Angel Trains Limited

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

Angel Trains Limited
Registered in England and Wales: Number 2912655
Registered Office: 123 Victoria Street, London, SW1E 6DE

Angel Trains Limited

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Angel Trains Limited

OFFICERS AND PROFESSIONAL ADVISERS

Directors:	K. Tribley A. Lowe D. Jordan M. Prosser
Company secretary:	N. Holas
Registered office:	123 Victoria Street London SW1E 6DE
Independent auditors:	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors 7 More London Riverside London SE1 2RT

Registered in England and Wales: Number 2912655

Angel Trains Limited

STRATEGIC REPORT

FOR THE YEAR ENDED 31 DECEMBER 2019

The directors present their strategic report on Angel Trains Limited (the "Company") for the year ended 31 December 2019.

REVIEW OF THE BUSINESS

The principal activity of the Company continues to be the provision of railway rolling stock to train operators under operating leases.

New Trains

During 2019, the Company successfully project managed and delivered into passenger operation 19 x 5-car Hitachi AT300 bi-mode intercity trains (Class 802), leased by FirstGroup plc ("FirstGroup") on the TransPennine Express franchise. Additionally, 2 out of the 5 x 5 Hitachi AT300 bi-mode intercity trains were also delivered to programme and introduced to passenger service under a lease with Hull Trains Company Ltd ("First Hull Trains"). The combined contract value is circa £287.0m.

There were no new train procurements for the year ending 31 December 2019.

Refranchising & Re-leasing

As at 31 December 2019, the Company owned 3,935 rolling stock vehicles, with a further 15 in the build phase.

The following leases were extended during the year as the result of short-term franchise awards/extensions:

- London & South Eastern Railway Ltd – The franchise was extended from June 2019 to ultimately March 2020, extending the lease of 200 Class 465 and 86 Class 466 vehicles.
- Great Western Railway Ltd – The franchise was extended from April 2019 to March 2020, extending the lease of 12 Class 150, 88 Class 165, 63 Class 166 and 197 HST vehicles.

The following leases were extended or entered into during the year outside of the refranchising process:

- Abellio ScotRail Ltd – 48 Class 314 vehicles were extended from 1 January 2019 to 28 February 2019.
- Merseyside Passenger Transport Ltd – 177 Class 507/8 vehicles were extended from 1 January 2019 up to May 2023.
- Abellio East Anglia Ltd – 220 Class 317 vehicles were extended from various dates in 2019 up to various dates through to December 2020.
- Arriva Rail London Ltd – 56 Class 317 vehicles were extended from various dates in 2019 to June 2020.
- Arriva Rail North Ltd – 48 Class 142 vehicles were extended from December 2019 to January 2020 and then subsequently since year end to March 2020.
- Arriva Rail North Ltd – 10 Class 153 vehicles were extended from December 2019 to March 2025.
- Keolis Amey Wales Cymru Limited – 30 Class 142 vehicles were extended from December 2019 to June 2020.
- XC Trains Ltd – 19 HST vehicles were extended from October 2019 to October 2020.

The following new leases were entered into following the award of a new franchise:

- The East Midland franchise was awarded to Abellio East Midlands Ltd from August 2019 to August 2027. All incumbent fleets were leased on short-term leases as well as 84 Class 360 vehicles which will be cascaded from the East Anglia franchise in September 2020 for the full franchise duration and 20 Class 180 vehicles which will be cascaded from the Hull franchise in February 2020 on a short-term lease. The details of the fleets leased are:
    - 10 Class 153 vehicles to December 2020
    - 8 Class 156 vehicles to December 2021
    - 32 Class 158 vehicles to December 2021
    - 20 Class 180 vehicles to December 2022
    - 24 HST vehicles to December 2020
    - 84 Class 360 vehicles to August 2027

REVIEW OF THE BUSINESS (continued)

Refranchising & Re-leasing (continued)
The DfT refranchising programme has not been updated since July 2017, a number of directly awarded franchises have been introduced or contemplated. Furthermore, in many of these directly awarded franchises a further extension option has been included, which in our view, is likely to be exercised in a number of instances.

Refurbishment Projects & Future Developments
Throughout 2019, the Company continued to engage with the supply chain to ensure the successful completion and modification programmes on all its fleets forecast to operate beyond 31 December 2019 in order to comply with Persons of Reduced Mobility ("PRM") regulations by that deadline. As of up to the date of this report, 95% of the required units have been successfully completed. Although the remaining units have breached the deadline dispensation has been received. Investment related to these programmes will ensure these vehicles can continue in service for years to come.

Progress continues with the Company's innovative Hybrid Drive research and development project in partnership with Magtec Limited and Chiltern Railways in converting an existing DMU to Hybrid Drive. The performance trial on a Class 165 train is targeted for summer 2020 with the expected benefits being significant reduction in CO2, NOx, particulate matter and noise, as well as an estimated fuel saving of 25% for train operators.

Other Financial & Business Matters
Between 2020 and 2023, 1147 vehicles are due for re-lease; excluding those which are covered by Railways Act 1993 section 54 undertakings. At year end, 100.0% of the Company's portfolio was on lease, excluding vehicles held for disposal. Details are disclosed in note 11.

The Company has monitored the potential impact of the UK leaving the European Union ("Brexit") insofar that it has been able to. The Company remains insulated from the direct impact of foreign exchange volatility and all of its revenues are generated within the United Kingdom and are denominated in Sterling.

The Secretary of State for Transport launched a full review of the rail industry in September 2018 which concluded in December 2019. The government will publish a White Paper on its recommendations with any implemented reforms expected to start in 2020. The purpose of the Williams Review is to ensure that the United Kingdom's vital rail services continue to benefit passengers and that it supports a stronger economy. The 'root and branch' review will consider all aspects of the industry including greater train and track integration, regional partnerships and value for money.

The Company welcomes the Williams Review and participated in the initial industry-wide request for information. The Company will continue to support the review and believes its approach to embracing competition, fostering innovation and improving the customer experience through the continued deployment of the ROSCO model is consistent with the review's objectives.

KEY PERFORMANCE INDICATORS

The Company's financial performance is presented in the Income Statement on page 15. The profit after tax for the year ended attributable to the owners was £94.0m (2018: £105.6m).

Revenue and cost of sales decreased by 8.8% and 12.2% respectively, driven by decreases in the maintenance lease rentals, as a result of a delay on related maintenance performance obligations that will now occur in the future. This was offset with an increase in operating lease rentals due to short term opportunities. Administrative expenses decreased by 8.6% and other income fell by 29.1%. Operating profit for the year decreased by 6.5% compared to 2018.

At the end of the year, the financial position showed total assets of £1,808.0m (2018: £1,705.6m). This includes the net book value of property, plant and equipment and right-of-use assets of £1,701.2m compared to £1,586.9m at the previous year. Other non-current assets comprise of loans receivable of £48.5m (2018: £45.6m).

KEY PERFORMANCE INDICATORS (continued)

The other key performance indicator that the directors consider is the percentage of rolling stock (excluding vehicles held for disposal) on lease, which stood at 100.0% at 31 December 2019 (2018: 98.3%) against a target of 95.0%.

The key performance indicators that the directors consider are interest cover, leverage (Net Debt / Earnings Before Interest, Tax, Depreciation and Amortisation) and net present value of future rentals. Interest cover and leverage ratios can be derived from the financial statements. The directors are satisfied with the current level of the ratios. The directors do not anticipate any material change in either the type or level of activities of the Company.

STRATEGY

The Company's strategy is divided across three main themes: meet our customers' expectations, re-lease our existing portfolio and renew our portfolio.

The strategy is supported by having trains at all stages of the 25-40 year asset lifecycle, which manages the asset risk profile and helps protect the long term profitability of the business. This is supported by the spread of the portfolio across different vehicle types, i.e. high speed intercity, regional and urban (commuter) trains. The benefit of this portfolio approach is that the Company is not beholden to any one market sector.

The Company remains supportive of the long term rolling stock projections as outlined in The sixth *Long Term Rolling Stock Strategy published by* the Rolling Stock Strategy Steering Group ("RSSSG") (a cross-industry group comprising Angel Trains and the other ROSCOs, the Association of Train Operating Companies ("ATOC") and Network Rail) with a national fleet increase of between 40% (5,500 vehicles) and 85% (12,000 vehicles) forecast over the next 30 years. The report follows previous editions in setting out a range of forecasts for the likely size and mix of the national rolling stock fleet required to accommodate future passenger numbers over the next 30 years to 2047. However our projections in rolling stock procurement whilst robust are contingent upon the outcome of the Rail Review and any future Rail franchising schedule. While demand for Self Powered Multiple Units (SPMU's) is increasing, Electrical Multiple Units (EMUs) is the major procurement demand with de-carbonisation and the associated available technologies such as batteries, identified as an increasingly important evaluation consideration with respect to new rolling stock procurement.

Projections in rail procurement are further supported as passenger demand continues to increase nationally with the driver in demand growth attributed to the London and South East sector due to the volume of passenger journeys. In July 2019 the Rail Industry Decarbonisation Taskforce published their 'Final Report To The Minister For Rail'. The study was commissioned in response to Jo Johnson's 2018 challenge to remove 'all diesel only trains off the track by 2040', and is also linked to UK Government's wider target (set by law) of net zero carbon by 2050 (as recommended by the Climate Change Commission (CCC). Additionally it is noted, that Scotland has greater aspirations and is intending to achieve Zero carbon by 2045.Overall volume trend is considered buoyant over the next 5 years, subject to the outcome of the Rail Review and franchise schedule with a combination of EMU and SPMU demands.

SECTION 172 (1) STATEMENT

The Company proactively engages with its stakeholders to maximise value and secure long-term success and is continually striving to improve its impact. We set out below our key stakeholders groups, their material issues and how we engage with them.

The Company has engaged with key stakeholders to assess the impact of the Coronavirus in both the short and long term.

SECTION 172 (1) STATEMENT (continued)

Our Key Stakeholders

Shareholders – The Company attaches considerable importance to communications with its direct shareholders as well as the shareholders of the ultimate parent company, Willow Topco Ltd ("the Group") and engages with them on a regular basis. Open and frequent dialogue with investors enables them to fully understand the Group's strategy, objectives and governance. The Company had a successful strategy day event in November 2019 where it had direct input from shareholders.

Site visits and individual discussions with the executive and non-executive directors are also arranged throughout the year with shareholders.

Suppliers – Strong and collaborative long-term relationships with our suppliers comprising of manufacturers and maintainers of rolling stock is continually developed. The procurement team engages both formally and informally on a regular basis to secure effective performance from the supply chain. Major issues are subject to discussion and approval at board level so that the board is aware of supplier concerns. Annual confirmation is obtained from our key suppliers to ensure compliance with our supply chain standards, in particular having a zero-tolerance approach to Modern Slavery.

Externally facilitated annual supplier feedback surveys are carried out. Our board papers have been updated to identify the legitimate concerns and interest of key stakeholders. In 2019, some of our strategic suppliers had lost key resources and skills which had directly affected a number of our projects and issues were escalated to the Board. Meetings with senior level executives were scheduled to understand and assist the suppliers to secure the management of our assets.

