

**WILLOW BIDCO LIMITED
ANNUAL REPORT & FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**



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Officers and Professional Advisers

Directors

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M Jamai
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B Pahari
C Lyngdal
A Mercado
M Brown

Company Secretary

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Independent Auditors

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Strategic Report

1. Review of Business

New Trains

During 2018, Willow Bidco Limited and its subsidiary undertakings (the "Group") delivered the final 50 of 150 new Desiro City Class 707 vehicles, being built by Siemens for lease on the South Western Railways franchise. The Desiro City is a second generation EMU commuter train designed to carry more passengers and to have a significantly reduced whole life, whole system cost, meaning each unit costs less to maintain, uses less power and causes less damage to infrastructure. The total value of this deal is circa £230m.

There were no new train procurements for the period ending 31 December 2018. However, focus on project management delivery continues with the 24 x 5-car AT300 bi-mode intercity trains (Class 802), which will be assembled by Hitachi Rail Europe and utilised by FirstGroup on the TransPennine Express ("TPE") franchise and by First Hull Trains. The projects are currently running to plan with the trains forecast to be delivered from July 2019. The value of these contracts is circa £287m.

Refranchising & Re-leasing

The following leases were extended during the period, on existing terms, as the result of short-term franchise awards/extensions;

- Virgin West Coast Trains – The franchise was extended from April 2019 to March 2020 (option to reduce to September 2019), extending the lease on 574 Pendolino vehicles.
- Southeastern – The franchise was extended from June 2018 to ultimately June 2019, extending the lease of 200 Class 465 and 86 Class 466 vehicles until January 2019.

The following leases were extended or entered into during the period outside of the refranchising process;

- East Midland Trains – 24 HST vehicles were cascaded from Grand Central in January 2018 and leased until March 2019.
- Abellio ScotRail – 48 Class 314 vehicles were extended from 1 January 2019 to 28 February 2019.
- MerseyRail – 177 Class 507/8 vehicles were extended from 1 January 2019 to 31 December 2019.
- First Greater Western – 9 Class 153 vehicles were extended from April 2018 to June 2018. These were then again subsequently leased to:
 - Abellio ScotRail – 5 of the vehicles were leased from July 2018 to March 2025
 - East Midlands Trains – 4 of the vehicles were leased from July 2018 to December 2019

The following new leases were entered into following the award of new franchises;

- The Wales and Borders franchise was awarded to Keolis Amey Wales Cymru Limited (trading as Transport for Wales Rail Services), a joint venture between Keolis and Amey plc from October 2018 to October 2033. The incumbent fleets were leased until the dates specified as part of the franchise award:
 - 30 Class 142 vehicles until 31 December 2019
 - 5 Class 153 vehicles until 31 October 2022
 - 48 Class 158 vehicles until 31 October 2022
 - 70 Class 175 vehicles until 31 May 2022

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.

Strategic Report (continued)

The table below summarises the franchises to be awarded in the next 24 months:

Franchise	Original Franchise Expiry Date (incl. contractual extension options)	New Expiry Date	Further Extension/Reduction Option
South Eastern	January 2019	March 2019	Up to June 2019
West Coast	March 2019	March 2020	Reduced to November 2019
East Midlands	March 2019	August 2019	Up to March 2020
Cross Country	October 2019	Not confirmed	Up to October 2024
Great Western	March 2020	Not confirmed	Up to March 2024

The impact of the above announcements on the Group remains broadly beneficial, particularly for the DMU portfolio, which now has later lease expiry dates than previously envisaged. The curtailment of certain electrification programmes also potentially further enhances the DMU portfolio.

Refurbishment Projects and Future Developments

The Group continued to engage with the supply chain to ensure that modification programmes are in place to make sure all fleets forecast to operate beyond 31 December 2019 will comply with PRM (Persons of Reduced Mobility) regulations by that deadline. Investment related to these programmes will ensure vehicles can continue in service for years to come.

The Group's Hybrid Drive research and development project in partnership with Magtec Limited and Chiltern Railways is leading the market in converting an existing DMU to Hybrid Drive. The expected benefits are significant reduction in CO₂, NO_x, Particulate Matter and noise, as well as an estimated fuel saving of 25% for train operators.

Other Financial & Business Matters

Between 2019 and 2022, 1,462 vehicles are due for re-lease; excluding those which are covered by Railways Act 1993 section 54 undertakings. During the same period an additional 120 new vehicles will be delivered. At year end, 98.5% of the Group's portfolio was on lease. The off-lease vehicles are a small number of Class 442 vehicles and HSTs. During the year and in 2017, as a result of current market conditions the Group carried out a review of the recoverable amount of vehicles. The review led to recognition of a net impairment loss of £12.3m (2017: £19.3m). In determining the level of impairment, the Group considered a number of factors, but primarily: decreasing prices of new trains; new entrants to the market; displacement risk; and forecast life end dates. To offset these risks the Group considered its strong track record of near full fleet utilisation, section 54 undertakings (usage guarantees) on certain fleets and market intelligence on the outlook of the rail industry e.g. the sixth Long Term Rolling Stock Strategy published in March 2018 by the Rolling Stock Steering Group, which forecast increased capacity requirements over the next 30 years of between 40% and 85%, with an expectation that these requirements will be met with new and existing rolling stock. Details are disclosed in note10.

During the year, the Group took the opportunity to optimise its bank debt through both the renegotiation of the Revolving Credit Facility and the signing of a new Term Facility. The Revolving Credit Facility was extended to 2023 with the option for two further extensions to 2025 whilst the amount was increased to £350m. The new £300m Term Facility amortises to a final maturity in 2033 and it is priced on a floating rate basis. The facilities will provide liquidity to support new business and the banking group remained highly supportive throughout the process. The Baa2 credit rating was affirmed in December 2018 and, as highlighted within previous Moody's reports, the Group has materially reduced refinance risk and continues to manage its financings on a conservative basis.

The Group has monitored the potential impact of Brexit insofar that it has been able to given the continued uncertainty regarding the outcome. The Group remains insulated from the direct impact of foreign exchange volatility and the senior and junior debt is hedged for interest rates. All of our revenues are generated within the United Kingdom and they are denominated in Sterling.

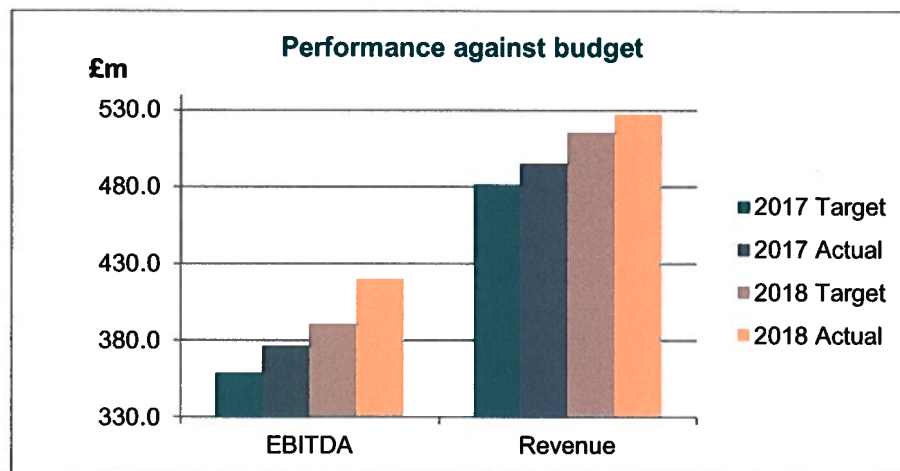
Strategic Report (continued)

The Secretary of State for Transport launched a full review of the rail industry in September 2018. The purpose of the Williams Review is to ensure that the United Kingdom's vital rail service continues 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 government will publish a white paper on its recommendations with any implemented reforms expected to start in 2020.

The Group welcomes the Williams Review and it has formally responded to an initial industry-wide request for information. The Group will continue to support the review and believe 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.

2. Key Performance Indicators

EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation), the Group's key measure, for the year ending 31 December 2018 was £419.8m (2017: £376.3m). Revenue for the year was £527.5m (2017: £495.2m). The increase on 2017 is mainly due to the Class 707 being delivered and the impact of adopting IFRS 15 'Revenue from contracts with customers', as disclosed in the notes.



The other key performance indicator that the directors consider is the percentage of rolling stock on lease, which stood at 98.5% at 31 December 2018 (2017: 99.3%) against a target of 95%.

The level of debt increased during the year to £2,602.3m (2017: £2,523.0m) as a result of new trains and capital projects offset with scheduled repayments.

Bank/Bondholder covenants

All key ratios remain stable and comply with the covenants of the Group's Senior debt agreements, namely interest cover and leverage (Net debt/EBITDA).

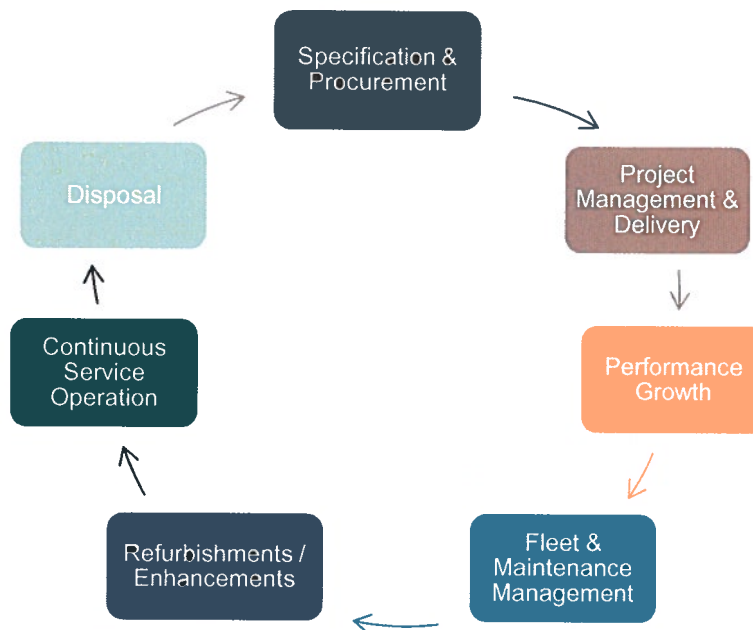
Strategic Report (continued)

Senior Debt Covenant	Target	Actual
Interest Cover	at least 1.5:1	3.1
Leverage	no greater than 8.5:1	4.4

3. Strategy

The Group'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 (as seen in the diagram below), 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 we are not beholden to any one market sector.



The sixth *Long Term Rolling Stock Strategy* for the rail industry was published in March 2018. The report was published by the Rolling Stock Strategy Steering Group ("RSSSG") (a cross-industry group comprising the Group and the other ROSCOs, the Association of Train Operating Companies ("ATOC") and Network Rail). This 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. It continues to draw on outputs from the rail industry's Long Term Planning Process but has also considered recent developments, including the as yet undetermined impact of Brexit and the changes in electrification and train power strategy announced by the English government.

