,000). This is equivalent to the outstanding trade receivables and bank deposits at 31 December 2022.

There are no impaired financial assets and there are no financial assets overdue but not impaired in the current year or prior period. In the year ended 31 December 2022 the Group and 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 by the Group in the form of bank and supplier guarantees, which had a value of £57,047,000 (2021: £39,245,000) at 31 December 2022 of which £Nil (2021: £Nil) was held by the Company.

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

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

3.4 Liquidity risk management

Liquidity risk is the potential that, although remaining solvent, the Group 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 Group manages liquidity risk with the support of all its subsidiaries, ensuring that the Group 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
At 31 December 2022						
Trade and other payables	63,410	10,772	189,632	12,309	111,108	387,231
Borrowings	-	-	86,790	508,236	923,346	1,518,372
Interest payable	-	4,512	79,013	293,470	170,039	547,034
	<u>63,410</u>	<u>15,284</u>	<u>355,435</u>	<u>814,015</u>	<u>1,204,493</u>	<u>2,452,637</u>

	On demand £000	Up to 3 months £000	3 - 12 months £000	2 - 5 years £000	Over 5 years £000	Total £000
At 31 December 2021						
Trade and other payables	64,008	15,981	119,959	35,284	138,368	373,600
Borrowings	-	-	115,218	265,997	1,267,131	1,648,346
Interest payable	-	4,512	79,013	293,470	170,039	547,034
	<u>64,008</u>	<u>20,493</u>	<u>314,190</u>	<u>594,751</u>	<u>1,575,538</u>	<u>2,568,980</u>

3.5 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 Group 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	437,417	1,115,338
Between 1-2 years	23,228	421,656
Between 2-5 years	154,339	90,748
More than 5 years	866,105	151,587
	<u>1,481,089</u>	<u>1,779,329</u>

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

4. Capital management and resources

The Group defines capital as total shareholders' equity. The Group's capital resource policy is to maintain a strong capital base. It seeks to manage at all times a prudent relationship between total capital and the varied risk of its business. Capital is managed across the Group to ensure that each entity will be able to continue as a going concern. The Group's overall strategy remains unchanged from the prior period.

The Group is subject to externally agreed requirements in relation to the ratio of Net debt to EBITDA and ratio of Adjusted EBITDA to interest on Net debt. The restrictions placed on breaching these debt covenants are based on the severity of the breach which will either result in the Group being in default, making the loans payable on demand, or in lock up. If the Group is in lock up restrictions are placed on returns to the equity holders of the Group. A downgrade of the external credit rating would result in increased debt costs. The credit rating agency focuses on the forecast of the two following ratios, Average Annual Debt Service Cover Ratio and Cashflow from operations to Debt.

Information on the debt covenants and ratios the credit rating agency focuses on are presented to the PLCL Board as part of the monthly management accounts pack. The Group met all externally agreed covenants throughout the year.

Information on the Group's key ratios is included within the financial statements of the subsidiary undertaking, Porterbrook Rail Finance Limited.

5. Revenue

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

	2022	2021
	£000	£000
Capital lease revenue	324,498	341,940
Non-capital lease revenue	57,726	67,993
Other income	1,908	2,485
	384,132	412,418

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 three 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 Group'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 18 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 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.

Porterbrook Holdings I Limited

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

6. Cost of sales

The following is an analysis of the Group's cost of sales for the year from continuing operations:

	2022 £000	2021 £000
Employee benefit expenses	17,936	16,490
Maintenance costs	41,289	50,106
Depreciation	165,506	196,200
Other costs	464	269
	225,195	263,065

7. Profit from operations

Profit from operations has been arrived at after charging/(crediting):

	2022 £000	2021 £000
Depreciation	164,758	195,574
Depreciation - right of use asset	748	626
Profit on disposal of property, plant and equipment and operating lease assets	(4,343)	(1,438)
Employee benefit expenses	17,936	16,490
Auditors' remuneration	460	395

Fees payable to the Group's auditors for the audit of the Group's financial statements for the current year are £460,000 (2021: £395,000). There were no non-audit fees payable to the Group's auditors for the current or prior year.

Company

Fees payable to the Group's auditors for the audit of the Company's financial statements for the current year are £65,000 (2021: £50,000) and have been borne by Porterbrook Leasing Company Limited, for which no recharge has been made. There were no non-audit fees payable to the Company's auditors for the current or prior year.