Our key suppliers have shared with us their plans for mitigating the impact of Brexit and Coronavirus on supplier materials. Management continues to keep a watchful eye on these developments.

Customers - Our customers are fundamental to our business and the Company continually strives to exceed their expectations. Feedback from our annual customer feedback survey is used to address areas for improvement. Our dedicated Customer Service team has regular meetings and engagement events with our key customers to anticipate trends and preferences and incorporate them early in our new rolling stock procurement.

Feedback and complaints from our key customers are discussed at our Senior Operational Group meetings with senior level employees and critical issues are escalated to the Board for further guidance on effectively meeting our customers' needs.

Our Product Management team is continually developing ways to reduce costs, improve performance and availability for our customers in releasing our existing portfolio. See 'Refurbishment Projects & Future Developments' section above on page 3 for projects we have undertaken based on feedback received from our customers.

Employees - Angel Trains Ltd employs over 140 professional, technical and support staff. Our people are our most valuable assets and we continually engage with them to foster an environment in which they are happy to work in and that best supports their wellbeing.

We invest significantly in the professional development of our workforce and the Company's development provision includes: sponsorship of professional qualifications, personal development plans, ad hoc training, coaching, learning lunches and specific senior management development. In 2019, we adopted the Intent Based Leadership (IBL) model, an approach to leadership and management aimed at empowering employees to improve decision making within a safe environment.

Feedback from the employees was gathered through the externally run annual employee survey and areas of improvement were discussed by senior management and the Board. The Company made improvements based on the feedback received from the survey.

SECTION 172 (1) STATEMENT (continued)

Employees (continued)
Our success in retaining staff is demonstrated by the low turnover rate 7.6% in 2019 and high satisfaction scores, as well as by the fact that approximately 36% of employees have been with us for more than ten years.

The Company has retained Investors in People Gold accreditation, against a new higher standard, and is working through an action plan to strive for Platinum in 2021. This accreditation and the employee survey result scores underline the effectiveness of the culture, people management, systems and processes at Angel Trains.

In light of the Coronavirus, we are following the Government guidelines and have taken steps to ensure that all employees can work from home. Employees with symptoms have been asked to self-isolate and face-to-face meetings and business travel have been minimised.

The Company has retained Investors in People Gold accreditation, against a new higher standard, and is working through an action plan to strive for Platinum in 2021. This accreditation and the employee survey result scores underline the effectiveness of the culture, people management, systems and processes at Angel Trains.

In light of the Coronavirus, we are following the Government guidelines and have taken steps to ensure that all employees can work from home if the need arises. Employees with symptoms have been asked to self-isolate and face-to-face meetings and business travel have been minimised.

Environment - The state of the environment is of great concern to us and we are always looking to ways to reduce our environmental impact.

We continue to invest significant time and money into developing a cleaner, greener and smarter Hybrid traction drive system (HyDrive) to replace the Diesel-Hydraulic drive system on a pilot 2 car Class 165/0 unit from Chiltern Railways, a UK rail industry first.

Angel Trains is committed to reducing carbon emissions for each of our diesel fleets. Initial feasibility work to improve local air quality and reduce C02 for the HST ASR fleet is being explored. Concept work is underway on our diesel fleets to help improve emissions and air quality.

Principal decisions

We continue to effectively manage the project enhancements and modifications to our existing fleets and deliver contracted new build, whilst effectively managing the associated supply chain.

1. Operational excellence and asset management
Taking into account the business principal risks, and feedback from our customers, an asset management steering group was established to realise our Company's Vision "To be Britain's leading rolling stock asset manager". A considerable amount of work has been undertaken and is ongoing in the area of asset management inter alia develop and enhance our assets throughout their operational life in creating value for the company and its stakeholders.

2. Long-term Sustainable success of the Company
A sustainability forum was set up to focus on environmental, social and governance issues in achieving our strategic objectives for improving our governance frameworks and investing in more sustainable assets to ensure the long-term sustainable success of the company.

3. Persons of Reduced Mobility (PRM) Conversion Programme
The frailty of the supply base continues to be monitored by the Board and efforts and resources are focused on completing the remaining non-compliant PRM vehicles. See 'Refurbishment Projects & Future Developments' section above on page 3.

SECTION 172 (1) STATEMENT (continued)

Training and development

With the ever changing environment, our executive directors keep their knowledge and skills up-to-date. The company currently has no non-executive directors. As required, we invite professional advisers to provide in-depth training and updates on a range of topics, including, but not limited to market trends, the economic and political environment, technological, environmental and social considerations.

All newly appointed directions had suitable induction training, including training on their section 172 and other duties, and director training was provided by an external facilitator in October 2019 and refresher courses will be provided from time to time.

At management level, training and guidance was provided on writing effective board papers to ensure the impact of proposed decisions is clearly explained to the Board.

Culture

Angel Trains recognises the importance of ensuring the right culture in attracting, retaining and motivating our staff whilst effectively engaging with stakeholders. The Company's performance reflects our culture nurtured through strong leadership.

Internally, the Board monitors our culture to ensure we maintain our values and high standards of transparency and integrity. Our Human Resources (HR) team ensures that we have the right systems and processes in place to strengthen and sustain our culture.

The Company is committed to being an inclusive and respectful employer that welcomes diversity and promotes equality, acceptance and teamwork. Diversity and well-being initiatives have been high on the agenda during 2019 and these will continue into 2020. See more on diversity below.

The HR team recently improved the onboarding process which is more engaging and participatory. In 2019 more cohesive teamwork was encouraged through increased offsites to encourage bonding between employees outside of the office.

We pride ourselves on the calibre of our staff and our goal is to recruit people who are innovative, competent and dedicated to our mission.

DIVERSITY

The Company continues to report on gender equality in accordance with the Government Equalities Office initiative "Think, Act, Report" which aims to encourage companies to share their progress in reporting gender equality. The Group recognises the benefit both it and the industry would receive from a more gender balanced workforce and is committed to increasing the number of women throughout the organisation and, more generally, to furthering the success of women in the rail sector. The Group undertakes voluntary gender equality analysis reporting by publishing an annual diversity report on its website each year. A plan to increase diversity in the workforce has been presented to the Group Board, and will continue to be implemented in 2020 and beyond.

LOOKING FORWARD

Looking ahead, the critical objective for the Company in the short to medium term will be to re-lease successfully all the vehicles that are coming towards the end of their current lease at rates that meet the expectations of the shareholders as well as identifying key new build procurement opportunities to renew and develop the portfolio.

During this time, it will be also be necessary to continue to invest in enhancements and modification programmes on selective fleets to ensure the rolling stock maintains its required utility and competitiveness. We employ a strong and committed team whose experience and depth of relationships within the rail industry gives us confidence that these challenges can be achieved.

LOOKING FORWARD (continued)

Internally, the key challenges for the coming year will be responding to an increased number of franchise Direct Awards while continuing to project manage the enhancements and modifications to our existing fleet. The Group will also continue monitoring any recommendations or implemented reforms from the Williams review white paper due to be announced early 2020.

Since year end, the outbreak of Coronavirus (COVID-19) continues to spread across the globe. Refer to the *Principal risks, uncertainties and use of financial instruments* section below for further detail.

PRINCIPAL RISKS, UNCERTAINTIES AND USE OF FINANCIAL INSTRUMENTS

The Company's portfolios of financial instruments principally comprise of loans, deposits and payables.

Applying International Financial Reporting Standards, all portfolios are considered to be held for non-trading purposes. The directors are responsible for considering risk management issues that arise across the Company's financial instrument portfolios. Risk management policies are detailed in note 29.

From the perspective of the Company, except for the above, the principal risks and uncertainties are integrated with the principal risks of the Group, and are not managed separately. The Group has an Internal Control Framework that is designed to monitor its risks, including financial, operational, regulatory, credit and reputational risks. The Framework includes processes to review the effectiveness of the Group's system of internal control. The Group has an organisational structure with clearly defined lines of responsibility and delegation of authority.

Since year end, the outbreak of Coronavirus (COVID-19) continues to spread causing a global pandemic and economic disruption. Management has put procedures in place to ensure the health, safety and wellbeing of all staff and other stakeholders. Whilst the long term impact is inherently uncertain, management are actively monitoring the situation and where necessary taking appropriate actions.

The announcement by the UK Government on the 23 March 2020 offering support to train operating companies by providing them with the opportunity to transition into temporary emergency measures agreements is considered a strong indication of the importance the rail industry has to the economy. The agreements effectively push the risks of costs and revenue onto the government for an initial period of six months.

In considering the impact on the Company, the Group has analysed the potential impact on forecasts and liquidity and has concluded there are no material impacts that would affect its conclusion on going concern.

Operational risk

Operational risk is the risk of unexpected losses attributable to human error, systems failure, fraud or inadequate internal financial controls and procedures.

The Company manages this risk through systems and procedures to monitor transactions and positions, the documentation of transactions and periodic review. The Company also maintains contingent facilities to support operations in the event of disaster.

By order of the board

A. Lowe
Director
6 April 2020

Angel Trains Limited
DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2019

The directors present their annual report and the audited financial statements for the year ended 31 December 2019.

RESULTS AND DIVIDENDS

An interim dividend of £105.0m was paid during the year (2018: £147.0m). The directors do not propose the payment of a final dividend (2018: £nil). The Company's financial performance is presented in the Income Statement on page 15. The profit after tax attributable to the owners for the year was £94.0m (2018: £105.6m) and this was transferred to reserves. The decrease in profit after tax mostly relates to a decrease in Revenue , as a result of maintenance lease rentals. During the year, revenue decreased by 8.8% and cost of sales decreased by 12.2%. These factors resulted in a decrease in operating profit compared to 2018 of 6.5%.

At the end of the year, the financial position showed total assets of £1,808.0m (2018: £1,705.6m) representing an increase of 6.0%. This includes the net book value of property, plant and equipment and right-of-use assets of £1,701.2m compared to £1,586.9m at the previous year end. Other non-current assets comprise of loans receivable £45.8m (2018: £45.6m).

DIRECTORS AND COMPANY SECRETARY

The present directors and company secretary are listed on page 1. Those who have served during the year and up to the date of signing this report are listed below. During the year, the following changes took place:

Directors	**Resigned**	**Appointed**
A. Lowe		
K. Tribley		
D. Jordan		
M. Hicks	23 July 2019	
M. Prosser		23 July 2019

Company Secretary

N. Holas

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 period. Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

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

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

STATEMENT OF DIRECTORS' RESPONSIBILITIES (CONTINUED)

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

STATEMENT OF DISCLOSURE OF INFORMATION TO AUDITORS

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- they have taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

LOOKING FORWARD

For information on future developments, refer to the "Looking forward" section of the Strategic Report.

PRINCIPAL RISKS, UNCERTAINTIES AND USE OF FINANCIAL INSTRUMENTS

Refer to "Principal risks, uncertainties and use of financial instruments" within the Strategic Report on page 9.

GOING CONCERN

These financial statements are prepared on a going concern basis. The Company continues to comply with the requirements of the Group's debt covenants, with performance underpinned by positive cash flows from the Company's operations despite a negative net current liabilities position. The Directors having made appropriate enquiries, have a reasonable expectation the Company has adequate resources to continue in operational existence for the foreseeable future.