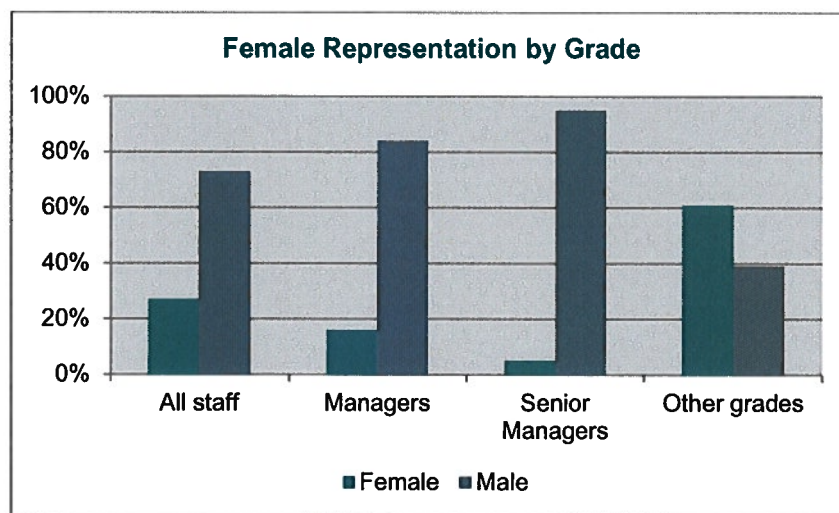
Strategic Report (continued)

The long term rolling stock outlook remains unchanged with a national fleet increase of between 40% (5,500 vehicles) and 85% (12,000 vehicles) forecast over the next 30 years. The mix of traction power amongst these vehicles is uncertain, but with the industry predicting another doubling of demand in the next 30 years and the franchising authorities continuing to invest based on similar expectations, the long term outlook remains positive. The strategy emphasises the resulting benefits to passengers and the wider community, including improvements to capacity, punctuality, reliability, passenger facilities and the environment

4. People & Diversity

The Group 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.

Headline figures from the 2018 report are illustrated below.



The externally run annual employee survey was conducted in October 2018, increasing the already high response rate to 98%. The results were positive, with the overall “engagement rating” up on 2017 at 8.7 (2017: 8.5) against a national benchmark of 6.7 (2017: 6.8), and maintained a general satisfaction rate of 8.7 out of 10 (2017: 8.7). Efficiency is felt to have increased to 7.7 (2017: 7.5), above the national benchmark. In addition, the Group has retained Investors in People Gold accreditation, against a new higher standard. The Group is committed to ensuring that our supply chains or any part of our business is free from modern slavery or human trafficking.

5. Looking Forward

Looking ahead, the critical objective for the Group 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.

It will be necessary to invest in enhancements to ensure continuous service of certain fleets and compliance with the PRM regulations coming into force on 31 December 2019. These are areas of focus for TOCs and key drivers in determining the relative attractiveness and competitiveness of our

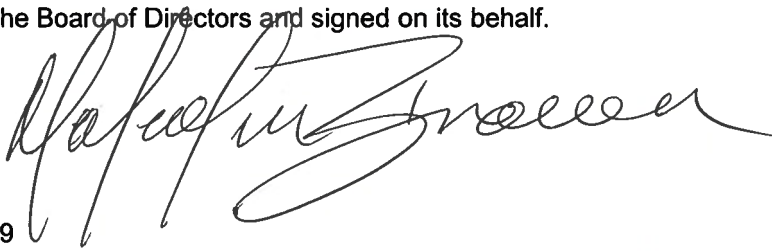
Strategic Report (continued)

rolling stock. 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 met.

Internally, the key challenges for the coming year will be to continue to project manage the enhancements and modifications to our existing fleet, to deliver the contracted new build and manage the associated supply chain. The Group will also continue monitoring any change in trends as the Brexit negotiations develop.

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

M Brown
Director
27 March 2019



Directors' Report

1. Statement of Directors' Responsibilities

The directors are responsible for preparing the financial statements in accordance with applicable law and International Financial Reporting Standards ("IFRS") as adopted in the European Union.

Companies (Jersey) Law 1991 requires the directors to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the Group and the profit and loss for that year.

In preparing those financial statements the directors should:

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

The directors confirm they have complied with all the above requirements in preparing the financial statements.

The directors are responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Group and to enable them to ensure that the financial statements comply with the Companies (Jersey) Law 1991. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

So far as the directors are aware, there is no relevant audit information of which the Company's auditors are unaware, and each director has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

The directors are responsible for the maintenance and integrity of the Group's website. The work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements from when they were initially presented on the website. Legislation in Jersey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

2. Going Concern

These financial statements are prepared on a going concern basis. The accumulated deficit in reserves is expected to reverse over time due to the future continued profitability of the Group. The directors have received confirmation that the shareholder loans (£481.7m) will not be redeemed within one year of the date of signing the financial statements (noted on page 18) and, taking into account their interest free nature, it seems reasonable for them to be considered as "quasi-equity" for the purpose of the going concern assessment, with the result that the balance sheet would move to a net asset position. The Group continues to comply with the requirements of its debt covenants, with performance underpinned by positive cash flows from the Group's operations. Budget and forecast cash flows also indicate the group will be able to meet its current liability obligations.

Directors' Report (continued)

3. Results & Dividends

Interim dividends of £127.0m were paid during the year (2017: £95.3m). The directors do not propose the payment of a final dividend (2017: £nil).

The Group's financial performance is presented in the income statement on page 15. The profit after tax for the year was £129.2m (2017: £93.5m) and this was transferred to reserves. The increase in profit after tax mostly relates to an increase in Revenue, as a result of the Class 707 being fully delivered and the impact of adopting IFRS 15 'Revenue from contracts with customers', as disclosed in the notes and an increase to 'Other gains/(losses)-net' as a result of fair value gains on financial derivative instruments. During the year revenue increased by 6.5%, cost of sales decreased by 1.4% and administrative expenses increased by 4.3%. These factors resulted in an increase in operating profit compared to 2017 of 14.6%.

At the end of the year, the financial position showed total assets of £2,968.9m (2017: £2,885.9m) representing an increase of 2.9%. This includes the net book value of property, plant and equipment of £2,258.6m compared to £2,204.8m at the previous year end. Other assets include goodwill £616.8m (2017: £616.8m) and cash and cash equivalents of £14.8m (2017: £20.7m).

4. Directors and Secretary

The present directors and secretary at the date of this report are listed on page 1. The following changes occurred during the year:

C Cornforth	Resigned	31 July 2018
D R Rees	Resigned	31 July 2018
M Brown	Appointed	25 September 2018

5. Directors' Indemnities

No directors have been granted Qualifying Third Party Indemnity Provisions by Willow Topco Limited.

6. Financial risk management

Financial risk management is carried out by the treasury department under policies approved by the board. The main financial risks the Group faces are cash flow interest rate risk and liquidity risk. Interest rate risk is in part mitigated through the use of hedging (see the Notes to the Financial Statements for further details of the Hedging Policy) and liquidity risk is managed by monitoring cash flow forecasts ensuring the Group's liquidity requirements meet operational needs and ensuring it does not breach covenants on its borrowing facilities. The directors consider that the Group's exposure to price risk or credit risk is less significant given the mitigants it has in place.

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



A Petrie
Director
27 March 2019

Independent Auditors' Report to the Members of Willow Bidco Limited

Report on the audit of the group financial statements

Opinion

In our opinion, Willow Bidco Limited's group financial statements (the "financial statements"):

- give a true and fair view of the state of the group's affairs as at 31 December 2018 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies (Jersey) Law 1991.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Group Balance Sheet as at 31 December 2018; the Group Income Statement, the Group Statement of Comprehensive Income, the Group Statement of Changes in Equity and the Group Cash Flow Statement for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Our audit approach

Overview



- Materiality of £7.75m (2017: £7.2m) based on 5% of profit before tax.
 - We audit Willow Topco Limited and all of its non-dormant subsidiaries. This audit work is performed using the lower of statutory or group allocated materiality.
- The key audit matters were:
- Risk of error in revenue recognition – non capital rentals.
 - Rolling stock carrying value.

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

We gained an understanding of the legal and regulatory framework applicable to the group and the industry in which it operates, and considered the risk of acts by the group which were contrary to applicable laws and regulations, including fraud. We designed audit procedures to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Independent Auditors' Report to the Members of Willow Bidco Limited (continued)

We focused on laws and regulations that could give rise to a material misstatement in the group financial statements, including but not limited to, Jersey Company Law and UK tax legislation. Our tests included, but were not limited to enquiries of management, review of the completeness of disclosures within the financial statements, assessment of the impact of changes in tax law, and considering the taxation implications of transactions and events in the year.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. We did not identify any key audit matters relating to irregularities, including fraud. As in all of our audits, we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
<p><i>Risk of error in revenue recognition – non capital rentals</i></p> <p>Non-capital rental revenue was £114.6m in 2018 (2017: £110.1m), as disclosed in note 2. In 2018 the Group adopted IFRS 15, 'Revenue', applying the modified retrospective approach on transition with a net impact to reserves of £1m as described in note 1. The accounting policy for non-capital rentals under IFRS 15 is disclosed within the accounting policies note under the headings 'Revenue recognition' and 'Maintenance lease rentals'. There are subjective estimates and judgements inherent in the application of this accounting policy including estimating future costs to determine contract profitability. As a result, we consider this a key audit matter.</p>	<p>While our audit approach is primarily substantive in nature, we understood and evaluated the controls relevant to the risk. We also performed other planning procedures to support our risk assessment and to understand potential changes that could impact non-capital revenue recognition.</p> <p>We assessed the new accounting policy adopted for non-capital revenue and considered alternative approaches. We considered the policy adopted by the group to be a reasonable approach under IFRS 15.</p> <p>We tested key inputs and assumptions underpinning the revenue calculation including:</p> <ul style="list-style-type: none"> Assessing the reasonableness of the cost and timing of a sample of future expected maintenance events; and, Agreeing details (such as contractual length and rentals) to contract for a sample of non-capital agreements. <p>We recalculated the revenue recognised based on these inputs and assumptions without exception.</p> <p>Overall we consider that the revenue recognised was supported by the evidence we obtained.</p>
<p><i>Rolling stock carrying value</i></p> <p>Rolling stock based in the UK is the group's most significant asset, with a net book value of £2,253m at 31 December 2018. Details of the rolling stock are provided in note 10, and the accounting policy for rolling stock and their potential impairment are included within the accounting policies section under 'Property, plant and equipment' and 'Impairment of tangible assets'.</p> <p>We consider the valuation of rolling stock to be a key audit matter given the materiality of the balance and</p>	<p>We assessed the reasonableness of the useful economic life of rolling stock by:</p> <ul style="list-style-type: none"> Considering external factors influencing train usage and replacement such as new tendering activity, comparative pricing of new and existing trains, competitor activity and technological developments; Testing a sample of trains and assessing whether the UEL adopted was supported by reasonable explanations and evidence; Identifying any trains that demonstrate a higher risk that the UEL adopted is inappropriate (for example, by comparing the net book value to age for all trains and

Independent Auditors' Report to the Members of Willow Bidco Limited (continued)

Key audit matter

the judgement required throughout the asset life cycle in respect of their valuation. The key judgments are:

1. Useful economic life

Rolling stock are long life assets and assumptions have to be made over their useful economic life (UEL) at the outset and on an ongoing basis. This life is influenced by a broad range of factors such as demand for rail travel, political and regulatory changes and technological and other innovations in train design and capabilities. The group typically assumes a train life of 25 - 40 years, though this is re-assessed each year with changes made if there are indicators the life should be amended.

2. Rolling stock impairment

The carrying value of rolling stock is dependent on the future income generating capacity of the trains. Trains are typically leased under short or medium term contracts, meaning that assumptions over the ability of the group to re-lease trains at the end of the current contract period, and the amount at which the trains are leased for will materially impact the cash flows that underpin the impairment test. Income is also guaranteed for certain rolling stock assets under section 54 undertakings provided by the Department of Transport.

Management perform a detailed impairment assessment each year of whether rolling stock is impaired. This includes making assessments over the likely timing and amount of re-lease activity, and calculating the discount rate to be applied, taking into account the weighted average cost of capital (WACC). In 2018 there was a £12.8m income statement charge for impairments recorded on rolling stock (2017: £19.3m).

How our audit addressed the key audit matter

identifying outliers); and

- Performing back-testing by considering the actual train life achieved or expected to be achieved for trains close to the end of their operating life, and comparing to the UEL applied to rolling stock across the fleet.