Porterbrook Holdings I Limited

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

8. Employee benefit expenses

Group

	2022	2021
	£000	£000
Employee benefit expenses (including directors) comprise:		
Wages and salaries	14,082	13,110
Social security costs	1,793	1,576
Defined contribution pension cost	821	574
Defined benefit scheme cost	1,240	1,230
	<u>17,936</u>	<u>16,490</u>

The Company employed no staff during the year (2021: Nil).

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

	2022	2021
	Number	Number
Administration staff	39	40
Commercial staff	47	49
Maintenance staff	85	80
	<u>171</u>	<u>169</u>

9. Directors' emoluments

Group

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

	2022	2021
	£000	£000
Emoluments receivable	190	190
	<u>190</u>	<u>190</u>

No directors accrued benefits under the Group's pension schemes (2021 none).

Porterbrook Holdings I Limited

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

10. Investment income

Group

	2022 £000	2021 £000
Bank interest receivable	2,167	183
	2,167	183

11. Finance expense

Group

	2022 £000	2021 £000
Change in fair value of derivatives	(49,110)	(36,614)
Debit valuation adjustment	800	1,600
Interest on borrowings	57,678	59,636
Interest on derivatives	12,193	20,630
Loan commitment fees	1,475	1,488
Capitalised interest	(3,845)	(3,031)
Interest on lease liabilities	225	152
Interest on defined benefit pension scheme	212	217
Foreign exchange loss	89	-
	19,717	44,078

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

12. Tax expense

12.1 Income tax recognised in profit or loss

Group:

	2022 £000	2021 £000
Current tax		
Current tax on profits for the year	30,059	30,854
Adjustments in respect of prior years	(106)	(212)
Total current tax	29,953	30,642
Deferred tax expense		
Origination and reversal of timing differences	1,939	65,974
Adjustments in respect of prior years	287	120
Total deferred tax	2,226	66,094
Tax charge for the financial year	32,179	96,736
Total tax expense		
Tax expense	32,179	96,736
	32,179	96,736

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 £000	2021 £000
Profit for the year	104,861	3,763
Income tax expense	32,179	96,736
Profit before income taxes	137,040	100,499
Tax at the corporation tax rate of 19% (2021:19%)	26,038	19,095
Adjustments to tax charge in respect of prior periods	181	(92)
Expenses not deductible for tax purposes, other than goodwill, amortisation and impairment	51	40
Effect on deferred tax balance of change in corporation tax rate from 19% to 25% effective 1 April 2023	5,909	77,693
Total tax expense	32,179	96,736

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

12. Tax expense (continued)

12.2 Deferred tax balances

Deferred income taxes are calculated on temporary differences under the liability method using the tax rates expected to apply when the liability is settled, or the asset is realised.

The Finance (No2) Act 2021, which provided for an increase in the main rate of corporation tax from 19% to 25% effective April 2023, was substantively enacted on 24 May 2021. The impact of the increase in tax rate is reflected in the current reporting period. The disclosed rate change adjustments below are calculated by reference to the respective forecast closing deferred tax balances.

The Group expects that £16,090,000 will be released within 12 months of the Statement of Financial Position date. The remaining £338,237,000 will be released more than 12 months from the Statement of Financial Position date.

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

	2022 £000	2021 £000
Deferred tax liabilities	354,327	347,935

In the tables below Other Comprehensive Income is abbreviated to OCI.

	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	387,641	(12,087)	-	417	2,857	378,828
Provisions & short term differences	(39,706)	8,470	3,813	(130)	3,052	(24,501)
	347,935	(3,617)	3,813	287	5,909	354,327

	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	322,292	(20,540)	-	162	85,727	387,641
Provisions & short term differences	(40,848)	8,821	397	(42)	(8,034)	(39,706)
	281,444	(11,719)	397	120	77,693	347,935