Since year end, the outbreak of Coronavirus (COVID-19) continues to spread across the globe causing a global pandemic and economic disruption. Further details are disclosed in Principal risks and uncertainties. In considering the impact on the Group, the Group has analysed the potential impact on forecasts and liquidity and has concluded there are no material impacts that would affect its conclusion on going concern. In particular:

- Strong liquidity position - Committed facilities are available that more than cover all debt repayments coming due within one year from the date of signing the accounts.
- The Group has assessed projected debt covenant compliance under both a normal and stress situation without any breaches being identified.

DIRECTORS INDEMNITY COVER

No directors have been granted Qualifying Third Party Indemnity Provisions.

EMPLOYEE ENGAGEMENT

Refer to "Section 172 (1) Statement – Employees" within the Strategic Report on pages 5 and 6.

STAKEHOLDER ENGAGEMENT

Refer to "Section 172 (1) Statement - Our Key Stakeholders" within the Strategic Report on pages 5 and 6.

FINANCIAL RISK MANAGEMENT

The main financial risk the Company faces is interest rate risk. However, this risk is mitigated at Group level through the use of hedging (see the Notes to the Financial Statements for further details of the Hedging Policy). The directors consider that the Group's exposure to price risk, liquidity risk or credit risk is less significant given the mitigants it has in place.

DIRECTORS TRAINING AND DEVELOPMENT

With the ever changing environment, our directors keep their knowledge and skills up-to-date. As required, we invite professional advisers to provide in-depth training and updates on a range of topics, including, but not limited to market trends, the economic and political environment, technological, environmental and social considerations.

All newly appointed directors had suitable induction training, including training on their section 172 and other duties, and director training was provided by an external facilitator in October 2019 and refresher courses will be provided from time to time.

At management level, training and guidance was provided on writing effective board papers to ensure the impact of proposed decisions is clearly explained to the Board.

POST BALANCE SHEET EVENTS

Since year end, an outbreak of a new strain of the Coronavirus (COVID-19) in China has continued to spread across the globe including the United Kingdom causing a global pandemic and economic disruption. Management continue to monitor the situation and are taking actions where necessary to reduce sensitivity to any economic shocks. This is considered a non-adjusting event and as the situation is rapidly evolving it is not practicable to quantify the potential financial impact. However, given the robust financial and liquidity position of the Company any impact is not considered to affect the going concern of the Company.

Except for the above, there have been no significant events between the year end and the date of approval of the financial statements which would require a change or an additional disclosure in the financial statements.

Approved by the Board of Directors and signed on its behalf.

A. Lowe
Director
6 April 2020

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ANGEL TRAINS LIMITED

Report on the audit of the financial statements

Opinion

In our opinion, Angel Trains Limited's financial statements (the "financial statements"):

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

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

Basis for opinion

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

Independence

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

Conclusions relating to going concern

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

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

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

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

Reporting on other information

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

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

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

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

Strategic Report and Directors’ Report

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

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors’ responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC’s website at: www.frc.org.uk/auditorsresponsibilities. 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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ANGEL TRAINS LIMITED (continued)

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Luke Hanson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
8 April 2020

Angel Trains Limited

Registered Number 2912655

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	Year ended 31 December 2019 £'m	Year ended 31 December 2018 £'m
Revenue	2	383.8	421.1
Cost of sales		(172.9)	(196.9)
Gross Profit		210.9	224.2
Administrative expenses		(24.4)	(26.7)
Other income	3	5.6	7.9
Operating profit		192.1	205.4
Finance income	4	3.2	2.9
Finance costs	6	(81.0)	(79.3)
Other losses	7	-	(0.1)
Profit before income tax		114.3	128.9
Income tax expense	8	(20.3)	(23.3)
Profit attributable to the owners		**94.0**	**105.6**

The notes on pages 21 to 60 form an integral part of these financial statements.

Angel Trains Limited

Registered Number 2912655

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	Year ended 31 December 2019	Year ended 31 December 2018
		£'m	£'m
Profit for the financial year		94.0	105.6
Other comprehensive income			
Items that will not be reclassified to profit and loss			
Actuarial (loss)/gain on defined benefit pension scheme	30	(4.2)	5.5
Tax on items taken directly to equity		0.7	(0.9)
Total other comprehensive (expense)/income for the year		(3.5)	4.6
Total comprehensive income for the year attributable to the owners		**90.5**	**110.2**

The notes on pages 21 to 60 form an integral part of these financial statements.

Angel Trains Limited

Registered Number 2912655

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019

	Called up share capital	Retained earnings	Total equity
	£'m	£'m	£'m
At 1 January 2018	**172.3**	**160.5**	**332.8**
Profit for the year	-	105.6	105.6
Other comprehensive income			
Actuarial gain on defined benefit pension scheme	-	5.5	5.5
Tax on items taken directly to equity	-	(0.9)	(0.9)
Total comprehensive income	-	110.2	110.2
Dividends	-	(147.0)	(147.0)
At 31 December 2018	**172.3**	**123.7**	**296.0**
Profit for the year	-	94.0	94.0
Other comprehensive income			
Actuarial loss on defined benefit pension scheme	-	(4.2)	(4.2)
Tax on items taken directly to equity	-	0.7	0.7
Total comprehensive income	-	90.5	90.5
Dividends	-	(105.0)	(105.0)
At 31 December 2019	**172.3**	**109.2**	**281.5**

The notes on pages 21 to 60 form an integral part of these financial statements.

Angel Trains Limited

Registered Number 2912655

BALANCE SHEET AT 31 DECEMBER 2019

	Note	31 December 2019 £'m	31 December 2018 £'m
Assets			
Non-current assets			
Property, plant and equipment	12	633.5	1,586.9
Right-of-use assets *	13	1,067.7	-
Loans receivable	14,16	48.5	45.6
		1,749.7	1,632.5
Current assets			
Inventories	10	0.5	0.7
Contract assets	11	11.1	29.9
Current tax assets	19	-	1.9
Trade and other receivables	16	33.2	28.3
Cash and cash equivalents	16	13.5	12.3
		58.3	73.1
Current liabilities			
Trade and other payables	18	(76.6)	(67.0)
Current tax liabilities	19	(7.2)	-
Obligations under finance leases **	14,22	-	(51.5)
Lease liabilities *	13	(49.3)	-
Contract liabilities	21	(42.0)	(19.8)
Deferred profit	24	(5.8)	(5.8)
		(180.9)	(144.1)
Net current liabilities		(122.6)	(71.0)
Total assets less current liabilities		1,627.1	1,561.5
Non-current liabilities			
Loans payable	14,17	592.5	469.6
Retirement benefit obligation	30	16.4	12.0
Trade and other payables	18	4.7	5.5
Deferred tax liabilities	20	155.0	155.3
Obligations under finance leases **	14,22	-	593.2
Lease liabilities *	13	552.7	-
Deferred profit	24	24.3	29.9
		1,345.6	1,265.5

Angel Trains Limited

Registered Number 2912655

BALANCE SHEET AT 31 DECEMBER 2019 (continued)

	Note	31 December 2019 £'m	31 December 2018 £'m
Equity attributable to owners of the parent			
Called up share capital	26	172.3	172.3
Retained earnings		109.2	123.7
Total equity		281.5	296.0
Total equity and non-current liabilities		1,627.1	1,561.5

* The lines indicated are in respect of the application of IFRS 16 in the current year only.

** The lines indicated are in respect of the IAS 17 comparatives.

The notes on pages 21 to 60 form an integral part of these financial statements.

The financial statements on pages 15 to 60 were approved by the Board of Directors and authorised for issue on 6 April 2020. They were signed on its behalf by:

A. Lowe
Director

Angel Trains Limited

Registered Number 2912655

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2019

	Year ended 31 December 2019	Year ended 31 December 2018
	£'m	£'m
Cash flows from operating activities:		
Cash receipts from customers	429.8	417.6
Cash paid to suppliers and employees	(71.9)	(104.5)
Cash generated from operations	357.9	313.1
Income taxes paid	(10.8)	(33.7)
Interest paid	(52.1)	(55.9)
Net cash generated from operating activities	**295.0**	**223.5**
Cash flows from investing activities:		
Interest received	0.4	0.1
Purchase of property, plant and equipment	(229.9)	(438.9)
Proceeds from disposal of property, plant and equipment	-	248.6
Net cash used in investing activities	**(229.5)**	**(190.2)**
Cash flows from financing activities:		
Payments of dividends	(105.0)	(147.0)
Repayment of obligations under finance leases**	-	(44.6)
Repayment of lease liabilities*	(47.0)	-
Repayment of loans	(213.2)	(222.2)
Receipt of new loans	300.9	382.4
Net cash used in financing activities	**(64.3)**	**(31.4)**
Net cash movement in cash and cash equivalents	1.2	1.9
Cash and cash equivalents at the beginning of the year	12.3	10.4
Cash and cash equivalents at the end of the year		
Bank balances and cash	**13.5**	**12.3**

* The lines indicated are in respect of the application of IFRS 16 in the current year only.

** The lines indicated are in respect of the IAS 17 comparatives.

The notes on pages 21 to 60 form an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS - FOR THE YEAR ENDED 31 DECEMBER 2019

1. Significant Accounting Policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

General

Angel Trains Limited is a private company, limited by shares and is incorporated and domiciled in England and Wales. The address of the registered office is on page 1. The nature of the Company's operations and its principal activities are set out in the Strategic Report and Directors' Report.

Basis of preparation

These financial statements have been prepared in accordance with European Union ("EU") endorsed International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee interpretations and the Companies Act 2006 applicable to companies reporting under IFRS.

The financial statements are prepared under the historical cost convention and on the going concern basis. The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed below. These policies have been consistently applied to all the years presented, unless otherwise stated.

In accordance with IFRS 13, fair value measurements and/or disclosures in these financial statements 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 (unadjusted) 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 (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 - Inputs for the asset or liability that are not based on observable market data (that is unobservable inputs).

Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described 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 estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimates (see below) that the directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Revenue recognition

Revenue for non-capital income (i.e. predominantly maintenance lease rentals 'contracts'), the Company's primary obligation is to maintain customers rolling stock in an operational condition. The Company achieves this by undertaking various maintenance activities over the period of the contract. To determine the correct revenue recognition, the Company determines whether multiple contracts should be combined and accounted for as one single contract and a single performance obligation or, a single contract (including combined contracts accounted for a single contract) should be accounted for as more than one performance obligation.

1. Significant Accounting Policies (continued)

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

Keys sources of estimation uncertainty

Useful lives of property, plant & equipment

As described in the Property, plant and equipment accounting policy note below, the Company periodically reviews the useful economical lives. In recent years, the directors determined that the useful economical lives of certain rolling stock should be shortened or extended, due to either commercial or technical changes.

For the current year the directors have considered the current estimate of useful economic lives are supportable and reasonable and therefore no material changes have been made during the year. Because of the long term nature of rolling stock there is inherent uncertainty, however directors continue to review periodically.

