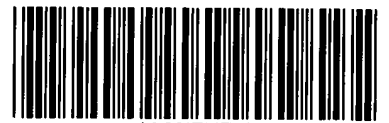


ARRIVA PLC

Annual report and financial statements

For the Year Ended 31 December 2016

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ARRIVA PLC

Company Information

Directors

R Lutz
M Rudhart
M J Hibbert
T Schein
B Hüber
S Klenke

Company secretary

P C Davison

Registered number

347103

Registered office

1 Admiral Way
Doxford International Business Park
Sunderland
Tyne and Wear
SR3 3XP

Independent auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Central Square South
Orchard Street
Newcastle upon Tyne
NE1 3AZ

ARRIVA PLC

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ARRIVA PLC

Strategic report For the Year Ended 31 December 2016

INTRODUCTION

The directors present their Strategic report for the year ended 31 December 2016.

PRINCIPAL ACTIVITIES

The principal activities of the company continue to be that of a holding company and provider of central support services for its subsidiary companies, which operate bus and train services in the UK and mainland Europe.

There have not been any significant changes in the company's principal activities in the year.

REVIEW OF BUSINESS

The combination of Arriva and Deutsche Bahn ("DB") in 2010 created one of the leading passenger transport groups in Europe and puts the Arriva group in a strong position as DB's division for growth in regional passenger transport outside Germany.

The directors consider the state of the company's affairs to be satisfactory and there have been no material changes since the balance sheet date.

The company's statement of comprehensive income on page 9 shows a profit on ordinary activities before taxation of £10,006,000 (2015 : £18,139,000). The reduction in reported profit is due to the 2015 results incorporating a one-off credit of £30,300,000 relating to a pension liability management exercise in respect of the defined benefit pension schemes (Note 4) and an impairment of the investment value of TGM Holdings Limited of £21,581,000. The reported profit after taxation totalled £25,191,000 (2015 : £14,310,000) which reflects an amount of £14,442,000 received from fellow DB group companies in the UK in relation to tax.

As at the balance sheet date the company had net assets of £563,318,000 (2015 : £635,197,000). The reduction in net assets is due to the actuarial loss on the company's defined benefit pension schemes during the year (net of deferred tax on pension actuarial movements) which is partly offset by the reported profit for the year, as shown in the statement of changes in equity on page 11.

PRINCIPAL RISKS AND UNCERTAINTIES

An annual assessment is performed to review the scale and probability of the principal risks faced by Arriva plc and its subsidiaries. As part of its ongoing programme of risk assessment and management, the following actual and potential risks have been identified as those which the directors believe could have a material impact on the long-term value generation of the Arriva group. The factors described below are not intended to form a definitive list of all risks and uncertainties faced by the Arriva group. In particular the list excludes generic risks common to many companies such as terrorism and pandemics.

1. MARKET RISKS

1a. Changes in national public sector transport budgets

A considerable proportion of the Arriva group's income is derived directly or indirectly from national public transport budgets. Changes in these budgets can have positive or negative impacts on the Arriva group's prospects. The Arriva group continues to monitor national public transport budgetary policies in the countries where it operates and ensures it is strategically aware in order to understand possible changes, be in a position to influence them, where possible, and react in a timely fashion.

Strategic report
For the Year Ended 31 December 2016

PRINCIPAL RISKS AND UNCERTAINTIES (continued)

1b. Changes in public transport legislation or regulation

Arriva group's UK and mainland European management actively engage with local authorities, national governments and EU institutions regarding the formulation and implementation of transport related legislation and continues to work with industry partners to represent the best long-term interests of the industry and its customers.

2. Operational risks

The Arriva Board recognises the importance to the business, as a public transport operator, of maintaining high standards of safety and the consequences of failing to do so. The Arriva group needs to ensure that standards are maintained and necessary policies are complied with to meet its related obligations. The Arriva Safety, Environment and Wellbeing Committee reports to the Arriva Executive Committee and oversees the Arriva group's safety and environment arrangements for its implementation and reporting. Monitoring of safety and environmental performance is carried out by the Arriva Safety, Environment and Wellbeing Committee, which includes senior representatives of all Arriva group businesses.

3. Commercial risks

3a. Uncertainty over the ongoing impact of economic volatility

The impact of ongoing economic uncertainty to the group is likely to be in the area of patronage/financial performance. Arriva group's balanced portfolio of operations, between bus and rail and between different countries, reduces its exposure to any downturn in individual market sectors.

3b. Acquisitions, franchise/tender bid costing and revenue forecasting

Errors or inaccurate assumptions in tenders or acquisitions represent a risk to the business. A number of procedures are in place to mitigate this risk. In accordance with delegated authority limits, the Arriva Board approves all significant business acquisitions, disposals and tenders. Standard tender models are in use across the business. Significant bus and train tender contracts are compared with current experience to identify weaknesses and potential improvements in the tender process. Post-investment appraisals are carried out through quarterly business review meetings. Acquisitions of businesses are an important part of Arriva group's growth strategy. It could be damaging financially to the Arriva group if material new acquisitions were made at excessive values or with material hidden liabilities. Arriva group has clearly defined guidelines for due diligence work and approval of potential acquisitions, subject to delegated authority limits. Sale and purchase agreements generally include price adjustment mechanisms and warranties, as appropriate.

4. Financial risks

Deutsche Bahn AG is the principal source of funding for the Arriva group and its subsidiaries. The Arriva group's financial risks, including liquidity risks and those arising from interest rates, commodity prices and currency fluctuations are managed in accordance with Deutsche Bahn treasury policy. For further details relating to financial risk management please refer to the Deutsche Bahn 2016 Integrated Report.

Increased retirement benefit obligations may require additional contributions to be made by companies to state or other pension schemes. Increased contributions could have a material impact on the Arriva group. The company undertakes regular pension strategy reviews with the Arriva group's pension advisors, and monitors developments in Arriva group pension schemes and local government/state schemes where the group operates.

5. Compliance risks

The Arriva Board recognises the importance of a strong compliance framework to ensure it adheres to the relevant legislation and avoids the financial and reputational risk of failing to do so. This is underpinned by clearly defined programmes in data protection, anti-bribery and competition legislation. A compliance structure is in place with the aim of ensuring that compliance processes are effective, that all relevant staff are trained and that effective compliance reporting is in operation.

ARRIVA PLC

**Strategic report
For the Year Ended 31 December 2016**

FUTURE DEVELOPMENTS

There have not been any significant changes in the company's principal activities in the year and the directors are not aware, at the date of this report, of any significant changes in the company's activities expected in the next year.

KEY PERFORMANCE INDICATORS

The Arriva Executive Committee monitors the Arriva group's operations on a divisional basis. The company's directors have determined key performance indicators for the Arriva group which are reported monthly to enable an understanding of the development, performance or position of the business of the Arriva group. For this reason, the company's directors believe that analysis using key performance indicators for the company is not necessary or appropriate for an understanding of the development, performance or position of the business of Arriva plc.

This report was approved by the Board on 19 June 2017 and signed by order of the Board.



P O Davison
Company secretary

ARRIVA PLC

**Directors' report
For the Year Ended 31 December 2016**

The directors present their report and the audited financial statements for the year ended 31 December 2016.

RESULTS AND DIVIDENDS

The profit after taxation for the financial year amounted to £25,295,000 (2015 : £14,310,000).

The company did not pay a dividend during the current or previous financial year.

DIRECTORS

The directors who served during the year, and up to the date of signing the financial statements, were:

R Lutz
D R Martin (resigned 31 May 2017)
M Rudhart
M J Hibbert
T Schein
S Klenke
B Huber (appointed 1 May 2017)

FINANCIAL RISK MANAGEMENT AND OBJECTIVES

Following the acquisition of Arriva by DB in 2010, the DB group is the principal source of funding for Arriva and its subsidiaries. The group's financial risks, including liquidity risks and those arising from interest rates, commodity prices and currency fluctuations are managed by the DB treasury function. For further details relating to financial risk management please refer to the Deutsche Bahn 2016 Integrated Report.

The financial risks of the company have been disclosed in the Strategic report.

MATTERS COVERED IN THE STRATEGIC REPORT

Details of future developments have been disclosed in the Strategic report.