Porterbrook Holdings I Limited

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

13. Property, plant and equipment

Group

	Operating lease assets £000	Plant and machinery £000	Right of use assets £000	Total £000
Cost or valuation				
At 1 January 2021	3,469,250	2,842	1,988	3,474,080
Additions	54,212	1,691	4,073	59,976
Disposals	(99,416)	-	-	(99,416)
At 31 December 2021	3,424,046	4,533	6,061	3,434,640
Additions	51,366	2,899	1,058	55,323
Disposals	(153,455)	(104)	-	(153,559)
At 31 December 2022	3,321,957	7,328	7,119	3,336,404
	Operating lease assets £000	Plant and machinery £000	Right of use assets £000	Total £000
Accumulated depreciation and impairment				
At 1 January 2021	1,042,870	1,679	968	1,045,517
Charge owned for the year	195,070	504	626	196,200
Disposals	(99,412)	-	-	(99,412)
At 31 December 2021	1,138,528	2,183	1,594	1,142,305
Charge owned for the year	163,673	1,084	731	165,488
Disposals	(152,280)	(78)	-	(152,358)
At 31 December 2022	1,149,921	3,189	2,325	1,155,435
Net book value				
At 1 January 2021	2,426,380	1,163	1,020	2,428,563
At 31 December 2021	2,285,518	2,350	4,467	2,292,335
At 31 December 2022	2,172,036	4,139	4,794	2,180,969

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

13. Property, plant and equipment (continued)

Included in the above is £82,495,000 (2021: £92,705,000) of operating lease assets in the course of construction which have not been depreciated. Depreciation will commence when construction is complete.

The amount of borrowing costs capitalised during the year at a rate of 7.25% (2021: 7.25%) was £3,845,000 (2021: £3,031,000). Borrowing costs incurred during the year of construction are capitalised up to the point where the related asset is substantially ready for use.

The Group 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 either the external lease contract or a Group of external lease contracts if linked, 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 cashflows, the key assumptions of which include:

- **Discount rates:** Management estimate discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks of the CGU; and
- **Future lease terms:** Management forecast the future use of the existing fleet based on their judgement and experience. The Group prepares cash flow forecasts for the full life of each CGU with more detailed forecasts for the forthcoming five years as part of the most recent financial budget approved by the board of directors; and
- **Useful economic life of rolling stock:** The useful economic lives of assets are reviewed on a periodic basis and adjusted if appropriate.

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

14. Dividend

	2022	2021
	£000	£000
Ordinary shares		
Dividends paid for the year ended 31 December 2022 of £1m (2021: £1m) per fully paid share	80,000	80,000
	80,000	80,000

Porterbrook Holdings I Limited

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

15. Goodwill

Group

	2022 £000	2021 £000
Arising on consolidation	937,643	937,643
	<u>937,643</u>	<u>937,643</u>
	2022 £000	2021 £000
Carrying value		
At 1 January and 31 December	937,643	937,643
	<u>937,643</u>	<u>937,643</u>

15.1 Allocation of goodwill to cash generating units

Goodwill is allocated to the Group's CGU unit as follows:

	2022 £000	2021 £000
Porterbrook Group rail activities	937,643	937,643
	<u>937,643</u>	<u>937,643</u>

Porterbrook Group rail activities

The Group tests goodwill annually for impairment, or more frequently if there are indicators that it might be impaired. To test for impairment, the recoverable amount of the CGU is determined from fair value calculations comprising discounted forecast future cashflows, the key assumptions of which include:

- **Discount rates:** Management estimate discount rates using post-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;
- **Growth:** The extent of growth is estimated as a forecast market share of the published industry growth forecasts and the cashflows reflect expected rates of return;
- **Useful economic life of rolling stock:** The useful lives of fleets reflect best estimates from management.

The post-tax rate used to discount the forecast cash flows for the CGU was 6.1% (2021: 4.5%). The Group prepares cash flow forecasts for the full life of the CGU with more detailed forecasts for the forthcoming five years as part of the most recent financial budget approved by the board of directors. Growth forecasted after five years reflects a lower than current market share of the extra trains predicted in the rail industry's Rolling Stock Strategy analysis and an assessment of revenues associated with these vehicles.

A 0.3% increase in the Groups discount rate would lead to an impairment in the Groups impairment test.

Porterbrook Holdings I Limited

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

16. Subsidiaries

The following is a list of the subsidiary undertakings of the Company, which all operate in the UK. These undertakings are all incorporated in the United Kingdom, except for Porterbrook Rail Finance Limited which is incorporated in Jersey. The Company holds 100% of the ownership interest and voting power, due to the interest in the ordinary share capital.