Back-testing of historic train usage has shown that the original UEL estimates were typically conservative (as some trains have continued to be used past the original UEL date). However, it is considered reasonable not to assume that such extensions will be repeated with existing rolling stock given various external factors such as the rate of technological change in transportation generally.

We considered the context under which the impairment test was performed, including the current high percentage of trains on lease (99% at 31 December 2018), the limited number of assets impaired in recent years, as well as the consistent profitability of the underlying operations of the Group.

We understood and evaluated management's process to identify trains at risk of impairment. We also independently identified rolling stock we considered at higher risk of impairment by, for example, considering new tendering activity and contracts with lower profitability.

We assessed the reasonableness of management's impairment calculation, including compliance with IAS 36. This testing included assessing future re-lease and revenue assumptions, re-performing the cash flow calculations for a sample of rolling stock and performing sensitivity analysis on key assumptions. We also considered the influence of other factors including the interaction between new build and existing train prices, recent Group and competitor tender activity and the impact of inflation, interest rates and residual value risk on future pricing. We performed equivalent testing for rolling stock that was impaired by management during the year and for rolling stock that was not impaired but where we considered the risk of impairment to be heightened.

We also independently recalculated the discount rate, including using our valuation experts to calculate a weighted average cost of capital that takes into account of the industry the group operates in amongst other factors.

Management's impairment test and our independent audit work demonstrated that the amount of impairment recorded is highly sensitive to changes in future assumptions, in particular the likelihood of re-lease and the level of rentals achieved in subsequent lease periods. However, based on the work performed and the fact patterns prevailing at 31 December 2018, we found that the assumptions underpinning the impairment test performed and the resultant carrying value of rolling stock were supported by the evidence we obtained.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group, the accounting processes and controls, and the industry in which it operates.

Independent Auditors' Report to the Members of Willow Bidco Limited (continued)

The principal activity of the group is the leasing of rolling stock to Train Operating Companies. The group is comprised of a number of subsidiaries including investment holding companies, operating companies that lease rolling stock, companies that raise finance and other companies which provide supporting functions. The group operates solely in the UK market, and uses a central accounting function also located in the UK. Our audit of the Group and its subsidiaries was therefore completed without requiring the involvement of any other audit teams.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall materiality	£7.75m
How we determined it	5% of profit before tax.
Rationale for benchmark applied	The group is profit orientated and one of the key measures used by the shareholders in assessing the performance of the entity is profit before tax. This is a generally accepted auditing benchmark

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was £7.75m to £374. We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £387k as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which 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 group'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.

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

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or 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.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 8, 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

Independent Auditors' Report to the Members of Willow Bidco Limited (continued)

determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or 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 Financial Reporting Council'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 Article 113A of the Companies (Jersey) Law 1991 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

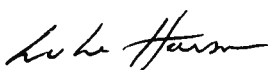
Other required reporting

Companies (Jersey) Law 1991 exception reporting

Under the Companies (Jersey) Law 1991 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
- proper accounting records have not been kept; or
- proper returns adequate for our audit have not been received from branches not visited by us; 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
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants
London
29 March 2019

Group Income Statement

		Year ended 31 December 2018	Year ended 31 December 2017
	Note	£'m	£'m
Revenue	2	527.5	495.2
Cost of sales	7	(230.4)	(233.7)
Gross profit		297.1	261.5
Administrative expenses	7	(26.8)	(25.7)
Operating profit		270.3	235.8
Finance income	3	0.2	0.1
Other gains/(losses) - net	4	18.1	3.1
Finance costs	5	(129.8)	(123.2)
Profit before tax		158.8	115.8
Income tax expense	6	(29.6)	(22.3)
Profit attributable to owners of the parent		129.2	93.5

All profit and loss items relate to continuing operations of the Group.

The notes on pages 20 to 60 form an integral part of these financial statements.

Group Statement of Comprehensive Income

		Year ended 31 December 2018	Year ended 31 December 2017
	Note	£'m	£'m
Profit for the year		129.2	93.5
Other comprehensive income:			
Items that will not be reclassified to profit and loss			
Actuarial gain on defined benefit pension scheme	26	5.5	11.0
Tax on items taken directly to equity	6	(0.9)	(1.9)
Items that may be subsequently reclassified to profit and loss			
<i>Cash flow hedges</i>			
Gain/(loss) on cash flow hedge taken to equity		11.1	(2.2)
Recycling of amounts from cash flow hedge to profit and loss		12.9	16.9
Tax on items taken directly to equity	6	(5.3)	(2.0)
Other comprehensive income for the year		23.3	21.8
Total comprehensive income for the year attributable to owners of the parent	16	152.5	115.3

The notes on pages 20 to 60 form an integral part of these financial statements.

Group Statement of Changes in Equity

		Called up share capital	Cash flow hedge reserve	Accumulated Losses	Total equity
	Note	£'m	£'m	£'m	£'m
At 1 January 2017		-	(84.9)	(195.0)	(279.9)
Profit for the year		-	-	93.5	93.5
Other comprehensive income					
Actuarial gain on defined benefit pension scheme	26	-	-	11.0	11.0
Loss on cash flow hedge taken to equity		-	(2.2)	-	(2.2)
Recycling of amounts from cash flow hedge to profit and loss		-	16.9	-	16.9
Tax on items taken directly to equity	6	-	(2.0)	(1.9)	(3.9)
Total comprehensive income		-	12.7	102.6	115.3
Dividends paid	27	-	-	(95.3)	(95.3)
At 1 January 2018 (as previously reported)		-	(72.2)	(187.7)	(259.9)
Adjustments (see note 1)		-	-	(1.5)	(1.5)
At 1 January 2018		-	(72.2)	(189.2)	(261.4)
Profit for the year		-	-	129.2	129.2
Other comprehensive income					
Actuarial gain on defined benefit pension scheme	26	-	-	5.5	5.5
Gain on cash flow hedge taken to equity		-	11.1	-	11.1
Recycling of amounts from cash flow hedge to profit and loss		-	12.9	-	12.9
Tax on items taken directly to equity	6	-	(5.3)	(0.9)	(6.2)
Total comprehensive income		-	18.7	133.8	152.5
Dividends paid	27	-	-	(127.0)	(127.0)
At 31 December 2018		-	(53.5)	(182.4)	(235.9)

As disclosed in note 15, the called up share capital of the Company is £12,360 (2017: £12,360).

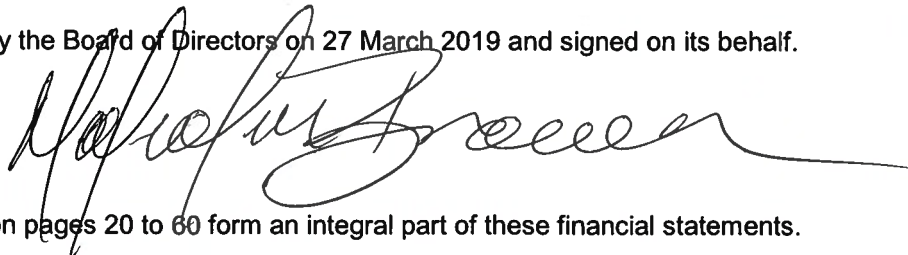
The notes on pages 20 to 60 form an integral part of these financial statements.

Group Balance Sheet

		As at 31 December 2018	As at 31 December 2017
	Note	£'m	£'m
Assets			
Non-current assets			
Goodwill	9	616.8	616.8
Property, plant and equipment	10	2,258.6	2,204.8
Derivative financial instruments	13,19	23.0	19.6
		<u>2,898.4</u>	<u>2,841.2</u>
Current assets			
Inventories	12	0.6	0.8
Derivative financial instruments	13,19	-	0.1
Trade and other receivables	13	25.2	23.1
Contract assets	14	29.9	-
Cash and cash equivalents	13	14.8	20.7
		<u>70.5</u>	<u>44.7</u>
Current liabilities			
Trade and other payables	21	(97.3)	(90.4)
Contract liabilities	22	(19.8)	-
Derivative financial instruments	19	-	(0.5)
Current tax liabilities	20	(9.5)	(16.6)
Loans payable	18	(66.7)	(42.8)
		<u>(193.3)</u>	<u>(150.3)</u>
Net current liabilities		<u>(122.8)</u>	<u>(105.6)</u>
Total assets less current liabilities		<u>2,775.6</u>	<u>2,735.6</u>
Non-current liabilities			
Trade and other payables	21	5.9	5.0
Loans payable	18	2,535.6	2,480.2
Retirement benefit obligation	26	12.0	16.5
Preference shares	17	0.1	0.1
Deferred tax liabilities	20	252.7	250.2
Derivative financial instruments	19	205.2	243.5
		<u>3,011.5</u>	<u>2,995.5</u>
Equity attributable to owners of the parent			
Called up share capital	15	-	-
Cash flow hedge reserve	16	(53.5)	(72.2)
Accumulated losses	16	(182.4)	(187.7)
Total equity		<u>(235.9)</u>	<u>(259.9)</u>
Total equity and non-current liabilities		<u>2,775.6</u>	<u>2,735.6</u>

Approved by the Board of Directors on 27 March 2019 and signed on its behalf.

M Brown
Director



The notes on pages 20 to 60 form an integral part of these financial statements.

Group Cash Flow Statement

		Year ended 31 December 2018	Year ended 31 December 2017
	Note	£'m	£'m
Operating activities			
Cash receipts from customers		510.8	467.4
Cash paid to suppliers and employees		(100.6)	(99.1)
Cash generated from operations		410.2	368.3
Income taxes paid		(40.3)	(25.8)
Interest paid		(134.5)	(129.7)
Net cash generated from operating activities		235.4	212.8
Investing activities			
Interest received		0.2	0.1
Purchase of property, plant and equipment		(439.6)	(186.5)
Proceeds from disposal of property, plant and equipment		248.6	-
Net cash used in investing activities		(190.8)	(186.4)
Financing activities			
Equity dividend paid		(127.0)	(95.3)
Repayment of loans		(146.0)	(209.6)
Receipt of new loans		222.5	294.3
Repayment of derivative instruments		-	(5.5)
Net cash used in financing activities		(50.5)	(16.1)
Net (decrease)/increase in cash and cash equivalents		(5.9)	10.3
Cash and cash equivalents at the beginning of the year		20.7	10.4
Effect of Foreign Exchange Movements		-	-
Cash and cash equivalents at the end of the year			
Bank balances and cash	13	14.8	20.7

The notes on pages 20 to 60 form an integral part of these financial statements.

Notes to the Financial Statements

1. Significant Accounting Policies

General

Willow Bidco Limited is a limited company incorporated in Jersey under the Companies (Jersey) Law 1991 and is domiciled in the United Kingdom. The address of the registered office is on page 1.

Basis of preparation

The consolidated financial statements of Willow Bidco Limited are prepared in accordance with International Financial Reporting Standards ("IFRS") and IFRS Interpretations Committee interpretations as adopted by the European Union ("EU"), and the Companies (Jersey) Law 1991 applicable to companies reporting under IFRS. The company has no requirement under the Companies (Jersey) Law 1991 to prepare parent company financial statements.

The consolidated financial statements are prepared under the historical cost convention as modified by the revaluation of derivative instruments. 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 Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated 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 consolidated 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 Group'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 Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Revenue recognition

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

Notes to the Financial Statements (continued)

1. Significant accounting policies (continued)

Key sources of estimation uncertainty

Useful lives of property, plant and equipment

As described in the Property, plant and equipment accounting policy note below, the Group 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 Group reviews the carrying amounts of its tangible assets and in particular Property, plant and equipment. 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 group 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 determine as significant estimates are required to assess the maintenance pattern throughout the life 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 IFRS15 Revenue from Contracts with Customers

In the current year, the Group has applied IFRS 15 Revenue from Contracts with Customers (as amended in April 2016) which became effective from 1 January 2018. IFRS 15 introduced a 5-step approach to revenue recognition. Given the nature of the Group's non-capital income (i.e. predominantly maintenance lease rentals), the adoption of IFRS 15 has impacted the timing of recognition of revenue on non-capital income.