ARRIVA PLC

**Directors' report
For the Year Ended 31 December 2016**

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the Strategic report, the Directors' report and the audited financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare audited financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these audited financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards, including FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the audited financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

DISCLOSURE OF INFORMATION TO AUDITORS

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

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

This report was approved by the Board on 19 June 2017 and signed by order of the Board.



P C Davison
Company secretary

Independent auditors' report to the members of Arriva plc

Report on the financial statements

Our opinion

In our opinion, Arriva plc's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual report and financial statements ('the Annual report'), comprise:

- the Balance sheet as at 31 December 2016;
- the Statement of comprehensive income for the year then ended;
- the Statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinions on matter prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' report. We have nothing to report in this respect.

Independent auditors' report to the members of Arriva plc

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or 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.

Directors' remuneration

Under the Companies Act 2006 we are required to report if, in our opinion, certain disclosures of directors' remuneration specified by law have not been made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Directors' responsibilities statement, as set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK & Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

ARRIVA PLC

Independent auditors' report to the members of Arriva plc

What an audit of financial statements involves (continued)

In addition, we read all the financial and non-financial information in the Directors' report and financial statements (the "Annual report") to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic report and Directors' report, we consider whether those reports include the disclosures required by applicable legal requirements.

Bill MacLeod

Bill MacLeod (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Central Square South
Orchard Street
Newcastle upon Tyne
NE1 3AZ

19 June 2017

ARRIVA PLC

Statement of comprehensive income For the Year Ended 31 December 2016

	Note	2016 £000	2015 £000
Administrative expenses		(44,448)	(35,907)
Other operating income		14,289	11,526
Exceptional items	4	-	30,300
Operating (loss) / profit	5	(30,159)	5,919
Income from shares in group undertakings		41,465	38,657
Amounts written off investments	15	-	(21,581)
Interest receivable and similar income	9	111	144
Interest payable and similar charges	10	(21)	(2,301)
Other finance charges	11	(1,390)	(2,699)
Profit on ordinary activities before taxation		10,006	18,139
Taxation on profit on ordinary activities	12	15,289	(3,829)
Profit for the financial year		25,295	14,310
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Actuarial (loss) / gain on pension deficit	23	(121,468)	7,159
Movements of deferred tax relating to actuarial (loss) / gain on pension deficit	19	24,294	(1,450)
Other comprehensive (expense) / income (net of tax)		(97,174)	5,709
Total comprehensive (expense) / income for the financial year		(71,879)	20,019

The notes on pages 13 to 50 form part of these financial statements.

ARRIVA PLC
Registered number: 347103

Balance sheet
As at 31 December 2016

	Note	2016 £000	2015 £000
Fixed assets			
Intangible assets	13	29,978	15,346
Tangible assets	14	8,047	6,429
Investments	15	707,499	707,499
		<u>745,524</u>	<u>729,274</u>
Current assets			
Debtors: Amounts falling due after more than one year	16	76,897	138,151
Debtors: Amounts falling due within one year	16	125,807	101,467
Cash at bank and in hand		564	258
		<u>203,268</u>	<u>239,876</u>
Creditors: Amounts falling due within one year	17	(51,866)	(75,676)
Net current assets		<u>151,402</u>	<u>164,200</u>
Total assets less current liabilities		<u>896,926</u>	<u>893,474</u>
Creditors: Amounts falling due after more than one year	18	(170,254)	(213,977)
Net assets excluding pension deficit		<u>726,672</u>	<u>679,497</u>
Pension deficit (net)	23	(163,354)	(44,300)
Net assets		<u><u>563,318</u></u>	<u><u>635,197</u></u>
Capital and reserves			
Called up share capital	22	10,220	10,220
Share premium account		34,861	34,861
Other reserves		60,882	60,882
Profit and loss account		457,355	529,234
Total shareholders' funds		<u><u>563,318</u></u>	<u><u>635,197</u></u>

The financial statements were approved and authorised for issue by the Board and were signed on its behalf on 19 June 2017.


M J Hibbert
Director

The notes on pages 13 to 50 form part of these financial statements.

ARRIVA PLC

**Statement of changes in equity
For the Year Ended 31 December 2016**

	Called up share capital £000	Share premium account £000	Other reserves £000	Profit and loss account £000	Total shareholders' funds £000
At 1 January 2016	10,220	34,861	60,882	529,234	635,197
Comprehensive income for the year					
Profit for the financial year	-	-	-	25,295	25,295
Actuarial loss on pension deficit	-	-	-	(121,468)	(121,468)
Movements of deferred tax relating to actuarial loss on pension deficit	-	-	-	24,294	24,294
Other comprehensive expense for the year	-	-	-	(97,174)	(97,174)
Total comprehensive expense for the year	-	-	-	(71,879)	(71,879)
At 31 December 2016	10,220	34,861	60,882	457,355	563,318

The notes on pages 13 to 50 form part of these financial statements.

ARRIVA PLC

**Statement of changes in equity
For the Year Ended 31 December 2015**

	Called up share capital £000	Share premium account £000	Other reserves £000	Profit and loss account £000	Total shareholders' funds £000
At 1 January 2015	10,220	34,861	60,882	509,215	615,178
Comprehensive income for the year					
Profit for the financial year	-	-	-	14,310	14,310
Actuarial gains on pension deficit	-	-	-	7,159	7,159
Movements of deferred tax relating to actuarial gains on pension deficit	-	-	-	(1,450)	(1,450)
Other comprehensive income for the year	-	-	-	5,709	5,709
Total comprehensive income for the year	-	-	-	20,019	20,019
At 31 December 2015	10,220	34,861	60,882	529,234	635,197

The notes on pages 13 to 50 form part of these financial statements.

**Notes to the financial statements
For the Year Ended 31 December 2016**

1. ACCOUNTING POLICIES

1.1 BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The financial statements have been prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101) and the Companies Act 2006. The principal accounting policies adopted in the preparation of the financial statements are set out below and have been consistently applied to all years, unless otherwise stated. The financial statements have been prepared on the going concern basis under the historic cost convention, as modified by the revaluation of derivative financial assets and financial liabilities measured at fair value through retained earnings, and in accordance with the Companies Act 2006.

The company is itself a subsidiary company and is exempt from the requirement to prepare group financial statements by virtue of section 400 of the Companies Act 2006. These financial statements, therefore, present information about the company as an individual undertaking and not about its group.

1.2 INTANGIBLE ASSETS AND AMORTISATION

Intangible assets relate to costs in respect of developing an Enterprise Resource Planning (ERP) system.

The ERP system will be introduced throughout the Arriva group by way of a phased integration, with some elements of this system still in the development stage. For those phases which have now gone live during 2016, amortisation has been charged on a straight-line basis over 10 years.

Amortisation charges are included within administration costs in the statement of comprehensive income.

1.3 TANGIBLE FIXED ASSETS

Tangible fixed assets are stated at cost less depreciation.

Depreciation is provided at rates calculated to write off the cost of fixed assets, less their estimated residual value, over their expected useful lives.

Depreciation is provided on the following bases:

Freehold property	-	straight line over 50 years
Investment property	-	straight line over 50 years
Plant and machinery	-	straight line over 3 to 10 years

Freehold land is not depreciated.

**Notes to the financial statements
For the Year Ended 31 December 2016**

1. ACCOUNTING POLICIES (continued)

1.4 INVESTMENT PROPERTIES

Investment properties are measured at cost, including transaction costs. Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of investment property are recognised in the statement of comprehensive income within the period of derecognition.

1.5 INVESTMENTS

Investments held as fixed assets are shown at cost less provision for impairment. Investments are reviewed annually for any indicator of impairment.

1.6 DEBTORS

Trade and other debtors are initially measured at fair value. Receivables for which there are substantial objective indications of an impairment are adjusted appropriately.

Trade and other debtors are considered to be impaired when there is objective evidence that the estimated future cash flows associated with the asset have been affected. In addition, certain trade and other debtors that are not considered to be individually impaired, may be assessed for impairment on a collective basis.

Loans and other non derivative financial assets, with fixed or determinable payments that are not quoted in an active market, are included within current assets, except for maturities greater than 12 months after the end of the reporting period. Those loans and other debtors which are deemed payable more than 12 months after the balance sheet date, are classed as long-term debtors.

ARRIVA PLC

Notes to the financial statements For the Year Ended 31 December 2016

1. ACCOUNTING POLICIES (continued)

1.7 CASH

Cash balances comprise cash in hand and all bank balances and are stated in the balance sheet at fair value. The company does not hold any cash equivalents.