Forecasts and discount rates

As described in the impairment of tangible assets policy below the Company reviews the carrying amounts of its tangible assets and in particular property, plant and equipment and right-of-use assets. The assessment as to whether there are any indications of impairment of Property, plant and equipment, in particular rolling stock are dependent on the estimated future cash flows and the discount rate used to calculate a present value. Because of the long-term nature of rolling stock there is inherent uncertainty, however the Group performs a robust quarterly forecast, which is reviewed by directors.

Maintenance lease rentals

The Company has long term maintenance lease rentals contracts that fall into different financial years and can extend into multiple financial years. The estimated revenues are inherently difficult to predict and estimates are required to assess the whole life maintenance pattern of rolling stock. A significant change in one or more of these estimates may result in increases or decreases in operating profit.

Adoption of the new and revised Standards

New and amended IFRS standards that are effective for the current year

Impact of initial application of IFRS 16 Leases

In the current year, the Company has applied IFRS 16 Leases (as issued by the IASB in January 2016) which became effective for annual periods that begin on or after 1 January 2019.

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of these new requirements are described in the policy below, with the Company as a lessee and as a lessor. The impact of the adoption of IFRS 16 on the Company's financial statements is described below.

The date of initial application of IFRS 16 for the Company is 1 January 2019.

The Company has applied IFRS 16 using the cumulative catch-up approach, with an adjustment to the opening balances 1 January 2019 and comparatives are not restated.

1. Significant Accounting Policies (continued)

Adoption of the new and revised Standards (continued)

New and amended IFRS standards that are effective for the current year (continued)

(a) Impact of the new definition of a lease

The Company has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to those contracts entered or modified before 1 January 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. This is in contrast to the focus on 'risks and rewards' in IAS 17 and IFRIC 4.

The Company applies the definition of a lease and related guidance set out in IFRS 16 to all contracts entered into or changed on or after 1 January 2019.

(b) Impact on lessee accounting

(i) Former operating leases

IFRS 16 changes how the Company accounts for leases previously classified as operating leases under IAS 17, which were off balance sheet.

Applying IFRS 16, for all leases (except as noted below), the Company:

- Recognises right-of-use assets and lease liabilities in the consolidated balance sheet, initially measured at the present value of the future lease payments;
- Recognises depreciation of right-of-use assets and interest on lease liabilities in profit or loss;
- Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within financing activities) in the cash flow statement.

Lease incentives (e.g. rent free period) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive, amortised as a reduction of rental expenses on a straight line basis.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (which includes small items of office furniture and printers), the Group has opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within ‘other expenses’ in profit or loss.

ii) Former finance leases

The main differences between IFRS 16 and IAS 17 did not have a material effect on the Company's financial statements, except for reclassifications.

(c) Impact on Lessor Accounting

IFRS 16 does not change substantially how a lessor accounts for leases. Under IFRS 16, a lessor continues to classify leases as either finance leases or operating leases and accounts for those two types of leases differently.

IFRS 16 has changed and expanded the disclosures required, in particular with regard to how a lessor manages the risks arising from its residual interest in leased assets. However, this has not had a material impact to the Company.

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

1. Significant Accounting Policies (continued)

Adoption of the new and revised Standards (continued)

New and amended IFRS standards that are effective for the current year (continued)

(d) Financial impact on initial application

The weighted average lessee's incremental borrowing rates applied to lease liabilities recognised in the Balance sheet as at 1 January 2019 for rolling stock is 8.4% and buildings is 3.0%.

The cumulative effect of the changes made to the Balance Sheet as at 1 January 2019 was:

Balance Sheet

	As at 31 December 2018	Adjustments due to IFRS16	As at 1 January 2019
	£'m	£'m	£'m
Non current assets			
Property, plant and equipment	1,586.9	(1,068.5)	518.4
Right-of-use assets	-	1,073.3	1,073.3
Current liabilities			
Obligations under finance leases	(51.5)	51.5	-
Lease liabilities	-	(52.4)	(52.4)
Non current liabilities			
Obligations under finance leases	(593.2)	593.2	-
Lease liabilities	-	(597.7)	(597.7)

On 1 January 2019, the Company reclassified property plant and equipment of £1,068.5m to right-of-use assets and obligations under finance leases of £593.2m to lease liabilities. The Company recognised £4.8m of right-of-use assets and £5.4m of lease liabilities upon transition to IFRS 16 in relation to its buildings leases. The difference of £0.6m was recognised in retained earnings which was offset with £0.6m accrued rent (rent free period) recognised under IAS 17 adjusted to retained earnings.

The following table shows the operating lease commitments disclosed applying IAS 17 at 31 December 2018, discounted using the incremental borrowing rate at the date of initial application and the lease liabilities recognised in the balance sheet at 1 January 2019:

	1 January 2019
	£'m
Operating lease commitments disclosed as at 31 December 2018	5.9
Effect of discounting using the incremental borrowing rate	(0.5)
Lease Liabilities recognised at 1 January 2019	5.4

1. Significant Accounting Policies (continued)

Adoption of the new and revised Standards (continued)
At the date of authorisation of these financial statements, the following amended standards were effective for accounting periods beginning on 1 January 2019 but did not have a material impact on the Company's financial statements:

IFRS 9 (amendment - 2017) - 'Financial instruments: recognition and measurement'
IAS 19 (amendment) - 'Employee Benefits'
IAS 28 (amendment) - 'Investments in associates'
IFRIC 23 (amendment) - 'Uncertainty over income tax'
Annual Improvements to IFRS Standards 2015-2017 Cycle

The following standards, amendments and interpretations to existing standards have been issued but are effective for accounting periods beginning after 1 January 2019, and the Company has not early adopted them:

IFRS 3 (amendment) - 'Business combinations'
IFRS 9 (amendment) - 'Financial instruments: recognition and measurement' - Interest rate benchmark reform
IFRS 7 (amendment) - 'Financial instruments: Disclosures' - Interest rate benchmark reform
IFRS 17 -' Insurance contracts'
IAS 1 (amendment) - 'Presentation of financial statements'
IAS 8 (amendment) - 'Accounting policies, changes in accounting estimates and errors'

Revenue recognition
Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, rebates and sales-related taxes. The Company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Company’s activities as described below.

Maintenance lease rentals
For most maintenance lease rentals, the customer contracts the Company to provide various maintenance activities over the period of the contract. These activities are a complex service integrating a set of tasks that could be over multiple rolling stock vehicles. The entire contract or combination of contracts is considered as one performance obligation unless more than one performance obligation exists. Because of control transferring over time, revenue is recognised based on the extent of progress towards completion of the performance obligation.

The Company also considers the potential risk where estimates may affect more than one customer contract. For each performance obligation to be recognised over time, the Company recognises revenue using an input method, based on costs incurred during the period. Revenue and the associated margin are calculated by the reliable estimates of transaction price, total expected costs and a reasonable allowance for potential risks.

Finance income
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
Dividend income is recognised when the right to receive payment is established.

1. Significant Accounting Policies (continued)

Leasing

The Company has applied IFRS 16 using cumulative catch-up approach and therefore comparative information has not been restated and is presented under IAS 17. The details of accounting policies under both IAS 17 and IFRS 16 are presented separately below.

The Company as lessor

Policy applicable to both IAS 17 (2018) and IFRS 16 (2019)

The Company has no leases where the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. Accordingly, all leases are classified as operating leases.

Payments received under operating leases (net of any incentives) are credited to the income statement on a straight-line basis over the period of the lease. Rent-free periods and payments made in advance are accounted for in a way such that the revenue income is consistent each year over the term of the 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.

The Company as lessee

Policy applicable to IAS 17 (2018)

Rentals payable under operating leases (net of any incentives) are charged to the income statement on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

The Company as lessee of property, plant and equipment where the Company has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate of return on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in obligation under finance leases.

The interest element of the finance costs is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

Policy applicable to IFRS 16 (2019)

The Company assesses whether a contract is or contains a lease, at inception of the contract. The Company recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements 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 (such as small items of office furniture and printers). 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 assets 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 lessee uses its incremental borrowing rate. Lease payments included in the measurement of the lease liability comprise fixed lease payments less any lease incentives receivable.

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.

1. Significant Accounting Policies (continued)

The Company as lessee (continued)

Policy applicable to IFRS 16 (2019) (continued)
Right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received 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 substantially all the risk and rewards but not necessarily legal ownership, 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 Company applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the ‘Impairment of tangible assets’ policy.

Foreign currencies
The financial statements of the Company are presented in Sterling, which is the currency of the primary economic environment in which the Company operates (its functional currency). In preparing the financial statements, transactions in currencies other than the Company’s functional currency (foreign currencies) are recorded using the exchange rates prevailing at the date of the transaction. At each balance sheet date, monetary assets and liabilities denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date.

Exchange differences arising on the settlement of monetary asset and liabilities, and on the retranslation of monetary assets and liabilities, are included in the income statement within 'other gains/(losses)'. In order to hedge its exposure to certain foreign exchange risks, the Company enters into forward contracts (see below for details of the Company’s accounting policies in respect of such derivative financial instruments).

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 of leasing or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use of leasing or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. The interest rate is capitalised at the average swap rate plus the weighted average margin of the Group's external debt. All other borrowing costs are recognised in the income statement in the period in which they are incurred.

Retirement benefit costs
Benefits for the Company’s employees are provided by an Angel Trains Shared Cost Section (the ‘Main Scheme’), a defined benefit scheme which is part of the Railways Pension Scheme, but its assets and liabilities are identified separately, and defined contribution retirement benefit plans.

<u>*Main Scheme*</u>
For defined benefit schemes, the cost of providing benefits is determined using the projected unit credit method, with approximate actuarial valuations being carried out at each balance date. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. Past service costs are recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost, and as reduced by the fair value of scheme assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.

1. Significant Accounting Policies (continued)

Retirement benefit costs (continued)

Main Scheme (continued)

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which benefits will be paid, and that have terms of maturity approximating to the terms of the related pension liability.

Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the scheme.

Defined contribution
Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Current and deferred tax

Tax expense represents the sum of current tax and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is recognised in other comprehensive income or directly in equity, respectively.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Company's liability for current and deferred tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

Deferred tax is calculated at tax rates substantively enacted at the balance sheet date that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Property, plant and equipment and right-of-use assets

Property, plant and equipment are shown at cost less any accumulated depreciation and subsequent accumulated impairment losses. On 12 June 2008, the Company entered into a sale and leaseback transaction with a fellow group company, The Great Rolling Stock Company PLC. The Company sold the rolling stock vehicles at market value and entered into a finance lease. Market value was determined as the present value of future lease payments. Deferred profit, being the difference between the carrying value and market value is recognised in the Income Statement over the finance lease term on a straight-line basis. Depreciation for these assets is charged to cost of sales.

1. Significant Accounting Policies (continued)

Property, plant and equipment and right-of-use assets (continued)
On the subsequent sale or retirement of revalued rolling stock, the attributable revaluation surplus remaining in the revaluation reserve is transferred directly to accumulated profits.

Depreciation is charged so as to write off the cost of these assets over their estimated useful lives, using the straight-line method, or in the case of leased buildings, the shorter lease term as follows.