Timing of revenue recognition

Under the previous standard the margin was consistent with maintenance lease rental by matching costs with income. To the extent that maintenance income exceeded the related annual costs and expected margin, then it was deferred to match costs in future years. To the extent that maintenance income was less than related annual costs, income was accelerated to match these costs and its margin. Under the new standard the revenue recognition policy is detailed in the Maintenance lease policy below, but generally, revenue and associated margin is recognised over time, based on the extent of progress towards completion of the performance obligation identified from a contract. The impact is therefore higher or lower revenue recognised in a reporting period. When estimates of costs exceed the estimates of revenue to be earned on a performance obligation, a provision for the entire loss is recognised in the period.

Reclassifications

There was also an impact to certain balances representing other receivables or deferred income, previously included within trade and other receivables or trade and other payables. They have been reclassified to contract assets and contract liabilities as appropriate.

Notes to the Financial Statements (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)

Impact of initial application of IFRS15 Revenue from Contracts with Customers (continued)

Transition approach and practical expedients

The Group has applied IFRS 15 in accordance with the modified retrospective approach, whereby the cumulative effect of initially applying the revenue standard is adjusted to the opening balance of accumulated losses as at 1 January 2018. The comparative prior period will not be adjusted. In accordance with IFRS 15:C7 the adjustment is only applied to contracts that are not completed as at 1 January 2018. The Group has also applied the practical expedients for modified contracts in IFRS 15:C5(c) and the expedient in IFRS 15:C5(d) allowing both non-disclosure of the amount of the transaction price allocated to the remaining performance obligations, and an explanation of when it expects to recognise that amount as revenue for all reporting periods presented before 1 January 2018.

The cumulative effect of the changes made to the Balance Sheet as at 1 January 2018 was:

Group Balance Sheet

	As at 31 December 2017	Adjustments Due to IFRS15	As at 1 January 2018
	£'m	£'m	£'m
Current assets			
Trade and other receivables	23.1	(2.2)	20.9
Contract assets	-	27.8	27.8
Current liabilities			
Contract liabilities	-	(21.9)	(21.9)
Provisions	-	(4.7)	(4.7)
Equity attributable to owners of the parent			
Accumulated losses	(187.7)	(1.0)	(188.7)

The impact of adoption on the Income Statement and Balance Sheet was as follows:

Group Income Statement

	Year ended 31 December 2018
	£'m
Revenue	
Increase due to timing of recognition for maintenance service	7.6
Income tax expense increase	(1.4)
Increase in profit attributable to owners of the parent	6.2

Notes to the Financial Statements (continued)

1. Significant accounting policies (continued)

Impact of initial application of IFRS15 Revenue from Contracts with Customers (continued)

Group Balance Sheet

	As at 31 December 2018	Balances without adoption IFRS15	Effect of change higher/(lower)
	£'m	£'m	£'m
Current assets			
Trade and other receivables	25.2	28.7	(3.5)
Contract assets	29.9	-	29.9
Current liabilities			
Contract liabilities	(19.8)	-	(19.8)
Current tax liabilities	(9.5)	(10.9)	(1.4)
Equity attributable to owners of the parent			
Accumulated losses	(182.3)	(188.5)	6.2

Impact of initial application of IFRS9 Financial Instruments

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting

In the current year, the Group has applied IFRS 9 Financial Instruments (as revised in July 2014) and the related general hedge accounting requirements are effective from 1 January 2018. The Group's qualifying hedging relationships in place as at 1 January 2018 also qualify for hedge accounting in accordance with IFRS 9 and were therefore regarded as continuing hedging relationships. No rebalancing of any of the hedging relationships was necessary on 1 January 2018, as the critical terms of the hedging instruments mostly match those of their corresponding hedged items, all hedging relationships continue to be effective under IFRS 9's effectiveness assessment requirements. The adoption of IFRS 9 Financial Instruments resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements.

The comparative 2017 results included in the 2018 financial statements have not been restated, with a cumulative adjustment of £0.5m to equity increasing 'Accumulated losses' net of deferred tax as at 1 January 2018, an increase to Loans payable £0.7m and decrease to Deferred tax liabilities £0.2m. The adoption has resulted in reclassification of financial assets and liabilities, but this has had no material impact to the Group. There was no material impact from the adoption of the impairment requirements of IFRS 9 given the nature of the group's operations which result in limited credit risk exposure to customers.

Notes to the Financial Statements (continued)

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 the accounting year beginning on 1 January 2018, but did not have a material impact to the Group's financial statements:

IFRS 2 (amendment) - 'Share-based payment'
 IFRS 4 (amendment) - 'Insurance contracts'
 IAS 40 (amendment) - 'Investment property'
 IFRIC 22 - 'Foreign currency transactions and advance consideration'

The following standards, amendments and interpretations to existing standards have been issued but are effective for accounting periods beginning after 1 January 2018, and the Group has not early adopted them:

IFRS 9 (amendment) – 'Financial Instruments'
 IFRS 16 – 'Leases'
 IFRS 17 – 'Insurance contracts'

IFRS 16 – 'Leases' (effective for the year beginning 1 January 2019) introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede current lease guidance including IAS 17 Leases and the related interpretations when it becomes effective. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to classify a lease either as an operating lease or finance lease. For lessee accounting the distinctions of operating leases and finance leases are removed and replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases, except for short-term leases and leases of low value assets.

The Group plans to adopt IFRS 16 in 2019 using the 'simplified' approach. The comparative 2018 results included in the 2019 financial statements will not be restated, with an immaterial cumulative adjustment to equity 'Accumulated losses' as at 1 January 2019 and an estimated increase to assets of £4.4m and an increase to liabilities £4.9m and a decrease in trade and other payables £0.5m. It is possible that there may be some changes to the impact above, while implementation and refinement of procedures are carried out during 2019. Additional disclosure will also be required in the 2019 financial statements.

Going concern

These financial statements are prepared on a going concern basis. The accumulated deficit in the reserves is expected to reverse over time due to the future continued profitability of the Group. The Group continues to comply with the requirements of its banking covenants, with performance underpinned by strong, positive cash flows from the Group's operations.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December 2018. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. The results of subsidiaries acquired during the year are included in the consolidated income statement from the date on which control is transferred to the Group. All intra-group transactions, balances, income and expenses and unrealised gains are eliminated on consolidation. The consolidated financial statements are prepared using uniform accounting policies.

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Costs directly attributable to the acquisition are expensed in the year they occur.

Notes to the Financial Statements (continued)

1. Significant accounting policies (continued)

Business combinations (continued)

The acquiree's identifiable assets, liabilities and contingent liabilities are measured initially at their fair value at the acquisition date, except for non-current (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, which are recognised and measured at fair value less costs to sell.

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

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

Goodwill which is recognised as an asset is reviewed for impairment at least annually. Any impairment is recognised immediately in profit or loss and is not subsequently reversed. For the purpose of impairment testing, goodwill is allocated to the Group's cash-generating unit expected to benefit from the synergies of the combination. The cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired.

If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period. The directors believe that no impairment is required as at 31 December 2018 (2017: £nil).

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 Group 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 Group's activities as described below.

The Group as lessor

The Group 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.

Maintenance lease rentals

For most maintenance lease rentals, the customer contracts the Group 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 is considered. Because of control transferring over time, revenue is recognised based on the extent of progress towards completion of the performance obligation. The Group also considers the potential risk where estimates may affect more than one customer contract.

Notes to the Financial Statements (continued)

1. Significant accounting policies (continued)

Maintenance lease rentals (continued)

For each performance obligation to be recognised over time, the Group 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.

The Group as lessee

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

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.

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.

Dividend distribution

Dividend distributions to the Company's shareholders are recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

Foreign currencies

The financial statements of the Group are presented in Sterling, which is the currency of the primary economic environment in which the Group operates (its functional currency). In preparing the financial statements, transactions in currencies other than the Group'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 assets and liabilities, and on the retranslation of monetary assets and liabilities, are presented in the income statement within 'other gains/(losses)'. In order to hedge its exposure to certain foreign exchange risks, the Group enters into forward contracts and options (see below for details of the Group'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 or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. 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 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 Group'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.

Notes to the Financial Statements (continued)

1. Significant accounting policies (continued)

Retirement benefit costs (continued)

Main Scheme

For defined benefit schemes, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each balance sheet 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 are 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. 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 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 before tax as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group'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 the tax rates that are substantively enacted at the balance sheet date. 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.

Notes to the Financial Statements (continued)

1. Significant accounting policies (continued)

Current and deferred tax (continued)

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 Group intends to settle its current tax assets and liabilities on a net basis.

Property, plant and equipment

Property, plant and equipment are shown at historical cost or valuation less any subsequent accumulated depreciation. Depreciation of these assets is charged to cost of sales. Depreciation is charged so as to write off the cost or valuation of these assets over their estimated useful lives, using the straight-line method.

The following rates are used for the depreciation of property, plant and equipment:

	<u>Years</u>
Rolling stock	25 to 40
Other:	
Office fixtures and fittings	5 to 10
Computer equipment	3
IT System upgrade	10

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 Group'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.

The useful economical lives and residual values are reviewed on a periodic basis, and adjusted if appropriate. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

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 changes in the useful economic life of rolling stock being an adjustment to the period over which the assets are depreciated which will increase or decrease residual value at the end of the lease term. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised as other income or losses in the income statement.

Impairment of tangible assets

At each balance sheet date, the Group 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 Group 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 (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.

Notes to the Financial Statements (continued)

1. Significant accounting policies (continued)

Impairment of tangible assets (continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset (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 (cash-generating unit) in prior years. 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.

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 and 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 assets

From 1 January 2018, the Company classifies financial assets in the following measurement categories: those to be subsequently measured at fair value (either through OCI or through profit or loss), and those to be measured at amortised cost. The classification is determined on initial recognition.

Previously the Group recognised its financial assets in the following categories: at fair value through the profit or loss, loans and receivable and available-for-sale. The classification was determined on initial recognition.

Financial assets at fair value through profit or loss were financial assets held for trading. Loans and receivables were non-derivative financial assets with fixed or determinable payments that are not quoted in active markets. Available-for-sale financial assets were non-derivatives that were either designated in this category or not classified in any of the other categories.

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

Financial assets at amortised cost (2017: Loans and receivables)

Financial assets at amortised cost (2017: Loans and receivables) 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.

Investments

Investments are initially measured at fair value, plus directly attributable transaction costs. At subsequent reporting dates, debt securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts.

Equity investments (available-for-sale) that do not have a quoted market price and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period.

Cash and cash equivalents

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

Notes to the Financial Statements (continued)

1. Significant accounting policies (continued)

Financial assets (continued)

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 Group 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.

Financial liabilities

Financial liabilities issued by the Group 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.

Borrowings

Interest-bearing loans are initially measured at fair value, net of transaction costs incurred, 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 value of borrowings is recognised in the income statement over the term of the borrowings using the effective interest method.

Where there is any substantial change in the terms of the loans payable, it is considered whether this is a modification or extinguishment of a financial liability in accordance with IFRS 9. If a modification is deemed to have taken place, the carrying value of the loan is amended to include any modification gain or loss, new transaction costs and subsequently re-measured at amortised cost, using the effective interest rate method. The modification gains or loss is calculated as the difference between the original carrying value and the modified carrying value, calculated using the modified cash flows discounted at the original effective interest rate. Where it is considered an extinguishment has taken place, the carrying value is removed from the balance sheet, with any difference to the consideration paid recognised in the income statement.

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.