1.8 CREDITORS

Trade creditors are obligations to pay for goods / services that have been acquired in the ordinary course of business and are initially stated at fair value.

1.9 PENSIONS

During the year the company operated a contract based pension scheme. The pension charge represents the amounts payable by the company to the fund in respect of the year. The assets of the scheme are held separately from those of the company in an independently administered fund.

The company also operates the Arriva Pension Scheme which is a defined benefit pension scheme.

As a result of the transition to FRS 101 on 1 January 2014, the additional defined benefit pension schemes for which the company is deemed to be the principal employer were recognised within the financial statements. These schemes are the Arriva Passenger Services National Pension Scheme (APSNPS) and the Arriva Passenger Services Pension Plan (APSPP).

The balance recognised in the balance sheet in respect of the company's defined benefit pension plan is the fair value of the plan assets at the balance sheet date less the present value of the defined obligation, together with adjustments for unrecognised past service costs. The defined benefit obligation is calculated using the projected unit credit method. Formal actuarial valuations are carried out by an independent actuary on a triennial basis, with updated calculations being prepared at each balance sheet date by qualified independent actuaries. 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 the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. The cost of providing future benefits (service cost) is charged to comprehensive income as required. The return on scheme assets and interest obligation on scheme liabilities is included in other finance charges. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are credited or charged to other comprehensive income in the period they arise.

**Notes to the financial statements
For the Year Ended 31 December 2016**

1. ACCOUNTING POLICIES (continued)

1.10 DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are recognised as a financial asset or a financial liability in the balance sheet at the trade date. Derivative financial instruments are initially and subsequently measured at fair value. At the point at which the contract is taken out, derivative financial instruments are classified as a hedging instrument for hedging cash flows arising from a contractual obligation or an expected transaction. Cash flow hedges are used to provide protection against fluctuations in the cash flows of financial assets or liabilities or anticipated transactions. When future cash flows are hedged, the hedging instruments are recognised at their fair value. Changes in value are initially recognised in shareholders' equity with no impact on the statement of comprehensive income, and are only recognised in the statement of comprehensive income at the point at which the corresponding losses or profits from the underlying instrument have an impact on the statement of comprehensive income or the transaction expires.

Derivatives are measured using common methods such as option price or present value models because their fair values are not traded on an active market. No parameters from non-observable markets are used for measurement purposes and no credit risk adjustment is used for the present value of hedged transactions.

For each fuel hedge contract in place, Arriva plc has entered into corresponding back to back agreements on equal and opposite terms with the operating companies who use the fuel to which the contracts relate. As a result, fuel hedges have no impact on total comprehensive income.

1.11 EXCEPTIONAL ITEMS

Exceptional items are transactions that fall within the ordinary activities of the company but are presented separately due to their size or nature.

Notes to the financial statements
For the Year Ended 31 December 2016

1. ACCOUNTING POLICIES (continued)

1.12 FINANCIAL REPORTING STANDARD 101 - REDUCED DISCLOSURE EXEMPTIONS

The company has taken advantage of the following disclosure exemptions under FRS 101:

- IFRS 7 Financial Instruments: Disclosures
- IFRS 13 Fair value measurement – Disclosure of valuation techniques and inputs
- IAS 1 Presentation of Financial Statements – Comparative information in respect of reconciliations of amounts at the beginning and at the end of the period for the number of shares outstanding and carrying values for property, plant and equipment, intangible assets and investment property
- IAS 1 Presentation of Financial Statements – Statement of cash flows, statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements, statement of compliance with all IFRS, additional comparative information, requirements for a third statement of financial position and capital management disclosures
- IAS 7 Statement of Cash Flows
- IAS 8 Accounting policies, changes in accounting estimates and errors – Disclosure of information when an entity has not applied a new IFRS that has been issued, but is not yet effective
- IAS 24 Related Party Disclosures – Key management compensation disclosure, related party transactions entered into between two or more members of a group
- IAS 36 Impairment of Assets – Disclosures in respect of cash generating units

The company is a qualifying entity for the purpose of FRS 101 and Note 25 gives details of the company's ultimate parent and from where its consolidated financial statements, prepared in accordance with IFRS, may be obtained.

FRS 101 sets out a reduced disclosure framework for a "qualifying entity" as defined in the standard which permits a qualifying entity to apply the recognition, measurement and disclosure requirements of *International Financial Reporting Standards* as adopted by the EU ("Adopted IFRS 5"), but makes amendments where necessary in order to comply with the Companies Act 2006.

The equivalent disclosures are included in the consolidated financial statements of the ultimate parent company, Deutsche Bahn AG, in accordance with the application guidance of FRS 100.

Notes to the financial statements
For the Year Ended 31 December 2016

1. ACCOUNTING POLICIES (continued)

1.13 CURRENT AND DEFERRED TAXATION

The tax charge in the statement of comprehensive income represents the sum of the tax currently payable and the deferred tax charge for the year. Tax is recognised within the statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in shareholders' funds.

The current taxation payable is based on the taxable profit for the year. Taxable profit can differ from profit before tax as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years, or that are never taxable or deductible. The company's liability for current taxation is calculated using rates prevailing during the year.

Deferred taxation is recognised on the temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary timing differences to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current taxation assets against current taxation liabilities and when the deferred taxation assets and liabilities relate to taxation levied by the same taxation authority, and the company intends to settle its current taxation assets and liabilities on a net basis.

Deferred tax assets and liabilities are not discounted.

1.14 FOREIGN CURRENCIES

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at rates of exchange ruling at the balance sheet date.

Transactions in foreign currencies are translated into sterling at the rate ruling on the date of the transaction.

Exchange gains and losses are recognised in the statement of comprehensive income.

ARRIVA PLC

**Notes to the financial statements
For the Year Ended 31 December 2016**

1. ACCOUNTING POLICIES (continued)

1.15 DIVIDEND INCOME AND PAYMENTS

Dividend distributions are recognised in the company's financial statements in the period in which the dividends are received from subsidiaries or paid to the shareholder.

1.16 DEFERRED INCOME

Deferred income relates to licences issued by the company to subsidiaries for the use of the Arriva brand and is recognised in the statement of comprehensive income over the licence period of up to 15 years.

1.17 OTHER OPERATING INCOME

Other operating income is derived from licences for the use of the Arriva brand, management charges, rental income and other services excluding value added tax. It is recognised in the statement of comprehensive income on an accruals basis.

1.18 OPERATING LEASES

Lease rentals payable under operating leases are charged to the statement of comprehensive income on a straight line basis over the lease term.

2. GENERAL INFORMATION

The company is an unlisted public limited company, incorporated and domiciled in the United Kingdom.

The company number is 347103 and the address of the registered office is 1 Admiral Way, Doxford International Business Park, Sunderland, Tyne and Wear, SR3 3XP.

**Notes to the financial statements
For the Year Ended 31 December 2016**

3. JUDGEMENTS IN APPLYING ACCOUNTING POLICIES AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Application of certain company accounting policies required management to make judgements, assumptions and estimates concerning the future as detailed below.

3.1 Useful economic lives of intangible assets

The annual amortisation charge for intangible assets is sensitive to changes in the estimated useful economic lives of the intangible assets. The useful economic lives are amended where necessary to reflect current estimates. See Note 13 for the carrying amount of the intangible fixed assets and Note 1.2 for the useful economic lives of each class of assets.

3.2 Useful economic lives of tangible fixed assets

The annual depreciation charge for tangible fixed assets is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are reassessed annually. They are amended where necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets. See Note 14 for the carrying amount of the tangible fixed assets and Note 1.3 for the useful economic lives of each class of assets.

3.3 Impairment of debtors

The company makes an estimate of the recoverable value of the trade and other debtors. When assessing impairment of trade and other debtors, management considers factors including the ageing profile of debtors and historical experience. See Note 16 for the carrying amount of debtors.

3.4 Defined benefit pension schemes

The company has an obligation to pay pension benefits to certain employees. The cost of these benefits and the present value of the obligation depends on a number of factors, including; life expectancy, future salary increases, inflation, future pension increases and the discount rate on corporate bonds. Management estimate these factors in determining the net pensions obligation in the balance sheet. The assumptions reflect historical experience and current trends. See Note 23 for the disclosures relating to the defined benefit pension schemes.