	Years
Rolling stock	25 - 40
Office fixtures and fittings	5 - 10
Computer equipment	3
IT system upgrade	10
Leased buildings	Lease Term

Rolling stock in the course of construction for rental purposes is carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Company's accounting policy. Depreciation of these assets, on the same basis as other rolling stock, commences when the assets are ready for their intended use. Intended use is usually identified as when the construction of rolling stock is complete.

Office fixtures and fittings, computer equipment and IT system upgrade are categorised as Other within Property Plant and Equipment in note 12.

The useful economical lives and residual values are reviewed on an annual basis. The residual value exposure is the net book value of leased assets at the end of the lease term. This exposure is monitored periodically with any corrections required being made through depreciation.

Gains and losses on disposals are determined by comparing the proceeds with carrying amount and are recognised as other income or losses in the income statement.

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

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset (cash-generating unit).

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the income statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior periods. A reversal of an impairment loss is recognised immediately in the income statement, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

1. Significant Accounting Policies (continued)

Inventories
Inventories represent spares used in rolling stock maintenance and are stated at the lower of cost and net realisable value. Cost represents the purchase price of the spares. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Financial instruments
Financial assets and financial liabilities are recognised on the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument.

Financial assets
The Company classifies loans receivable, trade and other receivables and cash and cash equivalents as 'finance assets at amortised cost': Investments in subsidiaries are measured at cost less any impairment. Impairment reviews are performed by the directors when there has been an indication of potential impairment.

Financial assets at amortised cost
Financial assets at amortised cost are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in the income statement when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Contract assets
Contract assets are balances due from the customers that arise when performance obligations are performed in line with the contract. Any amount previously recognised as a contract asset is reclassified to trade receivables at the point at which it is invoiced to the customer.

Impairment of financial assets
The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the assets and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Cash and cash equivalents
Cash and cash equivalents comprise cash in hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Financial liabilities
Financial liabilities issued by the Company are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability. The accounting policies adopted for specific financial liabilities are set out below.

Derivative financial instruments
The Company's activities expose it to the financial risks of changes in foreign exchange rates. The Company uses derivative financial instruments to reduce exposure to foreign exchange risk. The Company does not hold or issue derivative financial instruments for speculative purposes.

Derivative financial instruments are initially measured at fair value on the contract date, and subsequently re-measured to fair value at subsequent reporting dates. Gains and losses arising from changes in the fair value of a derivative are recognised as they arise in the income statement.

1. Significant Accounting Policies (continued)

Financial instruments (continued)

Derivative financial instruments (continued)
The use of financial derivatives is governed by the Group's policies approved by the Board of Directors, which provide written principles on the use of financial derivatives consistent with the Group's risk management strategy.

Loan payables
Interest-bearing loans are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings using the effective interest rate method.

Trade and other payables
Trade and other payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Contract liabilities
Contracts liabilities relating to maintenance lease rentals are balances due to customers. These arise if a maintenance lease rental exceeds the revenue recognised to date.

Investment in subsidiaries
Investments in subsidiary undertakings are recorded at cost plus incidental expenses less any provision for impairment. Impairment reviews are performed by the directors when there is indication of potential impairment.

Provisions
Provisions are recognised when the Company has a present obligation as a result of a past event, and it is probable that the Company will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Share capital
Ordinary shares are classified as equity and have rights to receive all dividends and other distributions, made or paid on the ordinary share capital of the Company.

Consolidation exemption
The Company is exempt from the requirement to prepare consolidated financial statements, under Section 401 of Companies Act 2006 as the Company is a wholly-owned subsidiary of Willow Topco Limited (a Jersey incorporated entity) and the Company's results are consolidated within the financial statements of the parent entity. The Willow Topco Limited consolidated financial statements are available from the registered office, 27 Hill Street, St Helier, Jersey, JE2 4UA. The Company's financial statements therefore present information about the Company as an individual entity and not about the Group.

2. Revenue

	Year ended 31 December 2019	Year ended 31 December 2018
	£'m	£'m
Operating lease rentals	313.6	303.5
Maintenance lease rentals	67.3	114.6
Management fees	1.3	1.4
Other revenue	1.6	1.6
	383.8	421.1

All revenue relates to United Kingdom operations.

3. Other income

	Year ended 31 December 2019	Year ended 31 December 2018
	£'m	£'m
Dividend income from group undertakings	-	2.1
Release of deferred profit on sale and leaseback	5.6	5.8
	5.6	7.9

4. Finance income

	Year ended 31 December 2019	Year ended 31 December 2018
	£'m	£'m
Interest receivable from group undertakings	2.8	2.8
Other interest receivable	0.4	0.1
	3.2	2.9

The interest receivable from group undertakings represents interest received from Angel Trains Group Limited.

5. Expenses by nature

	Year ended 31 December 2019	Year ended 31 December 2018
	£'m	£'m
Changes in inventories (note 10)	0.2	0.1
Employees' emoluments (note 9)	17.6	18.3
Depreciation and impairment (note12, 13)	126.6	116.7
Advertising costs	0.1	0.1
Operating lease payments * (notes 27)	-	0.9
Other expenses	52.8	87.5
Total cost of sales and administrative expenses	197.3	223.6

* The lines indicated are in respect of the application of IFRS 16 in the current year only.

Auditors' remuneration for audit services provided to the Company during the year was £274,890 of which £22,000 related to work for the year ended 31 December 2018 (2018: £250,800 of which £18,000 related to work for the year ended 31 December 2017). There were no fees charged by the auditors for other non-audit services during the year (2018: £nil).

6. Finance costs

	Year ended 31 December 2019	Year ended 31 December 2018
	£'m	£'m
Interest payable to group undertakings	35.4	28.8
Interest on obligations under finance leases to group undertakings **	-	55.5
Interest payable for lease liabilities *	51.8	-
Interest capitalised	(6.2)	(5.0)
	81.0	79.3

* The lines indicated are in respect of the application of IFRS 16 in the current year only.

** The lines indicated are in respect of the IAS 17 comparatives.

7. Other losses

	Year ended 31 December 2019	Year ended 31 December 2018
	£'m	£'m
Other losses	-	0.1

8. Income tax expense

The charge for taxation based on the profit for the year is based on United Kingdom corporation tax at 19.00% (2018: 19.00%) and comprises:

	Year ended 31 December 2019	Year ended 31 December 2018
	£'m	£'m
Current tax:		
Current tax charge on profits for the year	20.7	25.9
Adjustments in respect of prior years	(0.8)	(4.1)
Total current tax charge	**19.9**	**21.8**
Deferred tax		
Origination and reversal of temporary differences	1.0	(1.8)
Adjustments in respect of prior years	0.5	3.8
Effect of tax rate change	(1.1)	(0.5)
Total deferred tax	**0.4**	**1.5**
Total tax charge	**20.3**	**23.3**

The tax on the Company's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the Company as follows:

	Year ended 31 December 2019	Year ended 31 December 2018
	£'m	£'m
Profit before taxation	114.3	128.9
Expected tax charge at 19.00% (2018: 19.00%)	21.7	24.5
Effect of change in tax rate	(1.1)	(0.5)
Non taxable income	-	(0.4)
Adjustments in respect of prior years	(0.3)	(0.3)
Tax charge for the year	**20.3**	**23.3**

The Company's profits for this accounting year are taxed at the main corporation tax rate of 19.00% (2018: 19.00%).

In the Finance Act 2016 which received Royal Assent on 15 September 2016, the main rate of corporation tax was reduced to 17.00% from 1 April 2020. The effect of the future change in tax rate has been reflected in the credit to the income statement for the year.

It was announced in the 11 March 2020 Budget that the main rate of corporation tax will remain at 19.00% from 1 April 2020. However, this had not been substantively enacted at the balance sheet date.

9. Employees' emoluments

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

	Year ended 31 December 2019	Year ended 31 December 2018
Department	**Number**	**Number**
Executive and support functions	41	41
Customer-facing staff	29	30
Engineering and technical	51	51
	121	122

Employee costs during the year amounted to:

	Year ended 31 December 2019	Year ended 31 December 2018
	£'m	**£'m**
Wages and salaries	13.5	14.0
Social security costs	1.7	1.8
Other pension costs	2.4	2.5
	17.6	18.3

10. Inventories

	31 December 2019	31 December 2018
	£'m	**£'m**
Spares for rolling stock	0.5	0.7

During the year, £0.2m (2018: £0.1m) of inventories were recognised as cost of sales.

11. Contract Assets

	31 December 2019	31 December 2018
	£'m	**£'m**
Amounts falling due within one year		
Maintenance services	11.1	29.9

Amounts relating to contract assets are balances due from customers under maintenance contracts that arise when the Company completes performance related obligations. Any amount previously recognised as a contract asset is reclassified to trade receivables at the point at which it is invoiced to the customer.

12. Property, plant and equipment

	Rolling stock	Other	Total
	£'m	£'m	£'m
Cost			
At 1 January 2018	2,474.0	11.0	2,485.0
Additions	442.6	1.3	443.9
Disposals	(248.7)	-	(248.7)
At 31 December 2018	2,667.9	12.3	2,680.2
Adjustment for change in accounting policy see Note 1	(2,078.4)	-	(2,078.4)
Restated opening cost amount at 1 January 2019	**589.5**	**12.3**	**601.8**
Additions	129.4	0.7	130.1
Disposals	-	-	-
At 31 December 2019	**718.9**	**13.0**	**731.9**
Accumulated depreciation			
At 1 January 2018	971.0	5.7	976.7
Charge for the year	103.1	1.3	104.4
Impairment	12.8	-	12.8
Reversal of impairment losses	(0.5)	-	(0.5)
Disposals	(0.1)	-	(0.1)
At 31 December 2018	1,086.3	7.0	1,093.3
Adjustment for change in accounting policy see Note 1	(1,010.1)	-	(1,010.1)
Restated opening accumulated depreciation amount at 1 January 2019	**76.2**	**7.0**	**83.2**
Charge for the year	13.7	1.5	15.2
Impairment	-	-	-
Reversal of impairment losses	-	-	-
Disposals	-	-	-
At 31 December 2019	**89.9**	**8.5**	**98.4**
Net book value			
At 31 December 2019	**629.0**	**4.5**	**633.5**
At 1 January 2019 (Restated)	**513.3**	**5.3**	**518.6**
At 31 December 2018	**1,581.6**	**5.3**	**1,586.9**

Management concluded that there were no further impairment losses recorded during the year (2018: £10.0m) in relation to one fleet, based on management's forecast value in use ("VIU") of the fleet versus its carrying value.

In determining the VIU management discounted its forecast cash flows using a discount rate based on what it considers to be a market pre-tax weighted average cost of capital ("WACC").

The cash flow projections considered current contracted rent, extension rent i.e. where an option exists to extend the lease and estimates of future re-lease rents. Forecast future rent was estimated taking into account current market conditions and past experience.

12.Property, plant and equipment (continued)

Whilst management considers the future cash flows to be highly subjective due to the longevity of the forecast period, it considers the VIU of assets to be most sensitive to changes in the discount rate assumption.