Derivative financial instruments and hedge accounting

The Group's activities expose it primarily to the financial risks of changes in foreign exchange rates and interest rates. The Group uses derivative financial instruments to reduce exposure to foreign exchange risk and interest rate movements. The Group does not hold or issue derivative financial instruments for speculative purposes. The significant interest rate risk arises from the variability of cash flows on floating rate loans. The Group's policy is to convert a proportion of its floating rate debt to fixed rates. The Group designates these as cash flow hedges of interest rate risk. For an interest rate swap to be treated as a hedge, the instrument must be related to actual assets or liabilities or a probable commitment and must change the nature of the interest rate by converting a variable rate to a fixed rate or vice versa. Interest differentials under these swaps are recognised by adjusting net interest payable over the periods of the contracts.

Notes to the Financial Statements (continued)

1. Significant accounting policies (continued)

Financial liabilities (continued)

Derivative financial instruments and hedge accounting (continued)

Derivative financial instruments are initially measured at fair value on the contract date, and subsequently re-measured to fair value at subsequent reporting dates. Credit and Debit valuation adjustments are not made given the impact is currently not considered material. Gains and losses arising from changes in the fair value of a derivative are recognised as they arise in the income statement unless the derivative is the hedging instrument in a qualifying hedge.

Hedge relationships are formally documented at inception. The documentation includes the economic relationship between hedging instruments and hedged items, including whether changes in the cash flows of the hedging instruments are expected to offset changes in the cash flows of hedged items. This includes details of the risk that is being hedged and the way in which effectiveness will be assessed at inception and during the period of the hedge. The Group documents its risk management objective and strategy for undertaking hedge transactions. If a hedge relationship no longer meets the documented risk management objective or other qualifying criteria such as existence of economic relationship, credit risk not dominating value changes or the hedge ratio no longer being consistent with the risk management strategy, hedge accounting must be discontinued.

Cash flow hedges that qualify for hedge accounting

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability or a highly probable forecast transaction, the effective portion of the gain or loss on the hedging instrument is recognised directly in cash flow hedge reserve. The ineffective portion is recognised in profit and loss. Hedge accounting is discontinued entirely when the hedge relationship no longer meets the risk management objective or no longer complies with the qualifying criteria, when the hedging instrument is sold or terminated. Hedge accounting is discontinued for only part of the hedge relationship where part of the volume of a forecast transaction is no longer highly probable.

On the discontinuance of hedge accounting (except where a forecast transaction is no longer expected to occur), the cumulative unrealised gain or loss recognised in equity is recognised in profit or loss 'Other gains/(losses) – net' when the hedged cash flow occurs or, if the forecast transaction results in the recognition of a financial asset or financial liability, in the same periods during which the asset or liability affects profit or loss.

Where the forecast transaction is no longer expected to occur, the cumulative unrealised gain or loss is recognised in profit or loss immediately. If the hedge of a forecast transaction results in the recognition of a non-financial asset, the associated gains and losses are not recognised in other comprehensive income but included in the initial cost of the asset. 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.

Derivative that do not qualify for hedge accounting

Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in profit and loss and are included in other gains/(losses) – net.

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.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation and the amount has been reliably measured. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date.

Notes to the Financial Statements (continued)

1. Significant accounting policies (continued)

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.

2. Revenue

	Year ended 31 December 2018	Year ended 31 December 2017
	£'m	£'m
Operating lease rentals	410.5	380.5
Maintenance lease rentals	114.6	110.1
Management fees	0.3	0.1
Other revenue	2.1	4.5
	527.5	495.2

All revenue relates to United Kingdom operations.

3. Finance Income

	Year ended 31 December 2018 £'m	Year ended 31 December 2017 £'m
Interest receivable – bank	0.2	0.1

4. Other gains/(losses) - net

	Year ended 31 December 2018 £'m	Year ended 31 December 2017 £'m
Fair value gains on derivative instruments	32.4	19.7
Ineffectiveness on cash flow hedges	(1.4)	0.3
Recycling of amounts from cash flow hedge to profit and loss	(12.9)	(16.9)
	18.1	3.1

Recycling of amounts from cash flow hedge to profit and loss are as a result of the following:

Forecast transactions no longer expected to occur £0.6m (2017: £15.0m).

Hedged item has affected profit or loss £12.3m (2017: £1.9m).

Notes to the Financial Statements (continued)

5. Finance costs

	Year ended 31 December 2018	Year ended 31 December 2017
	£'m	£'m
Interest payable to parent company	9.4	7.1
Amortisation of loan fees to parent	0.3	0.2
Swap interest payable	30.3	31.8
Loan interest payable	92.7	90.4
Amortisation of loan fees	2.0	2.3
Interest capitalised	(4.9)	(8.6)
	129.8	123.2

6. Income tax expense

Willow Bidco Limited and its subsidiary undertakings are United Kingdom tax residents. Jersey incorporated entities are United Kingdom tax residents as they are centrally managed and controlled in the United Kingdom.

The income tax based on the profit for the year is based on United Kingdom corporation tax at 19.00% (2017: 19.25%) and comprises:

	Year ended 31 December 2018	Year ended 31 December 2017
	£'m	£'m
Current tax		
Current tax charge on profits for the year	(36.4)	(34.7)
Adjustment in respect of prior year	4.1	0.1
Total current tax	(32.3)	(34.6)
Deferred tax (note 20)		
Origination and reversal of temporary differences	6.2	12.3
Adjustments in respect of prior years	(3.7)	0.4
Effect of tax rate change	0.2	(0.4)
Total deferred tax	2.7	12.3
Income tax expense	(29.6)	(22.3)

Notes to the Financial Statements (continued)

6. Income tax expense (continued)

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

	Year ended 31 December 2018	Year ended 31 December 2017
	£'m	£'m
Profit before taxation	158.8	115.8
Expected tax charge at 19.00% (2017: 19.25%)	(30.2)	(22.3)
Expenses not deductible	-	(0.1)
Effect of change in tax rate	0.2	(0.4)
Adjustment in respect of prior years	0.4	0.5
Total taxation expense for the year	(29.6)	(22.3)

The standard rate of Corporation tax in the UK changed from 20.00% to 19.00% with effect from 1 April 2017. This resulted in subsidiary profits being taxed at a main corporation tax rate of 19.00% (2017: 19.25% average effective rate). Accordingly, the Group's profits for this accounting year are taxed at an average effective rate of 19.00% (2017: 19.25%).

In addition to the amount charged to profit and loss, the following amounts relating to tax have been recognised in other comprehensive income:

	Year ended 31 December 2018	Year ended 31 December 2017
	£'m	£'m
Current tax		
Items that may be subsequently reclassified to profit and loss		
Cash flow hedges – reclassified to profit and loss	(0.9)	(1.1)
Total current tax	(0.9)	(1.1)
Deferred tax		
Items that will not be reclassified to profit and loss		
Actuarial gain on defined benefit pension scheme	(0.9)	(1.9)
Items that may be subsequently reclassified to profit and loss		
Cash flow hedges	(4.4)	(0.9)
Total deferred tax	(5.3)	(2.8)
Total taxation expense recognised in OCI for the year	(6.2)	(3.9)

In the Finance Act 2016 which received Royal Assent on 15 September 2016, the main rate of corporation tax was reduced further to 17% from 1 April 2020. The effect of the future changes in tax rate has been reflected in the charge to the income statement for the year.

Notes to the Financial Statements (continued)

7. Expenses by nature

	Year ended 31 December 2018	Year ended 31 December 2017
	£'m	£'m
Changes in inventories (note 12)	0.2	0.1
Employees' emoluments (note 8)	18.4	18.1
Depreciation and impairment charges (note 10)	149.5	140.5
Operating lease payments (note 24)	0.9	0.9
Other expenses	88.2	99.8
Total cost of sales and administrative expenses	257.2	259.4

Auditors' remuneration for audit services during the year for the audit of parent company and consolidated financial statements was £28,400 (2017: £27,600) and audit of the Company's subsidiaries pursuant to legislation was £327,100 (2017: £300,620) of which £18,000 relates to the audit for the year ending 31 December 2017 and £nil (2017: £45,000) for other non-audit services.

8. Employees' emoluments

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

	Year ended 31 December 2018	Year ended 31 December 2017
	Number	Number
Executive and support functions	41	40
Customer-facing staff	30	31
Engineering and technical	51	51
Directors' on service contracts	7	7
	129	129

Employee costs during the year amounted to:

	Year ended 31 December 2018	Year ended 31 December 2017
	£'m	£'m
Wages and salaries	14.1	13.3
Social security costs	1.8	1.7
Other pension costs	2.5	3.1
	18.4	18.1

Notes to the Financial Statements (continued)

9. Goodwill

	£'m
Cost and net book value	
At 1 January 2017	616.8
At 31 December 2017	616.8
At 31 December 2018	616.8

During the financial year presented, the Group had a single cash generating unit (CGU) being the Angel Trains Group. The goodwill that rose at acquisition relates solely to the Angel Trains Group and as such impairment is assessed at that level.

The goodwill is evaluated by assessing the carrying value of the assets using the fair value less costs of disposal or value in use approach. For the year ending 31 December 2018 the recoverable amount has been determined based on the fair value less costs of disposal.

Key assumptions

In order to derive the fair value less costs of disposal the 'Market' approach has been adopted to ascertain the equity value of the ultimate holding company Willow Topco Limited and its subsidiary undertakings and therefore the Angel Trains Group. This has been derived by taking the transaction prices from the share disposals in 2015 (multiplied by the number of ordinary shares). The valuation is considered a reasonable approximation of current value. This value is then added to the shareholder loan notes on the basis these are considered quasi equity by the Group.

10. Property, plant and equipment

	Rolling Stock £'m	Other £'m	Total £'m
Cost			
At 1 January 2017	3,284.3	8.2	3,292.5
Additions	196.3	0.4	196.7
Disposals	(0.2)	-	(0.2)
At 31 December 2017	3,480.4	8.6	3,489.0
Additions	450.6	1.3	451.9
Disposals	(248.7)	-	(248.7)
At 31 December 2018	3,682.3	9.9	3,692.2
Accumulated depreciation			
At 1 January 2017	1,141.4	2.5	1,143.9
Charge for the year	120.5	0.7	121.2
Impairment losses	19.3	-	19.3
Reversal of impairment losses	-	-	-
Disposals	(0.2)	-	(0.2)
At 31 December 2017	1,281.0	3.2	1,284.2
Charge for the year	135.9	1.3	137.2
Impairment losses	12.8	-	12.8
Reversal of impairment losses	(0.5)	-	(0.5)
Disposals	(0.1)	-	(0.1)
At 31 December 2018	1,429.1	4.5	1,433.6

Notes to the Financial Statements (continued)

10. Property, plant and equipment (continued)

Net book value			
At 31 December 2018	2,253.2	5.4	2,258.6
At 31 December 2017	2,199.4	5.4	2,204.8

Included in impairment losses is an amount of £10.0m (2017: £13.0m) 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.

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 increased by £11.5m / decreased such that an impairment would not have been considered necessary and provided headroom of £0.4m.

Finance costs capitalised during the year were £4.9m (2017: £8.6m) at an average rate of 5.41% (2017: 5.75%).

Cumulative finance costs capitalised and included in the cost of property, plant and equipment amounts to £79.0m (2017: £74.1m).

Included in rolling stock are assets under the course of construction of £273.4m (2017: £231.9m). 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.

11. Residual value exposures

The residual value exposure is the net book value of leased assets 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.

Expected net book value at lease expiry date

	Rolling Stock 2018	Rolling Stock 2017
	£'m	£'m
Within one year	329.2	819.8
Between one and two years	690.9	261.2
Between two and four years	57.4	57.0
More than four years	506.3	484.9
	1,583.8	1,622.9

Notes to the Financial Statements (continued)

12. Inventories

	31 December 2018	31 December 2017
	£'m	£'m
Spares for rolling stock	0.6	0.8

During the year £0.2m (2017: £0.1m) of inventories were recognised as expenses.