ARRIVA PLC

Notes to the financial statements For the Year Ended 31 December 2016

4. EXCEPTIONAL ITEMS

	2016 £000	2015 £000
Past service credit in respect of pension liability management exercise (Note 23)	-	33,000
Costs associated with the pension liability management exercise	-	(2,700)
	<u>-</u>	<u>30,300</u>

During the year ending 31 December 2015, the company undertook a pension liability management exercise. The company offered free Independent Financial Advisor (IFA) advice to members who were considering transferring their benefits to a defined contribution scheme following Government budget changes. The option and provision of free IFA advice for future retiring members was embedded in the rules of the schemes during the year which resulted in a past service credit of £33,000,000 before associated advisor costs.

5. OPERATING (LOSS) / PROFIT

The operating (loss) / profit is stated after charging / (crediting):

	2016 £000	2015 £000
Depreciation of tangible fixed assets - owned	301	225
Amortisation of intangible assets	1,168	-
Profit on disposal of fixed assets	(484)	-
Operating lease rentals		
- other lease payments	343	355
- land and buildings	761	380
	<u>761</u>	<u>380</u>

6. AUDITORS' REMUNERATION

Fees payable to the Company's auditors in respect of the audit of the financial statements and for other services provided to the Company are as follows:

	2016 £000	2015 £000
Fees for the audit of the Company	100	92
Other fees payable	195	114
	<u>295</u>	<u>206</u>

ARRIVA PLC

Notes to the financial statements For the Year Ended 31 December 2016

7. STAFF COSTS

Staff costs were as follows:

	2016 £000	2015 £000
Wages and salaries	17,194	16,810
Social security costs	1,984	1,783
Other pension costs	(1,528)	172
	<u>17,650</u>	<u>18,765</u>

During the year ending 31 December 2015, the company undertook a pension liability management exercise which resulted in a past service credit of £33,000,000 (Note 4). This was disclosed as an exceptional item in 2015 and is therefore not included other pension costs above.

The average monthly number of employees, including the directors, during the year was as follows:

	2016 No.	2015 No.
Administrative	<u>185</u>	<u>166</u>

8. DIRECTORS' EMOLUMENTS

	2016 £000	2015 £000
Aggregate emoluments	5,666	2,505
Company contributions to contract based pension schemes	38	-
Company contributions to defined benefit pension schemes	-	20
	<u>5,704</u>	<u>2,525</u>

Directors' emoluments reflect a transitional period which include the cost of both the current and former Chief Executive Officer.

Emoluments of the highest paid director were £4,426,000 (2015: £1,787,000). £1,747,000 was paid in 2016 and £2,679,000 was paid in 2017 which includes £1,757,000 in respect of the early termination of a contract of services to the company.

The value of the company's contributions paid to pension schemes in respect of the highest paid director amounted to £NIL (2015: £NIL)

Excluded from the directors' emoluments above are payments made to former directors totalling £278,000 (2015: £710,000).

ARRIVA PLC

Notes to the financial statements For the Year Ended 31 December 2016

9. INTEREST RECEIVABLE AND SIMILAR INCOME

	2016 £000	2015 £000
Interest receivable from group undertakings	59	144
Other interest receivable	11	-
Net exchange gain on foreign currency transactions	41	-
	<u>111</u>	<u>144</u>

10. INTEREST PAYABLE AND SIMILAR CHARGES

	2016 £000	2015 £000
Other interest payable	-	1,788
Net exchange loss on foreign currency transactions	-	513
Interest payable to group undertakings	21	-
	<u>21</u>	<u>2,301</u>

11. OTHER FINANCE CHARGES

	2016 £000	2015 £000
Interest income on pension scheme assets	19,893	18,120
Interest cost on defined benefit obligation	(21,283)	(20,819)
	<u>(1,390)</u>	<u>(2,699)</u>

ARRIVA PLC

Notes to the financial statements For the Year Ended 31 December 2016

12. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

	2016 £000	2015 £000
Corporation tax		
Current tax on profits for the year	(7,567)	(6,623)
Adjustments in respect of prior years	(12,455)	3,001
Total current tax	(20,022)	(3,622)
Deferred tax charge		
Origination and reversal of timing differences	5,023	7,572
Adjustments in respect of prior years	(290)	(121)
Total deferred tax (Note 19)	4,733	7,451
Taxation on profit on ordinary activities	(15,289)	3,829

FACTORS AFFECTING TAX CHARGE FOR THE YEAR

The tax assessed for the year is lower than (2015 - *higher than*) the standard rate of corporation tax in the UK of 20% (2015 : 20.25%). The differences are explained below:

	2016 £000	2015 £000
Profit on ordinary activities before tax	10,006	18,139
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2015 : 20.25%)	2,001	3,673
Effects of:		
Impairment of investments	-	4,370
Expenses not deductible for tax purposes	400	340
Adjustments in respect of prior years	(12,745)	2,880
Other non-taxable income	(656)	(664)
Non taxable dividend income	(8,389)	(7,828)
Impact of rate change on deferred tax	4,100	1,058
Total tax (credit) / charge for the year	(15,289)	3,829

During the year, fellow DB group companies in the UK paid £14,442,000 to Arriva plc in relation to tax. These receipts form part of the adjustments in respect of prior years' for corporation tax. The impact of the corresponding payments have been reflected in the accounts of DB Cargo (UK) Limited and DB Cargo International Limited (being the DB companies in the UK which made these payments).

ARRIVA PLC

Notes to the financial statements For the Year Ended 31 December 2016

12. TAXATION ON PROFIT ON ORDINARY ACTIVITIES (CONTINUED).

FACTORS THAT MAY AFFECT FUTURE TAX CHARGES

On 8 July 2015, the Chancellor announced that the main rate of UK Corporation Tax would reduce from 20% to 19% from 1 April 2017 with a further reduction to 18% on 1 April 2020.

This change was enacted on 26 October 2015.

On 16 March 2016, the Chancellor announced that the main rate of UK Corporation Tax would reduce to 17% on 1 April 2020. This change was enacted on 15 September 2016.

13. INTANGIBLE ASSETS

	2016 £000
Cost	
At 1 January 2016	15,346
Additions	15,800
At 31 December 2016	31,146
Accumulated amortisation	
At 1 January 2016	-
Charge for the year	1,168
At 31 December 2016	1,168
Net book value	
At 31 December 2016	29,978
<i>At 31 December 2015</i>	<i>15,346</i>

Intangible assets relate to costs in respect of developing an Enterprise Resource Planning (ERP) system.

The ERP system will be introduced throughout the Arriva group using a phased integration resulting in some elements of this project going live and being fully implemented during 2016 with other elements still being in the development stage and not yet live.

Amortisation charges relate to the ERP systems which have now gone live and are fully operational.

ARRIVA PLC

Notes to the financial statements For the Year Ended 31 December 2016

14. TANGIBLE ASSETS

	Freehold property £000	Investment property £000	Plant and machinery £000	Total £000
Cost				
At 1 January 2016	8,581	825	1,201	10,607
Additions	523	-	2,076	2,599
Disposals	-	(825)	-	(825)
At 31 December 2016	9,104	-	3,277	12,381
Accumulated depreciation				
At 1 January 2016	2,935	139	1,104	4,178
Charge for the year	157	6	138	301
Disposals	-	(145)	-	(145)
At 31 December 2016	3,092	-	1,242	4,334
Net book value				
At 31 December 2016	6,012	-	2,035	8,047
<i>At 31 December 2015</i>	<i>5,646</i>	<i>686</i>	<i>97</i>	<i>6,429</i>

**Notes to the financial statements
For the Year Ended 31 December 2016**

15. INVESTMENTS

	Investments in subsidiary companies £000
Cost or valuation	
At 1 January 2016	739,962
At 31 December 2016	<u>739,962</u>
Accumulated impairment	
At 1 January 2016	32,463
At 31 December 2016	<u>32,463</u>
Net book value	
At 31 December 2016	<u>707,499</u>
<i>At 31 December 2015</i>	<u><u>707,499</u></u>

ARRIVA PLC

Notes to the financial statements For the Year Ended 31 December 2016

15. INVESTMENTS (CONTINUED)

The directors believe that the carrying value of the investments are supported by their underlying value. A full list of investments held directly and indirectly in subsidiary companies can be found on pages 29 to 43.