If the discount rate had been 0.5% higher/lower and all other variables remained constant the impairment would have been £13.2m / decreased such that an impairment would not have been considered necessary and provided headroom of £13.6m.

The Company entered into a sale and leaseback transaction in 2008 with a fellow group company, The Great Rolling Stock Company PLC (formerly The Great Rolling Stock Company Ltd). The Company sold the rolling stock vehicles at market value and entered into a finance lease arrangement with The Great Rolling Stock Company PLC. For details on the obligations under finance leases, refer to note 22.

Finance costs capitalised during the year and included in the cost of property, plant and equipment amounts to £6.2m (2018: £5.0m).

Included in rolling stock are assets under the course of construction of £24.8m (2018: £163.4m restated). No depreciation has been charged on these assets.

All rolling stock is acquired and held for use in operating leases. Other assets include office fixtures and fittings and computer equipment.

Leased assets - 2018

As at 31 December 2018, rolling stock included the following amounts where the Company was a lessee under finance leases:

	31 December 2019	31 December 2018
	£'m	£'m
Lease rolling stock		
Cost	-	2,078.4
Accumulated depreciation	-	(1,010.1)
Net book amount	-	1,068.3

The Company leases rolling stock under non-cancellable lease agreements. The lease terms are up to 28 years with 17 years remaining (2018: 18 years), and the ownership of the assets lies within the Group.

From 1 January 2019, leased assets are presented as a separate line item in the balance sheet, see note 13. Refer to Note 1. for details about the changes in accounting policy.

13. Leases (Company as lessee)

This note provides information for leases where the Company is a lessee. For leases where the Company is a lessor, see note 27.

13. Leases (Company as lessee) (continued)

a. *Amounts recognised in the balance sheet*

The balance sheet shows the following amounts relating to leases:

	31 December 2019	1 January 2019 *
	£'m	£'m
Right-of-use assets		
Rolling Stock	1,063.7	1,068.3
Buildings	4.0	4.8
	1,067.7	**1,073.1**

	31 December 2019	1 January 2019 *
	£'m	£'m
Lease liabilities		
Current	49.3	52.4
Non current	552.7	597.7
	602.0	**650.1**

* In the previous year, the Company only recognised lease assets and lease liabilities in relation to leases that were classified as finance leases under IAS 17 Leases. The assets were presented in property plant and equipment and the liabilities as obligations under finance leases. For adjustments recognised on adoption of IFRS 16 on 1 January 2019, please refer to note 1.

During the year, there were additions to the right-of-use assets of £105.8m.

b. *Amounts recognised in the income statement*

The income statement shows the following amounts relating to leases:

	Year ended 31 December 2019	Year ended 31 December 2018
	£'m	£'m
Depreciation charge of right-of-use assets		
Rolling Stock	(110.6)	-
Buildings	(0.8)	-
	(111.4)	**-**
Interest expense (included within finance cost)		
Rolling Stock	(52.0)	-
Buildings	(0.2)	-
	52.2	-

The total cash outflow for leases in 2019 was £47.2m

14. Financial assets and liabilities by category

31 December 2019

	Note	Financial assets at amortised cost
		£'m
Assets as per balance sheet		
Loans receivable	16	48.5
Contract assets	11	11.1
Trade and other receivables (excluding prepayments)	16	31.6
Cash and cash equivalents	16	13.5
Total		**104.7**

	Note	Liabilities at amortised cost
		£'m
Liabilities as per balance sheet		
Loans payable	17	592.5
Obligations under finance leases *	22	-
Lease liabilities **	13	602.0
Trade and other payables (excluding non-financial liabilities)	18	53.2
Total		**1,247.7**

31 December 2018

	Note	Financial assets at amortised cost
		£'m
Assets as per balance sheet		
Loans receivable	16	45.6
Contract assets	11	29.9
Trade and other receivables (excluding prepayments)	16	26.4
Cash and cash equivalents	16	12.3
Total		**114.2**

	Note	Liabilities at amortised cost
		£'m
Liabilities as per balance sheet		
Loans payable	17	469.6
Obligations under finance leases	22	644.7
Trade and other payables (excluding non-financial liabilities)	18	46.5
Total		**1,160.8**

* The lines indicated are in respect of the IAS 17 comparatives.
**The lines indicated are in respect of the application of IFRS 16 in the current year only.

15. Investments

Details of the Company's investment in entities at 31 December 2019 are as follows:

Entity	Year end	Principal activities	Place of business	Holding of investment	Percentage of interest %
Angel Locomotive Leasing Limited	31 December	Dormant	England and Wales	Direct holding of 1 ordinary share of £1	100%

16. Financial assets at amortised cost & other current assets

Loans receivable

	31 December 2019 £'m	31 December 2018 £'m
Amounts falling due after more than one year		
Amounts owed by immediate parent company	48.5	45.6

As at 31 December 2019, the Company had loans issued to Angel Trains Group Limited of £48.5m (2018: £45.6m). This loan is unsecured, bears interest at the weighted average cost of the Group's senior debt plus a margin and has no fixed maturity date.

The directors consider that the carrying amount of the Company's loans receivable approximates to their fair value.

The directors have given confirmation that the above loans will not be called for repayment within the next 12 months.

Trade and other receivables

	31 December 2019 £'m	31 December 2018 £'m
Amounts falling due within one year		
Trade receivables	0.9	0.2
Amounts owed by group companies	0.3	-
Prepayments	1.6	1.9
Other receivables	20.8	19.7
Other taxation	9.6	6.5
	33.2	28.3

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

16. Financial assets at amortised cost & other current assets (continued)

Cash and cash equivalents
Cash and cash equivalents comprise of cash held by the Company and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates to their fair value.

17. Loans payable

	31 December 2019	31 December 2018
	£'m	£'m
Amounts falling due after one year		
Loans from group undertakings	592.5	469.6

All the Company's carrying amounts are denominated in Sterling.
The effective interest rates paid were as follows:

	31 December 2019	31 December 2018
Loans from group undertakings	7.17%	7.40%

The directors consider that the carrying amount of the Company borrowings approximates to their fair value.

The amounts are unsecured and bear interest at the weighted average cost of the Group's senior debt plus a margin and have no fixed maturity date. The directors have received confirmation from the lender that they will not be calling any loans for repayment within the next 12 months.

18. Trade and other payables

	31 December 2019	31 December 2018
	£'m	£'m
Due within one year:		
Trade payables	2.5	4.1
Other taxation and social security	0.9	0.9
Other payables	3.8	3.8
Accruals and deferred income	69.4	58.2
	76.6	67.0
Due after one year:		
Other payables	4.7	5.5
	81.3	72.5

Trade and other payables principally comprise amounts outstanding for trade purchases, ongoing costs, deferred income on operating lease rentals and accruals on interest. The directors consider that the carrying amount of trade and other payables approximates their fair value.

19. Current tax (liabilities)/asset

	31 December 2019	31 December 2018
	£'m	£'m
Amounts (owed to)/due from HM Revenue & Customs	(7.2)	1.9

At 31 December 2019, the Company had current tax liabilities of (£7.2m) (2018: £1.9m current tax assets), which (£7.2m) (2018: £1.9m repayable from) is payable to HM Revenue & Customs.

20. Deferred tax liabilities

	31 December 2019	31 December 2018
	£'m	£'m
Deferred tax assets	8.7	8.8
Deferred tax liabilities	(163.7)	(164.1)
	(155.0)	(155.3)

The following are the major deferred tax assets and liabilities recognised by the Company, and the movement thereon, during the current and prior reporting periods.

Deferred tax assets

	Retirement benefit scheme	Deferred profit on sale and leaseback	Other	Total
	£'m	£'m	£'m	£'m
At 1 January 2018	2.8	7.1	0.8	10.7
Credit/(charge) to the income statement for the year	0.1	(1.1)	(0.2)	(1.2)
Charge to equity for the year	(1.0)	-	-	(1.0)
Effect of change in tax rate to income statement	-	0.1	-	0.1
Effect of change in tax rate to equity	0.1	-	-	0.1
Adjustments to prior years	-	-	0.1	0.1
At 31 December 2018	2.0	6.1	0.7	8.8
Charge to the income statement for the year	-	(1.1)	-	(1.1)
Credit to equity for the year	0.8	-	-	0.8
Effect of change in tax rate to income statement	-	0.1	-	0.1
Effect of change in tax rate to equity	(0.1)	-	-	(0.1)
Adjustments to prior years	-	-	0.2	0.2
At 31 December 2019	**2.7**	**5.1**	**0.9**	**8.7**

20. Deferred tax liabilities (continued)

Deferred tax liabilities

	Accelerated capital allowances
	£'m
At 1 January 2018	163.6
Credit to the income statement for the year	(3.0)
Adjustment relating to prior years	3.9
Effect of change in tax rate	(0.4)
At 31 December 2018	164.1
Credit to the income statement for the year	(0.1)
Adjustment relating to prior years	0.7
Effect of change in tax rate	(1.0)
At 31 December 2019	**163.7**

The opening deferred tax balances are reflected at a hybrid rate of 17.11%, to reflect the projected average rate that deferred tax was expected to unwind at the 31 December 2018 balance sheet date.

The opening hybrid rate reflected changes to the UK Corporation tax system announced in the July 2015 Summer Budget Statement. In the Finance Act 2016, which received Royal Assent on 15 September 2016, the main rate of corporation tax was reduced from 19.00% to 17.00%, effective from 1 April 2020.

The effect of change in tax rate has been reflected in the charge to the income statement for the year, and closing deferred tax assets or liabilities are provided at 17.00%. This was based on the projected rate, as substantively enacted, that deferred tax at the balance sheet date was expected to unwind.

In the 11 March 2020 Budget, it was announced that the main rate of corporation tax will remain at 19.00% from 1 April 2020. Had this been substantively enacted before the balance sheet date, the closing deferred tax assets and liabilities would have increased by £1.0m and £19.3m respectively.

21. Contract liabilities

	31 December 2019	**31 December 2018**
	£'m	**£'m**
Amounts falling due within one year		
Maintenance services	42.0	19.8

The directors consider that the carrying amount of contract liabilities approximates to their fair value.

22. Obligations under finance leases

	Minimum lease payments 31 December 2019	Minimum lease payments 31 December 2018	Present value of minimum lease payments 31 December 2019	Present value of minimum lease payments 31 December 2018
	£'m	£'m	£'m	£'m
Amounts payable under finance leases				
Within one year	-	98.9	-	51.5
In the second to fifth years inclusive	-	336.9	-	165.8
After five years	-	636.4	-	427.4
	-	1,072.2	-	644.7
Less: future finance charges	-	(427.5)		
Present value of minimum lease obligations	-	644.7		
Less: amounts due for settlement within 12 months (shown under current liabilities)			-	(51.5)
Amounts due for settlement after 12 months			-	593.2

As at 31 December 2018, the Company had leased rolling stock under finance leases. The interest rate inherent in the leases is fixed at the contract date for all of the lease term. The average effective interest rate contracted approximates 8.4% per annum and was revised from 6.9% on the 1 January 2011. The term of the finance lease is approximately 28 years. The fair value of the leases payable based on cash flows discounted using a weighted average cost of borrowings rate of 5.35% was £768.7m as at 31 December 2018.