13. Other financial assets

Financial assets by category

31 December 2018

	Derivatives held for trading at FVPL *	Derivatives used for hedging	Financial assets at amortised cost**	Total
	£'m	£'m	£'m	£'m
Derivative financial instruments	21.8	1.2	-	23.0
Trade and other receivables (excluding prepayments)	-	-	23.3	23.3
Contract assets	-	-	29.9	29.9
Cash and cash equivalents	-	-	14.8	14.8
	21.8	1.2	68.0	91.0

Previously classified in accordance with IAS 39 Financial Instruments: Recognition and Measurement as follows:* (2017: Fair Value through Profit and Loss). ** (2017: Loans and receivables).

31 December 2017

	Derivatives held for trading at FVPL*	Derivatives used for hedging	Financial assets at amortised cost**	Total
	£'m	£'m	£'m	£'m
Derivative financial instruments	19.1	0.6	-	19.7
Trade and other receivables (excluding prepayments)	-	-	23.1	23.1
Cash and cash equivalents	-	-	20.7	20.7
	19.1	0.6	43.8	63.5

Previously classified in accordance with IAS 39 Financial Instruments: Recognition and Measurement as follows:* (2017: Fair Value through Profit and Loss). ** (2017: Loans and receivables).

Notes to the Financial Statements (continued)

13. Other financial assets (continued)

Trade and other receivables

	31 December 2018	31 December 2017
	£'m	£'m
Amounts falling due within one year		
Trade receivables	0.2	1.7
Other receivables	21.4	17.7
Prepayments	1.9	2.4
Other taxation	1.7	1.3
	25.2	23.1

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

Cash and cash equivalents

Cash and cash equivalents comprise cash held by the Group 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.

14. Contract assets

	31 December 2018	1 January 2018 (adjusted)
	£'m	£'m
Amounts falling due within one year		
Maintenance services	29.9	27.8

Amounts relating to contract assets are balances due from customers under maintenance contracts that arise when the Group 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. The directors consider that the carrying amount of contract assets approximates to their fair value.

15. Called up share capital

	31 December 2018	31 December 2017
	£	£
Authorised:		
100,000,000 (2017:100,000,000) Ordinary shares of £1 each	100,000,000	100,000,000
Issued, called up and fully paid:		
12,360 (2017: 12,360) Ordinary shares of £1 each	12,360	12,360

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

Notes to the Financial Statements (continued)

16. Reserves

Group

	Cash flow hedge reserves	Accumulated Losses	Total
	£'m	£'m	£'m
At 1 January 2017	(84.9)	(195.0)	(279.9)
Total comprehensive income for the year	12.7	102.6	115.3
Dividends paid	-	(95.3)	(95.3)
At 1 January 2018 (previously reported)	(72.2)	(187.7)	(259.9)
Adjustments (see note 1)	-	(1.5)	(1.5)
At 1 January 2018 (adjusted)	(72.2)	(189.2)	(261.4)
Total comprehensive income for the year	18.7	133.8	152.5
Dividends paid	-	(127.0)	(127.0)
At 31 December 2018	(53.5)	(182.4)	(235.9)

The cash flow hedge reserves are not available for distribution to the Group's shareholders. Cash flow hedge reserves balances includes continuing Cash flow hedges £49.4m (2017: £34.3m).

17. Preference shares

	31 December 2018	31 December 2017
	£	£
Authorised:		
100,000 (2017: 100,000) participating preference shares of £1	100,000	100,000
Issued, called up and fully paid:		
100,000 (2017: 100,000) participating preference shares of £1	100,000	100,000

The Company has one class of preference share which has no voting rights. The shareholders hold an entitlement to receive annual dividends at the higher of one month LIBOR at the start of the financial year plus 2% or 0.0099% of the Company's post tax distributable profit for the financial year.

18. Loans payable

	31 December 2018	31 December 2017
	£'m	£'m
Amounts falling due within one year		
External loans	66.7	42.8
Amounts falling due after one year		
External loans	1,794.0	1,836.7
Less unamortised loan fees	(13.2)	(11.3)
Loans from parent company	756.7	656.7
Less unamortised loan fees from parent company	(1.9)	(1.9)
	2,535.6	2,480.2

Notes to the Financial Statements (continued)

18. Loans payable (continued)

The loans from the parent company have no fixed maturity date. The directors have received confirmation from the parent company that they will not call for repayment of the within a period of at least twelve months from the date of signing of the financial statements. It is therefore appropriate that the classification of such in the financial statements is within amounts falling due after one year.

The external loans included above are repayable as follows:

	31 December 2018	31 December 2017
	£'m	£'m
Within one year	66.7	42.8
Between one and two years	342.8	42.8
Between two and five years	202.1	407.8
Over five years	1,249.1	1,386.1
	<u>1,860.7</u>	<u>1,879.5</u>
Less: Amount due for settlement within 12 months (shown under current liabilities)	(66.7)	(42.8)
Amount due for settlement after 12 months	<u>1,794.0</u>	<u>1,836.7</u>

The effective interest rates paid were as follows:

	Year ended 31 December 2018	Year ended 31 December 2017
External loans – fixed	5.56%	5.99%
External loans – floating	2.60%	2.28%
Loans from parent company	<u>1.35%</u>	<u>1.11%</u>

Borrowings of £1,558.6m (2017: £1,594.5m) are arranged at fixed interest rates and expose the Group to fair value interest rate risk. Borrowings of £481.7m (2017: £481.7m) from the parent company are arranged interest free.

For the year ending 31 December 2018, the directors estimate the fair value of the Group's fixed rate and interest free borrowings to be as follows:

	31 December 2018	31 December 2017
	£'m	£'m
External loans – fixed	1,635.2	1,748.3
Loans from parent company – fixed	47.5	52.0
Loans from parent company – interest free	<u>471.1</u>	<u>456.6</u>

In the context of the fair value hierarchy set out in IFRS13, these fixed and interest free borrowings are included within Level 2.

The directors consider that the carrying amount of the Group's variable rate borrowings approximates to their fair value. In the context of the fair value hierarchy set out in IFRS13, these variable rate borrowings are included within Level 2.

Notes to the Financial Statements (continued)

18. Loans payable (continued)

Borrowings	Maturity	Notes*	Nominal interest rate	31 December 2018	31 December 2017
				£'m	£'m
Bonds					
£500m Notes	2035	Amortising	6.875%	388.8	410.9
£300m Notes	2020	Bullet	6.250%	300.0	300.0
£400m Notes	2031	Amortising	6.500%	352.0	364.0
£60m Notes	2023	Amortising	LIBOR + Margin	60.0	60.0
£60m Notes	2031	Amortising	6.500%	52.8	54.6
Bank Loans and Notes					
Senior £137.5m	2024	Bullet	LIBOR + Margin	137.5	137.5
Senior £137.5m	2029	Amortising	LIBOR + Margin	130.6	137.5
Senior RCF £350m**	2023	Bullet	LIBOR + Margin	23.9	-
Senior Notes £30m	2031	Bullet	Fixed coupon	30.0	30.0
Senior Notes £200m	2034	Amortising	Fixed coupon	200.0	200.0
Senior Notes £100m	2037	Amortising	Fixed coupon	100.0	100.0
Senior Notes £85m	2032	Amortising	Fixed coupon	85.0	85.0
Senior Notes £300m***	2033	Amortising	Fixed coupon	-	-

*Where amortising borrowings have not changed from prior year, amortisation is due to start in future years. **During the year the Revolving Credit Facility (RCF) was extended to 2023 with the option for two further extensions to 2025 whilst the amount was increased to £350m. ***During the year the Group entered into a new £300m term facility which was undrawn as at 31 December 2018.

19. Derivative financial instruments

	31 December 2018		31 December 2017	
	Assets	Liabilities	Assets	Liabilities
	£'m	£'m	£'m	£'m
Forward foreign exchange contracts- held for trading	-	-	0.1	-
Interest rate swaps – used for hedging	1.2	(33.9)	0.6	(43.2)
Interest rate swaps – held for trading	21.8	(171.3)	19.0	(200.8)
	<u>23.0</u>	<u>(205.2)</u>	<u>19.7</u>	<u>(244.0)</u>
Analysed as:				
Current	-	-	0.1	(0.5)
Non-current	23.0	(205.2)	19.6	(243.5)
	<u>23.0</u>	<u>(205.2)</u>	<u>19.7</u>	<u>(244.0)</u>

In the context of the fair value hierarchy set out in IFRS13, these instruments are included within Level 2. Further details of derivative financial instruments are provided in note 25. As at year end, the Group had interest rate swap assets of £15.1m (2017: £15.1m) that are subject to master netting arrangements that can be offset against interest rate swap liabilities on default.

Notes to the Financial Statements (continued)

20. Current & Deferred taxation

Current tax liabilities

	31 December 2018	31 December 2017
	£'m	£'m
Current tax liabilities	<u>9.5</u>	<u>16.6</u>

As at 31 December 2018 the Group had current tax liabilities of £9.5m payable to HMRC. (2017: £16.6m).

Deferred tax	31 December 2018	31 December 2017
	£'m	£'m
Deferred tax assets	11.7	17.1
Deferred tax liabilities	<u>(264.4)</u>	<u>(267.3)</u>
	<u>(252.7)</u>	<u>(250.2)</u>

The following are the major deferred tax liabilities and assets recognised by the Group, and the movements thereon, during the current year.

Deferred tax assets

	Retirement Benefit scheme	Fair value of derivative instruments	Other	Total
	£'m	£'m	£'m	£'m
At 1 January 2017	4.4	14.2	0.6	19.2
Credit to the income statement for the year	0.4	0.3	0.1	0.8
Effect of tax rate change in income statement	(0.1)	-	-	(0.1)
Credit/(charge) to equity for the year	(2.1)	(1.8)	-	(3.9)
Effect of tax rate change in equity	0.2	0.9	-	1.1
A 1 January 2018 (as previously reported)	<u>2.8</u>	<u>13.6</u>	<u>0.7</u>	<u>17.1</u>
Adjustment (see note 1)	-	-	0.1	0.1
At 1 January 2018	<u>2.8</u>	<u>13.6</u>	<u>0.8</u>	<u>17.2</u>
Credit to the income statement for the year	0.2	(0.3)	(0.3)	(0.4)
Adjustments to prior years	-	-	0.2	0.2
Effect of tax rate change in income statement	-	-	-	-
Charge to equity for the year	(1.0)	(3.7)	-	(4.7)
Effect of tax rate change in equity	0.1	(0.7)	-	(0.6)
At 31 December 2018	<u>2.1</u>	<u>8.9</u>	<u>0.7</u>	<u>11.7</u>

Notes to the Financial Statements (continued)

20. Current & Deferred taxation (continued)

Deferred tax liabilities

	Accelerated capital allowances
	£'m
At 1 January 2017	278.9
Credit to the income statement for the year	(11.5)
Prior year adjustment	(0.4)
Effect of tax rate change in income statement	0.3
At 31 December 2017	267.3
Credit to the income statement for the year	(6.6)
Prior year adjustment	3.9
Effect of tax rate change in income statement	(0.2)
At 31 December 2018	264.4

The opening deferred tax balances are reflected at hybrid rates, calculated at subsidiary level, ranging between 17.14% and 18.60%. The opening hybrid rates reflect changes to the UK Corporation tax system announced in the July 2015 Summer Budget Statement. The Finance (No. 2) Act 2015, which received Royal Assent on 18 November 2015, included legislation reducing the main rate of corporation tax from 20% to 19% from 1 April 2017.