List of Registered Offices:

- 15.1 1 Admiral Way, Doxford International Business Park, Sunderland, UK, SR3 3XP
- 15.2 Suite 913, Europort, Gibraltar
- 15.3 St Marys House, 47 Penarth Road, Cardiff, Wales, CF10 5DJ
- 15.4 11 Clifton Moor, Business Village, James Nicolson Link, Clifton Moor, York, UK, YO30 4XA
- 15.5 The Ca'D'Oro, 45 Gordon Street, Glasgow, Scotland, G1 3PE
- 15.6 Via Trebazio, 1, 20145, Milano, Italy
- 15.7 Piazza Marconi, 4, 24122, Bergamo, Italy
- 15.8 Via Cassala, 3, 25126, Brescia, Italy
- 15.9 Via della Pergola, 2, 23900, Lecco, Italy
- 15.10 Via Caduti di, AN Nasiriyah n.6, 34170, Gorizia, Italy
- 15.11 Via della Repubblica, 14, 10095, Grugliasco (TO), Italy
- 15.12 Via Nazionale, 365, 18100, Imperia, Italy
- 15.13 Via Postumia, 102, 26100, Cremona, Italy
- 15.14 Via Foro, Boario, 4 B, 25124, Brescia, Italy
- 15.15 Strada Pont, Suaz, 6, 11100, Aosta, Italy
- 15.16 Skøjtevej 26, 2770, Kastrup, Denmark
- 15.17 Liljeholmsstranden 5, 117 43, Stockholm, Sweden
- 15.18 Trambaan 3, 8441 BH, Heerenveen, Netherlands
- 15.19 Rua Marcos de Portugal, Laranjeiro, 2810-260, Almada, Portugal
- 15.20 Rua das Arcas, Pinheiro, Guimaraes, 4810-647, Pinheiro, GMR, Portugal
- 15.21 Estacao Central de Camionagem, Vila Nova de Famalicao, 4760-012, Portugal
- 15.22 Avda, Gumersindo Llorente, No.54, 28022, Madrid, Spain
- 15.23 C/Ibiza No. 15, 07400 Alcudia, Mallorca, Spain
- 15.24 Poligono Pocomaco, Quinta E-17, 15190, A Coruna, Spain
- 15.25 Paseo de la Estacion s/n, 15405, Ferrol, Spain
- 15.26 C/Fraguas No. 27, Pol. Ind. Urtinsa 28923, Alcorcon. Madrid Spain
- 15.27 27-31 Andor Street, Budapest, HU-1119, Hungary
- 15.28 Lastomirska c.1, 071 80, Michalovce, Slovakia, Hungary
- 15.29 Povazska 2, 940 14 Nove, Zamky, Slovakia, Hungary
- 15.30 Bratislavská cesta 1804, 945 01, Komarno, Slovakia, Hungary
- 15.31 Sturova 72, 949 44 Nitra, Slovakia
- 15.32 Bystrická cesta 62, 034 01, Ruzomberok, Slovakia
- 15.33 Nitrianska 5, 917 02, Trnava, Slovakia
- 15.34 Krizikova 148/34, 186 00, Praha 8, Czech Republic
- 15.35 Vitkovicka 3133/5, 702 00, Ostrava, Moravska Ostrava, Czech Republic
- 15.36 U seradiste, 65/7, 101 00, Praha 10, Czech Republic
- 15.37 Emillie, Dvorakove 70, 415 01, Teplice, Czech Republic
- 15.38 Na Ostrove 177, 537 01, Chrudim, Czech Republic
- 15.39 Pod Hajem 97, 267 01, Kraluv, Dvur, Czech Republic
- 15.40 Zeleznícaru 885, 272 80, Kladno - Krocehlavy, Czech Republic
- 15.41 Boleslavská, 98/6, 293 06, Kosmonosy, Czech Republic
- 15.42 Nadrazni 501, 542 24, Svoboda nad Upou, Czech Republic
- 15.43 Wspólna 47/49 str, 00-684 Warsaw, Poland
- 15.44 Gen.Jana Henryka Dąbrowskiego 8/24 str. 87-100 Torun, Poland
- 15.45 Dure Dakovica 3, 12000, Pozarevac, Serbia
- 15.46 Kolodvorska 11, SI-6000, Koper, Slovenia
- 15.47 Meljska cesta 97, SI-2000, Maribor, Slovenia

ARRIVA PLC

Notes to the financial statements For the Year Ended 31 December 2016

15. INVESTMENTS (CONTINUED)

- 15.48** Ulica Mirka, Vadenova 8, SI-4000, Kranj, Slovenia
15.49 Cesta marsala Tita, 67 SI-4270, Jesenice, Slovenia
15.50 Perovo 30, SI-1241, Kamnik, Slovenia
15.51 Sv. L.B Mandica 33, 31000 Osijek, Croatia (Hrvatska)
15.52 Bucharest, 3 Delea Noua St, Ground Floor, sector 3, Romania
15.53 Level 2 West, Mercury Tower, The Exchange Financial & Business Centre, Elia Zammit St, St Julians, STJ 3155, Malta
15.54 Dubai Airport free zone, PO Box 372017, Dubai

SUBSIDIARY UNDERTAKINGS

The following were subsidiary undertakings of the company as at the balance sheet date:

Name	Address of registered office	Class of shares	Holding	Principal activity
TGM (Holdings) Limited	15.1	Ordinary	100 %	Investment company
Arriva Passenger Services Limited	15.1	Ordinary	100 %	Investment company
Arriva Motor Holdings Limited	15.1	Ordinary	100 %	Investment company
MTL Services Limited	15.1	Ordinary	100 %	Investment company
Arriva International Limited	15.1	Ordinary	100 %	Investment company
Arriva Insurance Company (Gibraltar) Limited	15.2	Ordinary	100 %	Insurance services
Zeta Automotive Limited	15.1	Ordinary	51 %	Automotive technology company
Arriva Trustee Company Limited	15.1	Ordinary	100 %	Dormant company
Great North Eastern Railway Company Limited (formerly TGM Operations Limited)	15.1	Ordinary (indirectly held)	100 %	Dormant company
Classic Coaches (Continental) Limited	15.1	Ordinary (indirectly held)	100 %	Dormant company
Network Colchester Limited	15.1	Ordinary (indirectly held)	100 %	Dormant company
Flight Delay Services Limited	15.1	Ordinary (indirectly held)	100 %	Dormant company

ARRIVA PLC

Notes to the financial statements For the Year Ended 31 December 2016

15. INVESTMENTS (CONTINUED)

TGMGroup Limited	15.1	Ordinary (indirectly held)	100 % Passenger transport
Arriva International (Northern Europe) Limited	15.1	Ordinary (indirectly held)	100 % Holding company
Arriva International (Southern Europe) Limited	15.1	Ordinary (indirectly held)	100 % Holding company
Arriva International Trains (Leasing) Limited	15.1	Ordinary (indirectly held)	100 % Leasing company
Arriva Bus Abu Dhabi Limited (formerly Arriva Findiv Limited)	15.1	Ordinary (indirectly held)	100 % Passenger transport
Arriva UK Trains Limited	15.1	Ordinary (indirectly held)	100 % Investment company
Arriva Trains Holdings Limited	15.1	Ordinary (indirectly held)	100 % Holding company
Arriva Trains Wales / Trenau Arriva Cymru Limited	15.3	Ordinary (indirectly held)	100 % Passenger rail services
XC Trains Limited	15.1	Ordinary (indirectly held)	100 % Passenger rail services
At Seat Catering (2003) Limited	15.1	Ordinary (indirectly held)	100 % On-board catering services
GCRC Holdings Limited	15.4	Ordinary (indirectly held)	100 % Dormant company
Grand Central Railway Company Limited	15.1	Ordinary (indirectly held)	100 % Passenger rail services
London and North Western Railway Company Limited	15.1	Ordinary (indirectly held)	100 % Service, repair and maintenance of trains
Alliance Rail Holdings Limited	15.1	Ordinary (indirectly held)	100 % Dormant company
Arriva Rail North Limited	15.1	Ordinary (indirectly held)	100 % Passenger rail services