Finance lease liabilities were included within obligation under finance leases until 31 December 2018 but were reclassified to lease liabilities on 1 January 2019 in the process of adopting the new leasing standard. For further information about the change in accounting policy for leases, see note 13.

23. Capital commitments

	31 December 2019	31 December 2018
	£'m	£'m
Commitments for the acquisition of property, plant and equipment & right-of-use assets	236.9	416.4

At 31 December 2019, the Company had capital commitments of £236.9m (2018: £416.4m), being the capital expenditure authorised and contracted for but not provided for in the financial statements. This commitment is for a number of capital modification projects to the existing fleets and for the purchase of new rolling stock currently in production and due to be delivered during 2020.

24. Deferred profit

Deferred profit on sale and leaseback transaction

	£'m
At 1 January 2018	41.6
Profit recognised during the year	(5.8)
At 31 December 2018	35.8
Profit recognised during the year	(5.7)
At 31 December 2019	30.1

	31 December 2019	31 December 2018
	£'m	£'m
Deferred profit		
Non-current	24.3	29.9
Current	5.8	5.8

25. Contingent liabilities

The Company is guarantor in respect of the following group undertakings:

The Great Rolling Stock Company PLC (formerly The Great Rolling Stock Company Limited) and Willow Bidco Limited:
£1,326,300,000 (of which £861,950,000 (2018: £707,025,000) remains outstanding) Senior term and revolving credit facilities agreements.

Willow Holdco 1 Limited:
£325,000,000 (of which £200,000,000 (2018: £275,000,000) has been drawn down) Junior facility agreements.

The Great Rolling Stock Company PLC (formerly The Great Rolling Stock Company Limited):
£4,000,000,000 (of which £1,117,700,000 (2018: £1,153,600,000) has been drawn down) Bond programme for the issuance of secured guaranteed notes.

26. Called up share capital

	31 December 2019	31 December 2018
	£	£
Authorised:		
200,000,000 (2018: 200,000,000) Ordinary shares of £1 each	200,000,000	200,000,000
Issued, called up and fully paid:		
172,342,966 (2018: 172,342,966) Ordinary shares of £1 each	172,342,966	172,342,966

The Company has one class of ordinary shares which carry no right to fixed income.

27. Operating lease arrangements

The Company as lessee

	Year ended 31 December 2019 £'m	Year ended 31 December 2018 £'m
Minimum lease payments under operating leases recognised as an expense in the year	-	0.9

As at 31 December 2018, the Company had outstanding commitments under non-cancellable operating leases, which fell due as follows:

	31 December 2019 £'m	31 December 2018 £'m
Buildings		
Within one year	-	1.9
In the second to fifth years inclusive	-	4.7
After five years	-	0.6
	-	7.2

For the year to 31 December 2018, operating lease payments represented rentals payable by the Company for office buildings. Leases had an average term of 9.3 years.

The Company as lessor

At the balance sheet date, the Company has contracted rolling stock under operating leases with train operating companies for the following future minimum lease payments:

	31 December 2019 £'m	31 December 2018 £'m
Within one year	244.0	364.4
Between one and two years	210.8	230.1
Between two and three years	192.0	200.0
Between three and four years	163.4	182.3
Between four and five years	129.4	169.8
Later than five years	106.4	238.2
	1,046.0	1,384.8

28. Residual value exposures

The residual value exposure is the net book value of rolling stock leased out by the Company under operating leases at the end of each expected lease term. Residual value exposure is monitored by lease on a periodic basis with any corrections being made through depreciation.

	Rail Assets 2019 £'m	Rail Assets 2018 £'m
Expected net book value at lease expiry date		
Within one year	332.2	329.2
Between one and two years	24.6	71.1
Between two and four years	253.3	57.5
More than four years	597.5	506.3
Total	1,207.6	964.1

29. Risk management

The major risks associated with the Company's business are market risk, credit risk and liquidity risk. The management of these risks are carried out at a group level by the ultimate parent company, Willow Topco Limited. The Group has established a comprehensive framework for managing these risks which are continually evolving as business activities change in response to market, credit, product and other developments.

Market risk

Market risk is defined as the risk of loss as a result of adverse changes in risk factors including interest rates and foreign exchange.

The Company’s activities expose it primarily to the financial risks of changes in interest rates and foreign exchange rates. The significant interest rate risk arises from loans. The Company's loans are with other companies within the Group and are not hedged. The Company manages its foreign exchange risk partially by using forward foreign exchange contracts to hedge a portion of its foreign exchange exposure.

Foreign currency risk management

It is the policy of the Company to enter into forward foreign exchange contracts to cover specific foreign currency payments. During the year, the Company was not exposed to any material foreign exchange exposures on foreign currency transactions that required it to enter into forward foreign exchange contracts (2018: none).

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

29. Risk management (continued)

Interest rate sensitivity analysis
The other major sensitivity factor affecting the Company is movement in interest rates at the balance sheet date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at balance sheet date was outstanding since the beginning of the financial year.

A movement of +/- 1% in interest rates, when applied to statistical models and all other variables were held constant, will have the following impact on the profit in the financial statements.

	Variability	31 December 2019	31 December 2018
		£'m	£'m
Interest rates	+1%	(5.2)	(2.8)
Interest rates	-1%	5.2	2.8

Liquidity risk
Liquidity risk is the risk that the Company is unable to meet its obligations as they fall due.

Liquidity management within the Company focuses on both overall balance sheet structure and control, within prudent limits, of risk arising from the mismatch of maturities across the balance sheet and from the undrawn commitments and other contingent obligations. For details on loans payable refer to note 17.

For trade and other payables refer to note 18. The Company policy is to negotiate and agree terms and conditions with its suppliers. The table below analyses the Company's financial liabilities into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date. The amounts included in the table are the contractual undiscounted cash flows. As a result, these amounts will not reconcile to the amounts disclosed on the balance sheet.

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

29. Risk management (continued)

Liquidity risk (continued)
The following tables detail the remaining contractual maturities for financial liabilities.

31 December 2019	**Within one year**	**In the second to fifth years inclusive**	**Over five years**	**Total**
	£'m	**£'m**	**£'m**	**£'m**
Trade and other payables (excluding deferred income and other taxation and social security)	70.8	4.7	-	75.5
Loans from group undertakings	-	592.5	-	592.5
Interest payable on loans from group undertakings	40.7	-	-	40.7
Obligations under finance leases **	-	-	-	-
Finance charges related to obligations under finance leases **	-	-	-	-
Lease liabilities *	49.3	161.3	391.4	602.0
Interest expense related to lease liabilities *	48.4	157.7	174.4	380.5
	209.2	916.2	565.8	1,691.2

31 December 2018	**Within one year**	**In the second to fifth years inclusive**	**Over five years**	**Total**
	£'m	**£'m**	**£'m**	**£'m**
Trade and other payables (excluding deferred income and other taxation and social security)	60.8	5.5	-	66.3
Loans from group undertaking	-	469.6	-	469.6
Interest payable on loans from group undertaking	34.5	-	-	34.5
Obligations under finance leases **	51.5	165.8	427.4	644.7
Finance charges related to obligations under finance leases **	51.9	171.1	209.0	432.0
	198.7	812.0	636.4	1,647.1

* The lines indicated are in respect of the application of IFRS 16 in the current year only.

** The lines indicated are in respect of the IAS 17 comparatives.

29. Risk management (continued)

Capital risk management
The Company manages its capital to ensure that the Company will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The capital structure of the Company consists of debt, which includes the borrowings disclosed in note 17, cash and cash equivalents and share capital disclosed in note 26 and retained earnings.

Credit risk
Credit risk is the risk arising from the possibility that the Company will incur losses from the failure of counterparties and customers to meet their obligations.

The Company's principal financial assets are cash and cash equivalents, contract assets, trade and other receivables and loans receivable, owed by other members of the group. The carrying amount of financial assets recorded in the financial statements represents the Company's maximum exposure to credit risk and is a guarantor as disclosed in Note 25. The Company does not hold collateral over these balances.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-ratings agencies.

The Company's credit risk is primarily attributable to its trade, operating lease receivables and contract assets, although this is also considered limited as lease rentals are mainly payable in advance.

Trade, other receivables and contract assets ageing analysis

	31 December 2019	31 December 2018
	£'m	£'m
Not due	44.3	58.2
Total	44.3	58.2

The Company has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

30. Retirement benefit scheme

Defined benefit plan

The Company operates a defined benefit scheme of its own for qualifying employees in the UK, the Angel Trains Shared Cost Section ("Section") of the Railways Pension Scheme (the "Main Scheme"). The Section has separately identifiable assets and liabilities from the remainder of the Main Scheme.

Provision for the costs of these benefits is charged to the income statement over the average remaining future service lives of the eligible employees.

The most recent actuarial valuation of plan assets and the present value of the defined benefit obligation was carried out at 31 December 2019 by independent actuaries. The results of these calculations have been based on the results of the last formal valuation of the scheme as at 31 December 2016, allowing for adjustments, on an approximate basis, to allow for differences between the valuation and IAS 19 calculations. The average contribution rate during the year for the Company's scheme is split between the Company and the employee at 19.1% and 11.7% respectively (2018: 17.9% and 9.6%) of pensionable salaries.

30. Retirement benefit scheme (continued)

Defined benefit plan (continued)
The discounted mean term of the Section's Defined Benefit Obligation ("DBO") was 22 years based on the results of the valuation as at 31 December 2016.

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

Asset volatility: There is the risk that a fall in asset values is not matched by a corresponding reduction in the value placed on the Section's DBO. The Section holds a proportion of growth assets, 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 DBO, 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 DBO is linked to inflation where higher inflation will lead to a higher value being placed on the DBO. Some of the Section's assets are either unaffected by inflation or loosely correlated with inflation (e.g. growth assets), 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 DBO. Future mortality rates cannot be predicted with certainty.

Contribution rate: The Scheme Rules give the Scheme Actuary the power to set the contribution rates for the Company if no agreement can be reached between the Trustee and the Company.

Technical Provision shortfall

The full actuarial valuation of the Section as at 31 December 2016 highlighted a Technical Provisions shortfall of £2.5m and a £2.7m shortfall under the Rules basis, after including certain reserve requirements. Whilst in previous years the Company has contributed 100% to bridge funding deficits, it has not done so since 2017. Active members were asked to contribute to the extent the shortfall relates to them on the usual 65% employer / 35% employee split i.e. the Company will contribute 65% of the shortfall that relates to the active members. As a result, the deficit relating to the active members was £0.37m. The Company continues to fund 100% of the remaining shortfall relating to the pensioners and deferred members, giving a total funding requirement from the Company of £2.32m.

A consultation process to agree a recovery plan with the active members concluded in January 2018. The recovery plan agreed by the trustees commenced 1 April 2019 for a period of 6 years. The Company (as employer) made the first of six annual instalments from this date of £0.48m. Active members commenced an additional contribution of 1.83% of Section Pay over the same period.

In addition to the above, the Future Joint Service Contribution Rate increased to 19.1% employer and 10.3% employee (65%:35% split), from 1 July 2018.