In the Finance Act 2016 which received Royal Assent on 15 September 2016, the main rate of corporation tax was reduced further to 17% 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 for at hybrid rates, calculated at subsidiary level, ranging between 17.00% and 17.11%.

This is based on the projected average rate that deferred tax at the balance sheet date is expected to unwind. The actual rates at which deferred tax will unwind are 19.00% during 2019, 17.25% during 2020 and 17.00% thereafter.

21. Other financial liabilities

Financial liabilities by category

31 December 2018

	Derivatives held for trading at FVPL*	Derivatives used for hedging	Other financial liabilities at amortised cost	Total
	£'m	£'m	£'m	£'m
Derivative financial instruments	171.3	33.9	-	205.2
Loans payable	-	-	2,602.3	2,602.3
Trade and other payables (excluding non-financial liabilities)	-	-	78.2	78.2
Total	171.3	33.9	2,680.5	2,885.7

Notes to the Financial Statements (continued)

21. Other financial liabilities (continued)

31 December 2017

	Derivatives held for trading at FVPL *	Derivatives used for hedging	Other financial liabilities at amortised cost	Total
	£'m	£'m	£'m	£'m
Derivative financial instruments	200.8	43.2	-	244.0
Loans payable	-	-	2,523.0	2,523.0
Trade and other payables (excluding non-financial liabilities)	-	-	88.9	88.9
Total	200.8	43.2	2,611.9	2,855.9

Trade and other payables

	31 December 2018	31 December 2017
	£'m	£'m
Amounts falling due within one year		
Trade payables	3.9	10.4
Other taxation and social security	1.5	1.4
Accruals and deferred income	91.9	78.6
	97.2	90.4
Amounts falling due after one year		
Accruals	5.9	5.0

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.

22. Contract liabilities

	31 December 2018	1 January 2018 (adjusted)
	£'m	£'m
Amounts falling due within one year		
Maintenance services	19.8	21.9

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

Notes to the Financial Statements (continued)

23. Capital commitments

	31 December 2018	31 December 2017
	£'m	£'m
Commitments for the acquisition of property, plant and equipment	420.6	798.2

At 31 December 2018, the Group had capital commitments of £420.6m (2017: £798.2m), being capital expenditure authorised and contracted for but not provided for in the financial statements. This commitment is for the purchase of new rolling stock currently in production, for delivery in 2019 and a number of capital modification projects to the existing fleets.

24. Operating lease arrangements

The Group as lessee

	31 December 2018	31 December 2017
	£'m	£'m
Minimum lease payments under operating leases recognised as an expense in the year	0.9	0.9

At the balance sheet date, the Group has future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	31 December 2018	31 December 2017
	£'m	£'m
Buildings:		
Within one year	1.9	1.7
In the second to fifth years inclusive	4.7	5.7
After five years	0.6	1.2
	7.2	8.6

Operating lease payments represent rentals payable by the Group for its office properties.

The Group as lessor

At the balance sheet date, the Group has contracted with train operating companies for the following future minimum lease payments:

	31 December 2018	31 December 2017
	£'m	£'m
Within one year	469.7	409.7
In the second to fifth years inclusive	808.4	798.3
After five years	238.2	412.1
	1,516.3	1,620.1

Notes to the Financial Statements (continued)

25. Risk Management

The major risks associated with the Group's business are market risk, credit risk and liquidity risk. 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

The Group seeks to minimise potential adverse effects on the Group's financial performance due to the unpredictability of financial markets. Market risk includes adverse changes in risk factors including interest rates and foreign exchange.

The Group's activities expose it primarily to the financial risks of changes in foreign exchange rates and interest rates. The Group uses derivative financial instruments to manage its exposure to foreign currency risk and interest rate risk.

Foreign currency risk management

It is the policy of the Group to enter into forward exchange contracts to mitigate the foreign currency risk of payments. As at the year end the Group had no material exposure to foreign currency risk.

Cash flow interest rate risk management

The Group's activities expose it primarily to the financial risks of changes in interest rates. The Group enters into interest rate swaps to mitigate the risk of rising interest rates. The Group's policy is to maintain a minimum fixed rate profile of 75% of its committed senior debt. This is achieved by either issuing fixed rate debt or converting a proportion of its floating rate debt to fixed rate debt. 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. Where permissible under IFRS 9, the Group designates these as cash flow hedges of interest rate risk. Swaps previously held within hedging relationships that have been discontinued are assessed on an ongoing basis to be included within new hedge relationships. The Group does not use derivative financial instruments for speculative purposes however due to the refinancing activity that took place during 2017, at Group level, there are periods within the short term where floating rate debt exposures are exceeded by derivative financial instruments held. This is due to a portion of forecast floating rate debt not meeting highly probable requirements. The Group will continue to monitor this through 2019.

Effects of hedge accounting on the financial position and performance

The cumulative effect of the interest rate swaps held in designated relationships on the Group's financial position and performance are as follows:

Derivative financial instruments – interest rate swaps:

	31 December 2018	31 December 2017
	£'m	£'m
Carrying amount (asset)	1.2	0.7
Carrying amount (liability)	33.9	43.2
Notional amounts	315.8	247.8
Maturity dates	2026-2049	2026-2049
Hedge ratio *	1:1	1:1
Change in fair value of outstanding hedge instruments since 1 January	10.0	(3.9)
Change in value of hedge item used to determine hedge effectiveness	8.8	(3.6)
Weighted average hedged rate for the year	1.6%	1.6%

* the notional profile of the designated interest rate swaps and loans matched on inception.

Notes to the Financial Statements (continued)

25. Risk Management (continued)

Market risk (continued)

Hedge ineffectiveness

Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessments to ensure that an economic relationship exists between the hedged item and hedging instrument.

The Group enters into interest rate swaps that have similar critical terms as the hedged item, such as reference date, reset dates, payment dates, maturities and notional amounts. Prospective testing is carried out using the cumulative dollar offset method with the hypothetical derivative approach whereby the change in fair value of the hedging instrument is compared to the change in fair value of the hedge item attributable to the hedged risk. Hedge ineffectiveness may occur due to mismatches in critical terms between the hedging instrument and the hedged item such as notional amounts and interest reset frequencies. The lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item is recognised through other comprehensive income, if the effectiveness requirements of IFRS 9 are continued to be met.

The Group does not hedge 100% of its loans, therefore the hedged item is identified as a portion of the outstanding loans up to the notional amount of the swaps that have not been previously included in another hedge designation.

As most of the critical terms matched during the year, the Group's economic relationships were highly effective.

Interest rate sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for both derivative and non-derivative instruments at the balance sheet date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding since the beginning of the financial year. A 1% increase or decrease is used as it represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 1% higher/lower and all other variables were held constant:

- Group profit for the year ended 31 December 2018 would increase/decrease by £96.3m (2017: £90.1m).
- Cash flow hedge reserves would increase/decrease by £151.6m (2017: £154.1m) respectively. This would occur mainly as a result of the changes in fair value of fixed rate instruments.

Interest rate swap contracts

Under interest rate swap contracts, the Group agrees to exchange the difference between fixed and floating interest rate amounts calculated on agreed notional principal amounts.

Such contracts enable the Group to mitigate the risk of changing interest rates, on the issued variable rate debt cash flow exposures.

The fair value of interest rate swaps at the reporting date is determined by discounting the future cash flows using the curves at the reporting date and the credit risk inherent in the contract, and is disclosed below.

Notes to the Financial Statements (continued)

25. Risk Management (continued)

Market risk (continued)

Interest rate swap contracts (continued)

The average interest rate is based on the outstanding balances at the end of the financial year. The following tables detail the notional principal amounts and the remaining terms of interest rate swap contracts outstanding as at the reporting date.

Liabilities

Outstanding interest rate swaps

	Average contracted fixed interest rate 31 December 2018 %	Notional principal amount 31 December 2018 £'m	Fair value Liabilities 31 December 2018 £'m
Within 1 year	-	-	-
Between 1 and 2 years	-	-	-
Between 2 and 5 years	5.6	9.3	1.8
Over 5 years	2.9	2,638.8	203.4
		2,648.1	205.2

Liabilities

Outstanding interest rate swaps

	Average contracted fixed interest rate 31 December 2017 %	Notional principal amount 31 December 2017 £'m	Fair value Liabilities 31 December 2017 £'m
Within 1 year	1.5	108.4	0.5
Between 1 and 2 years	-	-	-
Between 2 and 5 years	-	-	-
Over 5 years	3.0	2,503.7	243.5
		2,612.1	244.0

Assets

Outstanding interest rate swaps

	Average contracted fixed interest rate 31 December 2018 %	Notional principal amount 31 December 2018 £'m	Fair value assets 31 December 2018 £'m
Within 1 year	-	-	-
Between 1 and 2 years	-	-	-
Between 2 and 5 years	-	-	-
Over 5 years	0.8	379.3	23.0
		379.3	23.0

Notes to the Financial Statements (continued)

25. Risk Management (continued)

Market risk (continued)

Assets

Outstanding interest rate swaps	Average contracted fixed interest rate 31 December 2017 %	Notional principal amount 31 December 2017 £'m	Fair value assets 31 December 2017 £'m
Within 1 year	-	-	-
Between 1 and 2 years	-	-	-
Between 2 and 5 years	-	-	-
Over 5 years	0.8	379.3	19.6
		379.3	19.6

The interest rate swaps settle on a 1 month, 3 month and 6 month basis. The floating rate on the interest rate swaps is 1 month, 3 month and 6 month LIBOR. The Group settles the difference between the fixed and floating interest on a net basis.

Credit risk

Credit risk is the risk arising from the possibility that the Group will incur losses from the failure of customers to meet their obligations. The Group's principal financial assets are cash and cash equivalents, derivative financial instruments, trade and other receivables and contract assets. The carrying amount of financial assets recorded in the financial statements represents the Group's maximum exposure to credit risk. The Group does not hold collateral over these balances.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies. For derivative financial instruments refer to note 19.

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

Notes to the Financial Statements (continued)

25. Risk Management (continued)

Credit risk (continued)

Trade and other receivables and contracts assets are aged as follows:

	31 December 2018	31 December 2017
	£'m	£'m
>30 days	-	-
>1 day	-	-
Not due	55.1	23.1
	<u>55.1</u>	<u>23.1</u>

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

Liquidity risk

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

Liquidity management within the Group 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 loans payable refer to note 18.

For trade and other payables refer to note 21. The Group policy is to negotiate and agree terms and conditions with its suppliers. The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts included in the table are the contractual undiscounted cash flows, except for net settled derivative financial instruments, which are included at their fair value. As a result, these amounts will not reconcile to the amounts disclosed on the balance sheet.

The following tables detail the remaining maturity for financial liabilities.

	Within one year	Between one and two years	Between two and five years	Over five years	Total
2018	£'m	£'m	£'m	£'m	£'m
Trade and other payables (excluding deferred income)	70.9	5.9	-	-	76.8
Loans payable external	392.8	342.8	202.1	1,549.1	2,486.8
Interest payable	96.6	90.8	227.8	380.1	795.3
Loans from parent undertakings	-	756.7	-	-	756.7
Derivative financial instruments	-	-	1.8	203.4	205.2
	560.3	1,196.2	431.7	2,132.6	4,320.8

Notes to the Financial Statements (continued)

25. Risk Management (continued)

Liquidity risk (continued)

	Within one year	Between one and two years	Between two and five years	Over five years	Total
2017	£'m	£'m	£'m	£'m	£'m
Trade and other payables (excluding deferred income)	62.8	5.0	-	-	67.8
Loans payable external	367.8	42.8	407.9	1,386.1	2,204.6
Interest payable	94.7	93.1	217.9	390.5	796.2
Loans from parent undertakings	-	656.7	-	-	656.7
Derivative financial instruments	0.5	-	-	243.5	244.0
	525.8	797.6	560.5	2,085.4	3,969.3

At year end the Group had access to undrawn borrowing facilities of £626.1m (2017: £325.0m). The amounts included in the table are the contractual undiscounted cash flows, except for net settled derivative financial instruments, which are included at their fair value. As a result, these amounts will not reconcile to the amounts disclosed on the balance sheet. Included within loans from parent undertakings is £481.7m (2017: £481.7m) of interest free loans that have no fixed maturity date. Although the loans from parent undertakings are within the time band 'Between one and two years' it is expected that these will not fall due until after five years.