ARRIVA PLC

Notes to the financial statements For the Year Ended 31 December 2016

15. INVESTMENTS (CONTINUED)

Arriva Rail East Midlands Limited (formerly Arriva South Western Limited)	15.1	Ordinary (indirectly held)	100 % Dormant company
Arriva South Eastern Rail Limited (formerly Great North Eastern Railway Company Limited)	15.1	Ordinary (indirectly held)	100 % Dormant company
Great North Western Rail Company Limited	15.1	Ordinary (indirectly held)	100 % Dormant company
Arriva Rail London Limited	15.1	Ordinary (indirectly held)	100 % Passenger rail services
Arriva Rail Wales/Rheilffyrdd Arriva Cymru Limited (formerly Arriva Crossrail Limited)	15.3	Ordinary (indirectly held)	100 % Dormant company
M40 Trains Limited	15.1	Ordinary (indirectly held)	100 % Holding company / leasing company
DB Regio Tyne and Wear Limited	15.1	Ordinary (indirectly held)	100 % Passenger rail services
The Chiltern Railway Company Limited	15.1	Ordinary (indirectly held)	100 % Passenger rail services
Arriva (2007) Limited	15.1	Ordinary (indirectly held)	100 % Holding company
Arriva Passenger Services Pension Trustees Limited	15.1	Ordinary (indirectly held)	100 % Dormant company
Centrebus Holdings Limited	15.1	Ordinary (indirectly held)	100 % Passenger transport
Yorkshire Tiger Limited	15.1	Ordinary (indirectly held)	100 % Passenger transport
Teamdeck Limited	15.1	Ordinary (indirectly held)	100 % Passenger transport

ARRIVA PLC

Notes to the financial statements For the Year Ended 31 December 2016

15. INVESTMENTS (CONTINUED)

White Rose Bus Company Limited	15.1	Ordinary (indirectly held)	100 % Passenger transport
Arriva Finance Lease Limited	15.1	Ordinary (indirectly held)	100 % Holding company
Broadwood Finance Company Limited	15.1	Ordinary (indirectly held)	100 % Other discontinued operations
Arriva London Limited	15.4	Ordinary (indirectly held)	100 % Dormant company
Merseyrail Electrics Limited	15.4	Ordinary (indirectly held)	100 % Dormant company
Merseyside Transport Limited	15.4	Ordinary (indirectly held)	100 % Dormant company
Northern Spirit Limited	15.4	Ordinary (indirectly held)	100 % Dormant company
Northern Spirit Trains Limited	15.4	Ordinary (indirectly held)	100 % Dormant company
Northern Spirit Transport Limited	15.4	Ordinary (indirectly held)	100 % Dormant company
Transcare Solutions Limited	15.1	Ordinary (indirectly held)	100 % Insurance claims handling
Arriva Yorkshire Limited	15.1	Ordinary (indirectly held)	100 % Passenger transport
Arriva Durham County Limited	15.1	Ordinary (indirectly held)	100 % Passenger transport
Arriva Transport Solutions Limited	15.1	Ordinary (indirectly held)	100 % Non-emergency patient transport
Ambuline Limited	15.1	Ordinary (indirectly held)	100 % Non-emergency patient transport
Ambuline Training Limited	15.4	Ordinary (indirectly held)	100 % Dormant company

ARRIVA PLC

Notes to the financial statements For the Year Ended 31 December 2016

15. INVESTMENTS (CONTINUED)

Arriva Midlands Limited	15.1	Ordinary (indirectly held)	100 % Passenger transport
Stevensons of Uttoxeter Limited	15.1	Ordinary (indirectly held)	100 % Passenger transport
Arriva Midlands North Limited	15.1	Ordinary (indirectly held)	100 % Passenger transport
Arriva Cymru Limited	15.1	Ordinary (indirectly held)	100 % Passenger transport
Arriva Kent & Surrey Limited	15.1	Ordinary (indirectly held)	100 % Passenger transport
APS (Leasing) Limited	15.1	Ordinary (indirectly held)	100 % Dormant company
Arriva London North Limited	15.1	Ordinary (indirectly held)	100 % Passenger transport
Arriva London South Limited	15.1	Ordinary (indirectly held)	100 % Passenger transport
Arriva North West Limited	15.1	Ordinary (indirectly held)	100 % Passenger transport
Meadowhall Limited	15.4	Ordinary (indirectly held)	100 % Dormant company
Arriva Kent Thameside Limited	15.1	Ordinary (indirectly held)	100 % Passenger transport
Arriva Bus & Coach Holdings Limited	15.1	Ordinary (indirectly held)	100 % Holding company
Arriva Bus & Coach Finance Limited	15.4	Ordinary (indirectly held)	100 % Dormant company
Arriva Bus & Coach Limited	15.1	Ordinary (indirectly held)	100 % Distribution, rental and finance of buses and coaches
Arriva Bus & Coach Rental (4) Limited	15.4	Ordinary (indirectly held)	100 % Dormant company

ARRIVA PLC

Notes to the financial statements For the Year Ended 31 December 2016

15. INVESTMENTS (CONTINUED)

Premier Buses Limited	15.1	Ordinary (indirectly held)	100 % Holding company
Arriva Northumbria Limited	15.1	Ordinary (indirectly held)	100 % Passenger transport
Arriva the Shires Limited	15.1	Ordinary (indirectly held)	100 % Passenger transport
British Bus Limited	15.1	Ordinary (indirectly held)	100 % Administration & management services
British Bus (Properties) Limited	15.1	Ordinary (indirectly held)	100 % Property rental
London Pride Sightseeing Limited	15.4	Ordinary (indirectly held)	100 % Dormant company
Arriva Merseyside Limited	15.1	Ordinary (indirectly held)	100 % Passenger transport
Arriva Yorkshire West Limited	15.4	Ordinary (indirectly held)	100 % Dormant company
Arriva Yorkshire North Limited	15.4	Ordinary (indirectly held)	100 % Dormant company
Arriva Tees & District Limited	15.4	Ordinary (indirectly held)	100 % Dormant company
Arriva Teesside Limited	15.4	Ordinary (indirectly held)	100 % Dormant company
Arriva North East Limited	15.1	Ordinary (indirectly held)	100 % Dormant company
Pickering's Transport Services Limited	15.4	Ordinary (indirectly held)	100 % Dormant company
Arriva Guildford & West Surrey Limited	15.4	Ordinary (indirectly held)	100 % Dormant company
Arriva Medway Towns Limited	15.4	Ordinary (indirectly held)	100 % Dormant company

ARRIVA PLC

Notes to the financial statements For the Year Ended 31 December 2016

15. INVESTMENTS (CONTINUED)

New Enterprise Coaches (Tonbridge) Limited	15.4	Ordinary (indirectly held)	100 % Dormant company
Arriva Southern Counties Limited	15.4	Ordinary (indirectly held)	100 % Dormant company
Arriva Manchester Limited	15.1	Ordinary (indirectly held)	100 % Dormant company
Arriva East Herts & Essex Limited	15.1	Ordinary (indirectly held)	100 % Dormant company
Arriva Scotland West Limited	15.5	Ordinary (indirectly held)	100 % Dormant company
Arriva Southend Limited	15.4	Ordinary (indirectly held)	100 % Dormant company
Arriva Derby Limited	15.4	Ordinary (indirectly held)	100 % Dormant company
Arriva Liverpool Limited	15.1	Ordinary (indirectly held)	100 % Dormant company
Arriva West Sussex Limited	15.1	Ordinary (indirectly held)	100 % Dormant company
Greenline Travel Limited	15.1	Ordinary (indirectly held)	100 % Dormant company
United Automobile Services Limited	15.1	Ordinary (indirectly held)	100 % Dormant company
Yorkshire Bus Group Limited	15.4	Ordinary (indirectly held)	100 % Dormant company
MK Metro Limited	15.1	Ordinary (indirectly held)	100 % Dormant company
Eurocare Travel Limited	15.4	Ordinary (indirectly held)	100 % Dormant company
Arriva Cooperatie W.A.	15.18	Ordinary (indirectly held)	100 % Investment company