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

30. Retirement benefit scheme (continued)

Membership data

	31 December 2019	31 December 2018
Active members		
Number	52	55
Annual payroll (£m)	3.8	4.0
Average age	48.0	49.1
Deferred members		
Number	122	120
Total deferred pension (£m)	0.7	0.6
Average age	52.5	51.2
Pension members (including dependants)		
Number	63	57
Annual pension payroll (£m)	1.4	1.2
Average age	64.7	65.3

Asset data

The fair value of plan assets at the balance sheet date is analysed as follows:

	Value at 31 December 2019	Value at 31 December 2018
	£'m	£'m
Growth assets	56.1	45.4
Government bonds	9.8	9.5
Non-government bonds	-	4.5
Other assets	0.9	0.1
Total asset value	**66.8**	**59.5**

The plan assets do not include any of the Company's own financial instruments, nor any property occupied by, or other assets used by, the Company.

The expected rates of return on individual categories of plan assets are determined by reference to relevant indices published by the London Stock Exchange. The overall expected rate of return is calculated by weighting the individual rates in accordance with the anticipated balance in the plan's investment portfolio.

30. Retirement benefit scheme (continued)

Summary of assumptions

The significant actuarial assumptions were as follows:

	31 December 2019	31 December 2018
Discount rate	2.1 %	3.0 %
Price inflation (RPI measure)	3.0 %	3.2 %
Increase to deferred pensions (CPI measure)	2.0 %	2.1 %
Future pension increases	2.0 %	2.1 %
Expected rate of salary increase	2.0% for the next 3 years then 2.6% pa thereafter	3.0% for the next year then 2.0% for next two years, then 2.8% pa thereafter

Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics and experience in the UK.

The assumed average expectation of life in years at age 65 is as follows:

	31 December 2019	31 December 2018
Male currently age 65	22.2	22.8
Male currently age 45	23.6	24.5
Female currently age 65	23.3	23.8
Female currently age 45 - other	24.8	25.7

30. Retirement benefit scheme (continued)

Defined benefit liability at end of year

The amount recognised in the balance sheet in respect of the Company's defined benefit retirement benefit plan is as follows:

	31 December 2019	31 December 2018
	£'m	£'m
Defined benefit obligation at end of year		
Active members	(27.8)	(26.3)
Deferred members	(21.4)	(18.0)
Pensioner members	(36.1)	(28.9)
Total	(85.3)	(73.2)
Value of assets at end of year	66.8	59.5
Fund status at end of year	(18.5)	(13.7)
Adjustment for the members’ share of deficit	2.1	1.7
Net defined benefit liability at end of year	**(16.4)**	**(12.0)**

Reconciliation of net defined benefit liability

	31 December 2019	31 December 2018
	£'m	£'m
Opening net defined benefit liability	(12.0)	(16.5)
Employer's share of pension expense	(1.8)	(2.0)
Employer contributions	1.6	1.0
Total (loss)/gain recognised in Other comprehensive income	(4.2)	5.5
Closing net defined benefit liability	**(16.4)**	**(12.0)**

Pension expense

	Year ended 31 December 2019	Year ended 31 December 2018
	£'m	£'m
Employer's share of service cost	1.4	1.4
Employer's share of administration costs	0.1	0.1
Past service cost adjustment (for GMP equalisation)	-	0.1
Total employer's share of service cost	1.5	1.6
Employer's share of net interest on defined benefit liability	0.3	0.4
Employer’s share of pension expense	**1.8**	**2.0**

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

30. Retirement benefit scheme (continued)

Other comprehensive income (OCI)

	Year ended 31 December 2019	Year ended 31 December 2018
	£'m	£'m
Loss due to liability experience	1.1	0.8
Loss/(gain) due to liability assumption changes	8.2	(5.1)
Return on plan assets,(greater)/less than discount rate	(5.1)	1.1
Impact of moving to shared cost approach from 1 January 2018	-	(2.3)
Total loss/(gain) recognised in the OCI	**4.2**	**(5.5)**

Reconciliation of defined benefit obligation (DBO)

	31 December 2019	31 December 2018
	£'m	£'m
Opening defined benefit obligation	73.2	76.6
Service cost	1.5	1.7
Interest cost on DBO	2.2	2.0
Loss on DBO - experience	0.8	0.5
Gain on DBO - demographic assumptions	(2.4)	(0.4)
Loss/(gain) on DBO - financial assumptions	11.8	(5.6)
Actual benefit payments	(1.8)	(1.7)
Past service cost	-	0.1
Closing defined benefit obligation	**85.3**	**73.2**

30. Retirement benefit scheme (continued)

Reconciliation of value of assets

	31 December 2019	31 December 2018
	£'m	£'m
Opening fair value of plan assets	59.5	60.1
Interest income on assets	1.8	1.6
Return on plan assets, greater/(less) than discount rate	5.8	(1.4)
Employer contributions	1.6	1.0
Actual benefit payments	(1.8)	(1.7)
Administration costs	(0.1)	(0.1)
Closing fair value of plan assets	**66.8**	**59.5**

The Reconciliation of Defined Benefit Obligation (DBO) and Reconciliation of Value of Assets tables above show the movement in the assets and DBO of the Section as a whole. Some of the figures therefore differ from those in the remaining disclosures, which reflect the Company's share of the costs and DBO associated with the Section.

DBO sensitivity analysis to significant actuarial assumptions

	Sensitivity	Year ended 31 December 2019 Approximate change in DBO	Year ended 31 December 2018 Approximate change in DBO
		£'m	£'m
Discount rate	-1.0% p.a	(21.7)	(17.4)
Price inflation (CPI measure)	+0.5% p.a	(9.8)	(7.9)
Salary increases	+0.5% p.a	(1.6)	(1.2)
Life expectancy	+1 year	(3.4)	(2.1)

The sensitivity figures as at 31 December 2019 are based on the DBO as noted in 'Reconciliation of defined benefit obligation' table above.

31. Dividends

	Year ended 31 December 2019	Year ended 31 December 2018	Year ended 31 December 2019	Year ended 31 December 2018
	Pence per share	Pence per share	£'m	£'m
Dividends	60.93	85.30	105.0	147.0

Dividends of £105.0m (2018: £147.0m) were paid by the Company during the year to 31 December 2019.

32. Parent companies

The Company's immediate parent company is Angel Trains Group Limited with registered office at 123 Victoria Street, London, SW1E 6DE.

The Company's ultimate holding company, ultimate controlling party, and the parent of the largest group into which the Company is consolidated is Willow Topco Limited which is incorporated and registered in Jersey. The registered office is 27 Hill Street, St Helier, JE2 4UA, Jersey.

Willow Bidco Limited is the parent undertaking of the smallest group of undertakings to consolidate these financial statements. The consolidated financial statements of Willow Bidco Limited can be obtained from 27 Hill Street, St Helier, JE2 4UA, Jersey.

33. Related party transactions

In addition to the subsidiary listed in note 15 and parent companies listed in note 32, the Company had related party relationships with the directors and the following members of the Group:

Angel Trains Holding Limited *
Angel Trains Rolling Stock Limited *
Willow Holdco 1 Limited *
Willow Holdco 2 Limited *
Angel Infrastructure Limited **
Willow Rolling Stock UK Limited ***
The Great Rolling Stock Company PLC (formerly The Great Rolling Stock Company Limited)**
Angel Leasing Company Limited **
Angel Trains Consulting Limited **
Angel Trains Capital Limited **

* The registered office is 27 Hill Street, St Helier, JE2 4UA, Jersey.
** The registered office is 123 Victoria Street, London, SW1E 6DE.
*** The registered office is c/o CMS Cameron McKenna LLP, Saltire Court, 20 Castle Terrace, Edinburgh, Scotland, EH1 2EN.

33. Related party transactions (continued)

Trading transactions

During the year, the Company had the following transactions with related parties:

31 December 2019

	Income/ Interest received	Purchases/ Interest paid	Amounts owed by related parties	Amounts owed to related parties
	£'m	£'m	£'m	£'m
Parent	3.1	-	48.5	-
Fellow subsidiaries	1.2	83.7	0.3	1,186.7
Total	4.3	83.7	48.8	1,186.7

31 December 2018

	Income/ Interest received	Purchases/ Interest paid	Amounts owed by related parties	Amounts owed to related parties
	£'m	£'m	£'m	£'m
Parent	3.1	-	45.6	-
Fellow subsidiaries	251.9	84.3	0.1	1,114.3
Total	255.0	84.3	45.7	1,114.3

*During 2018, the Company exercised a call option and purchased the rolling stock at a fixed price of £248.6m and subsequently sold it to Angel Trains Rolling Stock Limited.

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received.

Directors emoluments

	Year ended 31 December 2019	Year ended 31 December 2018
	£'m	£'m
Aggregate emoluments	1.4	1.6

Retirement benefits are accruing to 3 directors (2018: 4) under a defined benefit scheme. Retirement benefits are no longer accruing to any directors (2018: 1) under a money purchase pension scheme.

33. Related party transactions (continued)

Highest paid director

	Year ended 31 December 2019	Year ended 31 December 2018
	£'m	£'m
Total emoluments and amounts (excluding shares) receivable under long-term incentive scheme	1.1	0.4

For the year, the highest paid director had accrued an annual pension of £67,105 and a lump sum of £41,335 (2018: annual pension £51,452 and a lump sum £38,302).

34. Non-cash transactions

During the year, the Company entered into the following non-cash investing and financing activities which are not reflected in the Statement of Cash Flows.

The Company received interest of £2.9m by way of increasing loans receivable by £2.9m.
The Company incurred finance cost of £35.3m by way of increasing loans payable by £35.3m.

35. Reconciliation of liabilities arising from financing activities

	1 January 2019	Financing cash flows	Other changes	31 December 2019
	£'m	£'m	£'m	£'m
Loans from related parties	469.6	87.7	35.2	592.5
Lease liabilities *	650.1	(47.9)	(0.2)	602.0
Finance leases **	-	-	-	-
	1,119.7	**39.8**	**35.0**	**1,194.5**

	1 January 2018	Financing cash flows	Other changes	31 December 2018
	£'m	£'m	£'m	£'m
Loans from related parties	282.7	160.2	26.7	469.6
Finance leases **	689.6	(44.6)	(0.3)	644.7
	972.3	115.6	26.4	1,114.3

* The lines indicated are in respect of the application of IFRS 16 in the current year only.
** The lines indicated are in respect of the IAS 17 comparatives.

'Other changes' include interest accrual and other non cash settlements during the year.

36. Events after the balance sheet date

Since year end, an outbreak of a new strain of the Coronavirus (COVID-19) in China has continued to spread across the globe including the United Kingdom causing a global pandemic and economic disruption. Management continue to monitor the situation and are taking actions where necessary to reduce sensitivity to any economic shocks. This is considered a non-adjusting event as the situation is rapidly evolving it is not practicable to quantify the potential financial impact. However, given the robust financial and liquidity position of the Company any impact is not considered to affect the going concern of the Company.

Except for the above, there have been no significant events between the year end and the date of approval of the financial statements which would require a change or an additional disclosure in the financial statements.