Capital risk management

The Group manages its capital to ensure that it 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 Group consists of debt, which includes the borrowings disclosed in note 18, cash and cash equivalents and equity attributable to owners of the Group, comprising issued capital, reserves and retained earnings as disclosed in notes 15 and 16.

26. Retirement benefit scheme

Defined benefit plan

The Group operates a defined benefit scheme for qualifying employees in the UK, the Angel Trains Shared Cost Section ('Section') of the Railways Pension Scheme (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 valuations of plan assets and the present value of the defined benefit obligation were carried out at 31 December 2018 by independent actuaries. The results of these calculations have been based on the results of the last formal actuarial valuation of the Section as at 31 December 2016, allowing for adjustments, on an approximate basis, to allow for differences between the valuation and IAS 19 calculations. The contribution rate for the Group's scheme is split between the Group and the employee at 17.90% and 9.60% respectively (2017: 16.6% and 9.0%) of pensionable salaries.

Notes to the Financial Statements (continued)

26. Retirement benefit scheme (continued)

Defined benefit plan (continued)

The discounted mean term of the Section's Define Benefit Obligation (DBO) was 22 years based on the preliminary results of the formal valuation as at 31 December 2016.

The Group 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 Group if no agreement can be reached between the Trustee and the Group.

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 Group has contributed 100% to bridge funding deficits it is not doing so on this occasion. The active members have been asked to contribute to the extent the shortfall relates to them on the usual 65% employer / 35% employee split i.e. the Group will contribute 65% of the shortfall that relates to the active members.

As a result the deficit relating to the active members is £0.37m. The Group will fund 100% of the remaining shortfall relating to the pensioners and deferred members, giving a total funding requirement from the Group of £2.32m.

A consultation process to agree a recovery plan with the active members concluded in January 2018. The recovery plan, that has been agreed by the trustees, will be over a 6 year period, commencing 1 April 2019. The Group (as employer) will make six annual instalments from this date of £0.48m and the active members will contribute 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 the Financial Statements (continued)

26. Retirement benefit scheme (continued)

Membership data:

	31 December 2018	31 December 2017
Active members		
Number	55	63
Annual payroll (£m)	4.0	4.4
Average age	49.1	48.4
Deferred members		
Number	120	124
Total deferred pension (£m)	0.6	0.6
Average age	51.2	51.1
Pension members (including dependants)		
Number	57	50
Annual pension payroll (£m)	1.2	1.1
Average age	65.3	65.0

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

Asset data	31 December 2018 £'m	31 December 2017 £'m
Growth assets	45.4	45.6
Government bonds	9.5	11.9
Non-Government bonds	4.5	2.1
Other assets	0.1	0.5
Total asset value	59.5	60.1

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

Summary of assumptions:

	31 December 2018	31 December 2017
Discount rate*	3.0%	2.7%
Price inflation (RPI measure)	3.2%	3.2%
Increase to deferred pensions (CPI measure)	2.1%	2.1%
Future pension increases (CPI measure)	2.1%	2.1%
Expected rate of salary increases	3.0% for 1 year then 2.0% for 2 years then 2.8% thereafter	3.25% for 1 year then 2.8% thereafter

* One of the principal assumptions is the discount rate, which must be based upon the yields available at the accounting date on high quality corporate bonds with a term which matches that of the liabilities.

Notes to the Financial Statements (continued)

26. Retirement benefit scheme (continued)

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 for male and female members aged 65 now and 65 in 20 years' time for the Section is as follows:

	31 December 2018	31 December 2017
Male currently age 65	22.8	22.8
Male currently age 45	24.5	24.5
Female currently age 65	23.8	23.8
Female currently age 45	25.7	25.7

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

	31 December 2018	31 December 2017
	£'m	£'m
Defined Benefit Liability at end of year		
Defined Benefit Obligation at end of year		
Active members	(26.3)	(31.2)
Deferred members	(18.0)	(18.8)
Pensioner members (incl. dependants)	(28.9)	(26.6)
Total	(73.2)	(76.6)
Value of assets at end of year	59.5	60.1
Funded status at end of year	(13.7)	(16.5)
Adjustment for the members' share of deficit	1.7	-
Impact of minimum funding requirement/asset ceiling	-	-
Net Defined Benefit Liability at end of year	(12.0)	(16.5)

Reconciliation of defined benefit liability:

	31 December 2018	31 December 2017
	£'m	£'m
Opening defined benefit liability	(16.5)	(25.7)
Pension expense	(2.0)	(2.7)
Employer contributions	1.0	0.9
Total gain recognised in OCI	5.5	11.0
Closing defined benefit liability	(12.0)	(16.5)

Notes to the Financial Statements (continued)

26. Retirement benefit scheme (continued)

Pension expense:

Amounts recognised in the income statement in respect of the defined benefit plan are as follows:

	Year ended 31 December 2018	Year ended 31 December 2017
	£'m	£'m
Employer's share of service cost	1.4	2.0
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	1.6	2.1
Employer's share of net interest on net defined benefit liability	0.4	0.6
Employer's share of pension expense	2.0	2.7

The charge for the year is included in administrative expenses in the income statement.

Other comprehensive income (OCI):

	Year ended 31 December 2018	Year ended 31 December 2017
	£'m	£'m
Loss due to liability experience	0.8	0.8
Gain due to liability assumption changes	(5.1)	(8.5)
Return on plan assets less/(greater) than discount rate	1.1	(3.3)
Impact of moving to shared cost approach	(2.3)	-
Total gain recognised in the OCI	(5.5)	(11.0)

Reconciliation of Defined Benefit Obligation (DBO):

	Year ended 31 December 2018	Year ended 31 December 2017
	£'m	£'m
Opening defined benefit obligation	76.6	81.5
Service cost	1.7	2.0
Interest cost on DBO	2.0	2.1
Loss on DBO – experience	0.5	0.8
Gain on DBO – demographic assumptions	(0.4)	(2.5)
Gain on DBO – financial assumption	(5.6)	(6.0)
Actual benefits payments	(1.7)	(1.3)
Past service cost	0.1	-
Closing defined benefit obligation	73.2	76.6

Notes to the Financial Statements (continued)

26. Retirement benefit scheme (continued)

Reconciliation of value of assets:

	Year ended 31 December 2018	Year ended 31 December 2017
	£'m	£'m
Opening value of Section assets	60.1	55.8
Interest income on assets	1.6	1.4
Return on plan assets (less)/greater than discount rate	(1.4)	3.3
Contributions by employer	1.0	0.9
Benefits paid	(1.7)	(1.3)
Administration costs	(0.1)	-
Closing fair value of plan assets	59.5	60.1

DBO sensitivity analysis to significant actuarial assumptions:

	Sensitivity	Year ended 31 December 2018	Year ended 31 December 2017
		£'m	£'m
Discount rate	-1.0% p.a	17.4	19.0
Price inflation (CPI measure)	+0.5% p.a	7.9	8.8
Salary increases	+0.5% p.a	1.1	1.7
Life expectancy	+1 year	2.1	2.2

27. Dividends paid

	Year 31 December 2018	Year 31 December 2017	Year 31 December 2018	Year 31 December 2017
	Pence per share	Pence per share	Total £'m	Total £'m
Dividends	1,027,508.09	771,035.60	127.0	95.3

Dividends of £127.0m (2017: £95.3m) were paid by the Group during the year ended 31 December 2018.

28. Parent companies

The Company's immediate parent company is Willow Holdco 2 Limited.

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.

Notes to the Financial Statements (continued)

29. Related party transactions

The Group has related party relationships with the directors and the following fellow parents of the Group and subsidiaries of Willow Topco Limited:

Willow Topco Limited
 Angel Trains Holdings Limited
 Angel Trains Rolling Stock Limited
 Willow Holdco 1 Limited
 Willow Holdco 2 Limited

Trading transactions

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

31 December 2018

	Income	Purchases	Interest paid	Other gains/(losses)	Amounts owed by related parties	Amounts owed to related parties
Accounts with	£'m	£'m	£'m	£'m	£'m	£'m
Immediate Parent	-	-	(9.7)	-	-	(755.8)
Other*	248.9	-	-	-	-	-
Total	248.9	-	(9.7)	-	-	(755.8)

*During the year, the Group 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.

31 December 2017

	Income	Purchases	Interest paid	Other gains/(losses)	Amounts owed by related parties	Amounts owed to related parties
Accounts with	£'m	£'m	£'m	£'m	£'m	£'m
Immediate Parent	-	-	(7.3)	-	-	(656.3)
Other	-	-	-	-	-	-
Total	-	-	(7.3)	-	-	(656.3)

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received in respect of the trading transactions.

Notes to the Financial Statements (continued)

29. Related party transactions (continued)

Compensation of key management personnel

	Year ended 31 December 2018	Year ended 31 December 2017
	£'m	£'m
Short term benefits	1.8	1.9
Post employment benefits	-	-
Other long-term benefits	-	-
	1.8	1.9

The key management personnel are defined as the directors of the subsidiaries of the Company.

The directors of the Company are remunerated for their services by the ultimate parent company, Willow Topco Limited, with the exception of the Chairman of the Angel Trains Group Limited, who is paid by Angel Trains Limited, a subsidiary of the Company.

The remuneration of directors and key executives is determined by the Remuneration Committee having regard to the performance of individuals and market trends.

30. Structured entities

During the year, the Group exercised a call option with a subsidiary of a bank ("Bank Co.") and purchased rolling stock at a fixed price of £248.6m and subsequently sold it to Angel Trains Rolling Stock Limited.

During 2016, management had assessed the nature of interest and risks that the Group had on Bank Co., that was incorporated initially with the purpose to enter into certain agreements relating to the procurement and leasing of certain rolling stock to be manufactured by a manufacturing company ("Manufacturer").

The Group entered into a call/put option at a fixed price for the purchase of property, plant and equipment with Bank Co. The Group had no exposure to the change in fair value of the property, plant and equipment. In the event of a Bank Co. default the Group could have terminated the option agreement and was not exposed to the credit risk of Bank Co. In the event of a Manufacturer default the Group could have terminated the option agreement and was not exposed to the credit risk. The Group would not have received any dividend, interest or tax benefits. The Group therefore had no exposure or rights to variable returns from its involvement in Bank Co. Consequently, management concluded it was an unconsolidated structured entity.

Risks associated with unconsolidated structured entities

The following table summarises the carrying values recognised in the statement of financial position of the Group as at 31 December 2018:

	31 December 2018	31 December 2017
	£'m Assets	£'m Assets
Balance sheet line item of asset		
Property, Plant and equipment	-	3.0

Notes to the Financial Statements (continued)

30. Structured entities (continued)

Maximum exposure to loss

The following table summarises the maximum exposure to loss from its involvement as at 31 December 2018 with structured entities, by nature:

	31 December 2018	31 December 2017
Structured entity type	£'m Maximum exposure to loss	£'m Maximum exposure to loss
Asset backed	-	3.0

31. Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes.

	Loans payable (note 18) £'m
1 January 2017	2,436.4
Financing cash flows – net	84.7
Non-cash changes*	1.9
1 January 2018	2,523.0
Financing cash flows – net	76.5
Non-cash changes*	2.8
31 December 2018	2,602.3

* Non-cash items include the amortisation of loan fees and net movement in accruals for fees incurred financing new loans.

32. Events after the balance sheet date

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.