ARRIVA PLC

Notes to the financial statements For the Year Ended 31 December 2016

15. INVESTMENTS (CONTINUED)

Arriva Danmark A/S	15.16	Ordinary (indirectly held)	100 % Passenger transport
Arriva Insurance A/S	15.16	Ordinary (indirectly held)	100 % Insurance
Arriva Letbane ApS	15.16	Ordinary (indirectly held)	100 % Passenger transport
Arriva Tog A/S	15.16	Ordinary (indirectly held)	100 % Passenger transport
BUSDAN 36 ApS	15.16	Ordinary (indirectly held)	100 % Vehicle leasing
BUSDAN 37 ApS	15.16	Ordinary (indirectly held)	100 % Vehicle leasing
BUSDAN 32 ApS	15.16	Ordinary (indirectly held)	100 % Vehicle leasing
Busdan 32.1 A/S	15.16	Ordinary (indirectly held)	100 % Property rental
BUSDAN 33 ApS	15.16	Ordinary (indirectly held)	100 % Vehicle leasing
BUSDAN 34 ApS	15.16	Ordinary (indirectly held)	100 % Vehicle leasing
BUSDAN 35 ApS	15.16	Ordinary (indirectly held)	100 % Vehicle leasing
JTL 2004 ApS	15.16	Ordinary (indirectly held)	100 % Vehicle leasing
UCPLUS A/S	15.16	Ordinary (indirectly held)	100 % Driver training
Arriva Finance Holdings BV	15.18	Ordinary (indirectly held)	100 % Investment company
Arriva Holding Ceska Republika s.r.o	15.34	Ordinary (indirectly held)	100 % Investment and purchasing
Arriva Stredni Cechy s.r.o	15.41	Ordinary (indirectly held)	100 % Passenger transport

ARRIVA PLC

Notes to the financial statements For the Year Ended 31 December 2016

15. INVESTMENTS (CONTINUED)

Arriva vlaky s.r.o	15.34	Ordinary (indirectly held)	100 % Passenger transport
OSNADO spol s.r.o	15.42	Ordinary (indirectly held)	100 % Passenger transport
Arriva Hongarije Holding BV	15.18	Ordinary (indirectly held)	100 % Investment company
Arriva Hungary Zrt.	15.27	Ordinary (indirectly held)	100 % Investment and service
Arriva Service s.r.o	15.30	Ordinary (indirectly held)	100 % Service provider
ARRIVA Nove Zamky a.s	15.29	Ordinary (indirectly held)	60.36 % Passenger transport
ARRIVA Michalovce a.s	15.28	Ordinary (indirectly held)	60.14 % Passenger transport
Arriva Personenvervoer Nederland BV	15.18	Ordinary (indirectly held)	100 % Passenger transport
Arriva Multimodaal BV	15.18	Ordinary (indirectly held)	100 % Employment services
Arriva Techniek BV	15.18	Ordinary (indirectly held)	100 % Vehicle maintenance
Arriva Touring BV	15.18	Ordinary (indirectly held)	100 % Passenger transport
NV Personeel de Noord- Westhoek	15.18	Ordinary (indirectly held)	100 % Employment services
Arriva Polen Holding BV	15.18	Ordinary (indirectly held)	100 % Investment company
Arriva Polska Sp z.o.o	15.43	Ordinary (indirectly held)	100 % Passenger transport
Arriva Zuid Europa Holding BV	15.18	Ordinary (indirectly held)	100 % Investment company
Arriva Malta Holdings Limited	15.53	Ordinary (indirectly held)	100 % Investment company

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Notes to the financial statements For the Year Ended 31 December 2016

15. INVESTMENTS (CONTINUED)

ARRIVA INVESTIMENTOS SGPS, SA	15.19	Ordinary (indirectly held)	100 % Investment company
ARRIVA LISBOA TRANSPORTES SA	15.19	Ordinary (indirectly held)	100 % Dormant company
ARRIVA TRANSPORTES DA MARGEM SUL SA	15.19	Ordinary (indirectly held)	100 % Investment company
Transportes Sul do Tejo S.A	15.19	Ordinary (indirectly held)	100 % Passenger transport
ARRIVA PORTUGAL - TRANSPORTES LDA	15.20	Ordinary (indirectly held)	100 % Passenger transport
TRANSURBANOS DE GUIMARAES TP LDA	15.20	Ordinary (indirectly held)	100 % Passenger transport
TUF - TRANSPORTES URBANOS DE FAMILICAO LDA	15.21	Ordinary (indirectly held)	66.67 % Passenger transport
Arriva Malta Finance & Investments Limited	15.53	Ordinary (indirectly held)	100 % Investment company
Arriva Italia s.r.l	15.6	Ordinary (indirectly held)	100 % Investment, property and services company
Arriva Italia Rail S.R.L	15.6	Ordinary (indirectly held)	100 % Passenger transport
S.A.B. AUTOSERVIZI S.R.L	15.7	Ordinary (indirectly held)	100 % Passenger transport
Bergamo Trasporti Est S.c.a.r.l	15.7	Ordinary (indirectly held)	93.67 % Passenger transport
S.A.L Servizi automobilistici Lecchesi S.R.L	15.8	Ordinary (indirectly held)	100 % Passenger transport
S.I.A Societa Italiana Autoservizi S.P.A	15.8	Ordinary (indirectly held)	100 % Passenger transport
Trasporti Brescia Nord S.c.a.r.l	15.8	Ordinary (indirectly held)	92 % Passenger transport

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Notes to the financial statements For the Year Ended 31 December 2016

15. INVESTMENTS (CONTINUED)

SAB Piemonte S.r.l. a socio unico	15.11	Ordinary (indirectly held)	100 % Investment company
SADEM - SOCIETA PER AZIONO	15.11	Ordinary (indirectly held)	100 % Passenger transport
SAIA TRASPORTI S.P.A	15.9	Ordinary (indirectly held)	100 % Passenger transport
Trasporti Brescia Sud S.c.a.r.l	15.14	Ordinary (indirectly held)	93 % Passenger transport
RIVIERA TRASPORTI LINEA S.P.A	15.12	Ordinary (indirectly held)	80 % Passenger transport
Autoservizi F.V.G S.P.A - SAF	15.10	Ordinary (indirectly held)	60 % Passenger transport
KM S.P.A	15.13	Ordinary (indirectly held)	100 % Passenger transport
Bergamo Trasporti Ovest S.c.a.r.l	15.7	Ordinary (indirectly held)	65.76 % Passenger transport
Lecco Trasporti S.c.a.r.l	15.7	Ordinary (indirectly held)	56.94 % Passenger transport
Cremona Trasporti S.c.a.r.l	15.13	Ordinary (indirectly held)	62 % Passenger transport
Chase Coaches Limited	15.4	Ordinary (indirectly held)	100 % Dormant company
Arriva Trains Merseyside Limited	15.4	Ordinary (indirectly held)	100 % Dormant company
Arriva Trains Northern Limited	15.4	Ordinary (indirectly held)	100 % Dormant company
Londonlinks Buses Limited	15.4	Ordinary (indirectly held)	100 % Dormant company
Arriva Yorkshire South Limited	15.4	Ordinary (indirectly held)	100 % Dormant company

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Notes to the financial statements For the Year Ended 31 December 2016

15. INVESTMENTS (CONTINUED)

ACTIJOVEN CONSULTING & TRAVELLING S.I	15.22	Ordinary (indirectly held)	100 % Passenger transport
Alpetour, Potovalna agencija d.o.o	15.48	Ordinary (indirectly held)	100 % Passenger transport
Arriva Bus Transport Polska Sp z.o.o	15.44	Ordinary (indirectly held)	99.8 % Passenger transport
Arriva Dolenjska in Primorska, druzba za prevoz potnikov d.o.o	15.46	Ordinary (indirectly held)	100 % Passenger transport
Arriva Hrvatska d.o.o	15.51	Ordinary (indirectly held)	100 % Investment company
Arriva Liorbus a.s	15.32	Ordinary (indirectly held)	60.42 % Passenger transport
Arriva LITAS d.o.o	15.45	Ordinary (indirectly held)	100 % Passenger transport
Arriva Middle East FZE	15.54	Ordinary (indirectly held)	100 % Passenger transport
Arriva Morava a.s	15.35	Ordinary (indirectly held)	100 % Passenger transport
Arriva Nitra a.s	15.31	Ordinary (indirectly held)	60.48 % Passenger transport
Arriva Noreste s.l	15.24	Ordinary (indirectly held)	100 % Passenger transport
Arriva Ostgotapendeln AB	15.17	Ordinary (indirectly held)	100 % Passenger transport
Arriva Praha s.r.o	15.36	Ordinary (indirectly held)	100 % Passenger transport
Arriva RP Sp z.o.o	15.44	Ordinary (indirectly held)	100 % Passenger transport
Arriva Services a.s	15.39	Ordinary (indirectly held)	100 % Passenger transport