Details of the Group's material subsidiaries at the end of the reporting period are as follows:

Name of subsidiary	Principal activity
1) Porterbrook Leasing Mid Company Limited (a)	Holding company and operating leasing
2) Porterbrook Leasing Company Limited (a)	Operating leasing
3) Porterbrook Maintenance Limited (a)	Provision of heavy maintenance and operating leasing
4) Porterbrook March Leasing (4) Limited (a)	Operating leasing
5) Porterbrook Leasing Asset Company Limited (a)	Finance Leasing
6) Porterbrook Holdings II Limited (a)	Intermediate holding company
7) Porterbrook Rail Finance Limited (c)	Intermediate holding company
8) The Porterbrook Partnership (b)	Intermediate holding partnership
9) Porterbrook Investments I Limited (a)	Intermediate holding company

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

Company

	Note	2022 £000	2021 £000
Investments in subsidiary companies	16	1,266,476	1,266,476
		<u>1,266,476</u>	<u>1,266,476</u>

17. Trade and other receivables

Group

	2022 £000	2021 £000
Trade receivables	2,476	3,905
Contract assets	30	10,343
Prepayments and other receivables	481	440
Total trade and other receivables	<u>2,987</u>	<u>14,688</u>

The carrying value of trade and other receivables approximates fair value.

Porterbrook Holdings I Limited

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

18. Trade and other payables

Group

	2022 £000	2021 £000
Trade payables	20,366	29,348
Other payables	354,042	328,499
Other payables - tax and social security payments	12,823	15,753
Total trade and other payables	387,231	373,600
Less: current portion - trade payables	(20,366)	(29,348)
Less: current portion - other payables	(243,448)	(170,600)
Total current portion	(263,814)	(199,948)
Total non-current position	123,417	173,652

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 Profit or Loss and Other Comprehensive Income.

Company

	2022 £000	2021 £000
Payables to subsidiaries	13	-

19. Changes in liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be classified in the Group's Consolidated Cash Flow Statement as cash flows from financing activities

	1 January 2022 £000	Financing cash flows £000	Debt fee amortisation £000	Fair value adjustments £000	31 December 2022 £000
Borrowings	1,648,346	(118,946)	459	(11,447)	1,518,372

	1 January 2021 £000	Financing cash flows £000	Debt fee amortisation £000	Fair value adjustments £000	31 December 2021 £000
Borrowings	1,766,399	(108,667)	1,662	(11,048)	1,648,346

20. Capital commitments

Capital expenditure commitments in relation to operating lease assets not provided in the Group financial statements amounted to £236,485,000 (2021: £271,764,000).

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

21. Derivative financial liabilities

Group

Under floating to fixed interest rate swap contracts, the Group agrees to exchange the difference between floating and fixed rate interest amounts calculated on agreed notional principal amounts. These contracts were entered into as part of the refinancings in July 2018 and October 2020.

Swap contracts enable the Group to mitigate the risk of cash flow exposures due to changing interest rates on the issued variable rate debt held. The fair value of interest rate swaps at the reporting date is determined by discounting the future cash flows using forecast interest rate curves at the reporting date and is disclosed below. The method of valuation is classified as level 2 in the IFRS 7 fair value hierarchy.

The interest rate swaps are settled on a quarterly basis. The floating rate applicable is now quarterly compound SONIA. The Group settles the difference between the fixed and floating interest rate on a net basis.

The following tables detail the various terms of the interest rate swap contracts outstanding as at the reporting date.

	2022 £000	2021 £000
Derivative financial liabilities		
Derivatives not designated as hedging instruments		
Interest rate swaps at 7.12%	27,090	71,282
Interest rate swaps at 0.76%	(5,781)	(863)
Total derivatives not designated as hedging instruments	<u>21,309</u>	<u>70,419</u>
Debit valuation adjustment	(1,600)	(2,400)
Total derivative financial liabilities	<u><u>19,709</u></u>	<u><u>68,019</u></u>

All derivatives mature in greater than five years.

The notional principal amounts outstanding at the reporting date are £263,906,000 (2021: £324,816,000).

	2022 £000	2021 £000
Current and non-current		
Non-current	19,709	68,019
Total derivative financial liabilities	<u><u>19,709</u></u>	<u><u>68,019</u></u>

The fair values of the derivatives include a debit valuation adjustment (DVA) in line with IFRS 13. The methodology adopted uses credit adjusted discount rates to calculate an alternative present value of the forecast cash flows associated with the derivatives. The adjustment to the discount rates was estimated with reference to the credit premiums observed in secondary trading of the Group's secured bonds. In arriving at this methodology, the directors note that corresponding credit valuation adjustments (CVA) recognised by each of the Group's swap counterparties could be different and that the swap counterparties do not make available the specific, granular information which could be used for verification of the Group's DVA. However, the directors have used internal modelling and informal discussions with financial advisors to estimate these CVAs when determining the above methodology.

The weighted average adjustment to the underlying interest rate curve used to derive the discount rates was 2.2% (2021: 1.0%). A 10% change in this adjustment does not give rise to material variations in the DVA calculated.

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

22. Loans and borrowings

Group

	2022 £000	2021 £000
Non-current		
Loans	1,431,582	1,533,128
Profit participating shares	100	100
Lease liabilities	3,440	3,787
	<u>1,435,122</u>	<u>1,537,015</u>
Current		
Loans	86,790	115,218
Lease liabilities	1,430	680
	<u>88,220</u>	<u>115,898</u>
Total loans and borrowings	<u><u>1,523,342</u></u>	<u><u>1,652,913</u></u>

Profit participating shares

On 21 October 2014 the Company's immediate subsidiary, Porterbrook Holdings II Limited created a class of profit participating shares. On 27 August 2015 the terms were varied to the following:

- The right to an annual preferential dividend equal to the higher of £35,000 plus SONIA + credit adjustment spread + 4.5% on £100,000 or 0.01% of the net profit of the Group; and
- A right on winding up of the company to receive a sum equal to the nominal capital paid up.

Loans

The carrying value of borrowings above reflects the adjustment made to the fixed rate borrowings on acquisition and are amortised under the effective interest method over the life of the facilities.

The Group has hedged its floating rate interest rate risk by utilising interest rate swaps which are disclosed in note 19. The fair value of the Group's loans are equal to the carrying amount. The fair value of the public bonds is approximately £5m (2021: £110m) higher than the carrying amount based on current market data.

The facilities listed on the next page are secured by a charge over the assets of Porterbrook Rail Finance Limited and its subsidiaries and all rank equally.

The total facilities outstanding at the Statement of Financial Position date were £1,458,488,000 (2021: £1,574,833,000). Included in the loans values above are capitalised borrowing fees of £5,105,000 (2021: £2,923,000) and fair values of £64,989,000 (2021: £76,436,000).

Senior facility B is a £500m revolving credit facility with a £nil balance (2021: £nil).

During the prior year the senior facilities were amended to reflect the withdrawal of LIBOR as a reference rate. The amended facilities replace LIBOR with compound SONIA plus a credit adjustment spread. The first interest period that is effected by the new reference rate began on 20 January 2022.

Porterbrook Holdings I Limited

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

22. Loans and borrowings (continued)

The table below summarises the facilities outstanding at the Statement of Financial Position date.

Facilities	2022 Amortisation £000	Maturity	Notes	Nominal Interest rate	2022 £000	2021 £000
Senior facility A1	19,000	2022	Amortising	SONIA + margin	-	19,000
Senior facility A2	10,000	2028	Amortising	SONIA + margin	55,000	65,000
Senior facility	20,273	2029	Amortising	SONIA + margin	63,060	83,333
Senior facility B	-	2023	Bullet	SONIA + margin	-	-
Public bonds	-	2026	Bullet	7.125%	270,000	270,000
Public bonds	-	2029	Bullet	4.625%	250,000	250,000
Senior notes	-	2028	Bullet	Fixed	100,000	100,000
Senior notes	-	2028	Bullet	Fixed	100,000	100,000
Senior notes	-	2031	Bullet	Fixed	100,000	100,000
Senior notes	15,720	2028	Amortising	Fixed	59,280	75,000
Senior notes	23,580	2028	Amortising	Fixed	88,920	112,500
Senior notes	20,273	2033	Amortising	Fixed	129,727	150,000
Senior notes	7,500	2036	Amortising	Fixed	242,500	250,000

23. Share capital

Group and Company

Authorised

	2022 Number	2021 Number
Shares treated as equity		
Class A shares of £0.01 each	80	80
	80	80

Issued and fully paid

	2022 Number	2021 Number
Class A shares of £0.01 each		
At 1 January and 31 December	80	80

The Group and Company have £0.80 (2021: £0.80) of issued and fully paid share capital.

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

24. Leases

Group

(i) Leases as a lessee

In June 2021, the Group entered into a fifteen year lease for the Long Marston Rail site. The Group has recognised liabilities for the leases of land and buildings as shown below.

Lease liabilities are due as follows:

	2022	2021
	£000	£000
Lease liabilities		
Lease liabilities included in the Consolidated Statement of Financial Position at 31 December	4,870	4,467
Non-current	3,440	3,787
Current	1,430	680

The corresponding right of use asset is displayed in note 13, Property, plant and equipment.

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

	2022	2021
	£000	£000
Interest expense on lease liabilities	225	152
Depreciation of right of use assets	749	626

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 revenue receivable after the reporting date.

	2022	2021
	£000	£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 receivable	1,262,973	513,138

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

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

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

25. Employee benefits

Defined contribution arrangement

The Group offers membership of the Railways Pension Scheme Industry Wide Defined Contribution Arrangement. The Group recognised a cost of £821,000 for the year to 31 December 2022 (2021: £574,000).

Defined benefit Railways Pension Scheme

Certain Group companies are part of the Porterbrook shared cost section (the Section) within the main Railways Pension Scheme (RPS). The RPS is administered by Railpen and provides defined benefits to members based on final pensionable salaries. The RPS 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 Group and its employees with the Group contributing 60% and the remaining 40% contributed by active employees

Formal actuarial valuations of the assets and liabilities of the RPS 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 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 costs were measured using the projected unit credit method.

Certain Group companies have agreed with the trustees that contributions will continue to be paid in line with those set following the latest formal actuarial valuation.

- **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 Group if no agreement can be reached between the Trustees and the Group.

	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) male and 89.3 years (2021: 88.1) female. The discounted mean term of the defined benefit obligation is approximately 18 years (2021: 18 years).

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

25. Employee benefits (continued)

	2022 £000	2021 £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
	<u>52,725</u>	<u>58,241</u>

In terms of the distinction between quoted and unquoted assets; the assets are 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. They are therefore classed as unquoted assets.

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

	2022 £000	2021 £000
Reconciliation of defined benefit asset/(liability)		
Pension liability - brought forward	(11,973)	(16,925)
Employers' share of pension expense	(1,452)	(1,560)
Pension liability - contributions	839	864
Actuarial gain on defined benefit pension scheme	15,252	5,648
Pension asset/(liability) - carried forward	<u>2,666</u>	<u>(11,973)</u>

	2022 £000	2021 £000
Impact on Statement of Profit or Loss and Other Comprehensive Income		
Loss/(Gain) due to liability experience	1,723	(390)
Gain due to liability assumption changes	(19,869)	(497)
Return on plan assets in excess of interest income	3,335	(4,337)
Actuarial gain on demographic assumptions	(441)	(424)
Total gain recognised in the Statement of Profit or Loss and Other Comprehensive Income	<u>(15,252)</u>	<u>(5,648)</u>

**Notes to the Consolidated Financial Statements
For the Year Ended 31 December 2022**
25. Employee benefits (continued)

	2022 £000	2021 £000
Amounts recognised in Profit or Loss		
Current service cost	1,172	1,270
Administration cost	68	73
Interest cost	212	217
Total pension expense	1,452	1,560
	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 loss on defined benefit obligation - experience	2,412	(1,128)
Actuarial gain on defined benefit obligation - demographic assumption	(735)	(706)
Actuarial 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
	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

**Notes to the Consolidated Financial Statements
For the Year Ended 31 December 2022**
25. Employee benefits (continued)

	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 asset/(liability) at end of year	2,666	(11,973)	(16,925)	(12,673)	(7,652)

**Increase/ (Decrease) in DBO
£000**
Defined benefit obligation (DBO) sensitivity analysis 2022

Discount rate +/- 0.25%	1,966
	(1,966)
Price inflation +/- 0.25%	(1,299)
	1,299
Life expectancy +/- 1 year	(1,331)
	1,331

**Increase/ (Decrease) in DBO
£000**
Defined benefit obligation (DBO) sensitivity analysis 2021

Discount rate +/- 0.25%	3,929
	(3,929)
Price inflation +/- 0.25%	(3,109)
	3,109
Life expectancy +/- 1 year	(3,074)
	3,074

Porterbrook Holdings I Limited

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

26. Notes supporting Statement of Cash Flows

Group

	2022 £000	2021 £000
Cash and bank deposits	82,444	43,417
Money market deposits	97,791	150,002
Cash on hand	1	1
Cash and cash equivalents in the Statement of Financial Position	180,236	193,420
Cash and cash equivalents in the Statement of Cash Flows	180,236	193,420

27. Related party transactions

27.1 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
	4,483	4,185

27.2 Group entities

The Company has a related party relationship with the following Group entities:

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

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

28. Parent undertaking and controlling party

There is no ultimate controlling party of the Group. The Company heads the smallest and largest Group for which group financial statements are drawn up and of which the Company is a member. Copies of the Group financial statements are available from the registered office, Ivatt House, 7 The Point, Pinnacle Way, Pride Park, Derby, DE24 8ZS.