ARRIVA PLC

Notes to the financial statements For the Year Ended 31 December 2016

15. INVESTMENTS (CONTINUED)

Arriva Slovakia a.s	15.31	Ordinary (indirectly held)	100 % Passenger transport
Arriva Spain Holdings S.L	15.22	Ordinary (indirectly held)	100 % Passenger transport
Arriva Spain Rail S.A	15.26	Ordinary (indirectly held)	100 % Passenger transport
Arriva Stajerska, druzba za prevoz potnik, d.o	15.47	Ordinary (indirectly held)	75.90 % Passenger transport
Arriva Sverige AB	15.17	Ordinary (indirectly held)	100 % Passenger transport
Arriva Sverige Buss Regional AB	15.17	Ordinary (indirectly held)	100 % Passenger transport
Arriva Tag AB	15.17	Ordinary (indirectly held)	100 % Passenger transport
Arriva Teplice s.r.o	15.37	Ordinary (indirectly held)	100 % Passenger transport
Arriva Transport Ceska Republika a.s	15.34	Ordinary (indirectly held)	100 % Passenger transport
Arriva Trnava a.s	15.33	Ordinary (indirectly held)	60.50 % Passenger transport
Arriva Vychodni Cechy a.s	15.38	Ordinary (indirectly held)	100 % Passenger transport
AUTOBUSES GREISI SL	15.26	Ordinary (indirectly held)	100 % Passenger transport
Autocare Mallorca s.l	15.23	Ordinary (indirectly held)	100 % Passenger transport
Autos Carballo S L	15.24	Ordinary (indirectly held)	100 % Passenger transport
Botnietag AB	15.17	Ordinary (indirectly held)	60 % Passenger transport

ARRIVA PLC

Notes to the financial statements For the Year Ended 31 December 2016

15. INVESTMENTS (CONTINUED)

Bus Nort Balear s.l	15.23	Ordinary (indirectly held)	100 % Passenger transport
CSAD MHD Kladno a.s	15.40	Ordinary (indirectly held)	100 % Passenger transport
EMPRESA DE BLAS Y COMPANIA S.A	15.26	Ordinary (indirectly held)	100 % Passenger transport
ESFERA BUS SL	15.22	Ordinary (indirectly held)	100 % Passenger transport
ESFERA UNIVERSAL S.L	15.22	Ordinary (indirectly held)	100 % Investment company
Estacion de autobuses de Ferrol S.A	15.25	Ordinary (indirectly held)	80.14 % Passenger transport
Integral Avto prodaja vozil in servisi d.o.o	15.49	Ordinary (indirectly held)	100 % Passenger transport
KAM-BUS druzba za potnikov, turizem in vzdrzevanje vozil z.o.o	15.50	Ordinary (indirectly held)	100 % Passenger transport
KD Servis a.s	15.40	Ordinary (indirectly held)	100 % Passenger transport
LIORBUS s.r.o	15.32	Ordinary (indirectly held)	60.42 % Passenger transport
NET LINEŠ s.r.o	15.33	Ordinary (indirectly held)	60.50 % Passenger transport
NETOSEC S.L	15.22	Ordinary (indirectly held)	100 % Passenger transport
Nitravel s.r.o	15.31	Ordinary (indirectly held)	60.48 % Passenger transport
Panturist Dionicko drustvo za prijevoz putnika i turizam d.d	15.51	Ordinary (indirectly held)	99.69 % Passenger transport
PROBO BUS a.s	15.39	Ordinary (indirectly held)	100 % Passenger transport

ARRIVA PLC

Notes to the financial statements For the Year Ended 31 December 2016

15. INVESTMENTS (CONTINUED)

SAD INVEST s.r.o	15.33	Ordinary (indirectly held)	60.50 % Passenger transport
Santiaguesa Metropolitana S.L	15.24	Ordinary (indirectly held)	100 % Passenger transport
SAVDA AUTOSERVIZI Valle d'Austa SpA	15.15	Ordinary (indirectly held)	100 % Passenger transport
Arriva Trains Romania SRL	15.52	Ordinary (indirectly held)	100 % Dormant company

16. DEBTORS

	2016 £000	2015 £000
Due after more than one year		
Amounts owed by group undertakings	26,906	91,527
Derivative financial instruments (Note 20)	49,991	46,624
	76,897	138,151
	2016 £000	2015 £000
Due within one year		
Trade debtors	54	74
Amounts owed by group undertakings	58,648	29,999
Other debtors	5,876	8,383
Prepayments and accrued income	1,512	553
Group relief receivable	9,363	7,624
Deferred taxation (Note 19)	29,971	10,410
Derivative financial instruments (Note 20)	20,383	44,424
	125,807	101,467

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Notes to the financial statements For the Year Ended 31 December 2016

17. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2016 £000	2015 £000
Trade creditors	1,711	1,613
Taxation and social security	1,781	1,535
Other creditors	1,824	1,268
Accruals and deferred income	26,167	26,836
Derivative financial instruments (Note 20)	20,383	44,424
	<u>51,866</u>	<u>75,676</u>

18. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2016 £000	2015 £000
Amounts owed to group undertakings	104,734	149,037
Other creditors	-	1,000
Accruals and deferred income	15,529	17,316
Derivative financial instruments (Note 20)	49,991	46,624
	<u>170,254</u>	<u>213,977</u>

19. DEFERRED TAXATION

	Deferred tax asset £000
At 1 January 2016	10,410
Charged to comprehensive income (Note 12)	(4,733)
Credited to other comprehensive income	24,294
At 31 December 2016	<u>29,971</u>

ARRIVA PLC

**Notes to the financial statements
For the Year Ended 31 December 2016**

19. DEFERRED TAX (continued)

The deferred tax asset is made up as follows:

	2016 £000	2015 £000
Differences between capital allowances and depreciation	(742)	(842)
Pension liability	27,770	7,974
Other timing differences	2,943	3,278
	<u>29,971</u>	<u>10,410</u>

20. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments relate to cash flow hedges which are valued on a marked to market basis at the balance sheet date. Fuel price hedging has been entered into with the intention to reduce price fluctuations attributable to fuel sourcing.

As noted in the accounting policies (Note 1.10), corresponding back to back agreements are in place for each fuel hedge on equal and opposite terms.

The amounts recognised within the financial statements are as follows:

	2016 £000	2015 £000
Debtors: Amounts due after one year	49,991	46,624
Debtors: Amounts due within one year	20,383	44,424
Creditors: Amounts due within one year	(20,383)	(44,424)
Creditors: Amounts due after one year	(49,991)	(46,624)
	<u>-</u>	<u>-</u>

ARRIVA PLC

Notes to the financial statements For the Year Ended 31 December 2016

21. OTHER RESERVES

Other reserves includes a capital redemption reserve of £1,757,000 which represents the cumulative par value of all shares bought back and cancelled by the company and is not distributable. There is also a special reserve of £59,125,000 which was created in 1997 when an application to transfer the share premium account into a special reserve was granted by the High Court and is not distributable.

22. CALLED UP SHARE CAPITAL

	2016 £000	2015 £000
Allotted, called up and fully paid		
204,390,900 Ordinary shares of £0.05 each (2015 : 204,390,900)	10,220	10,220

23. PENSION COMMITMENTS

At 31 December 2016 the company operated a defined benefit scheme, the Arriva Pension Scheme, which is financed through separate Trustee administered funds managed by independent professional fund managers on behalf of the Trustees. The company also operates a contract based pension scheme. As a result of the transition to FRS 101 on 1 January 2014, the additional defined benefit pension schemes for which the company is deemed to be the principal employer were recognised within the financial statements. These schemes are the Arriva Passenger Services National Pension Scheme (APSNPS) and the Arriva Passenger Services Pension Plan (APSPP). Contributions to the defined benefit funds are based upon actuarial advice following the most recent of a regular series of valuations of the funds by their representative independent actuaries. The total pension credit for the company was £0.5 million (2015 : £30.7 million credit). The pension costs in respect of the company's contract based pension scheme were £0.4 million (2015 : £0.6 million) and there were no outstanding or prepaid contributions at either the beginning or the end of the financial year.

IAS 19 'Employee Benefits' (revised 2011)

The calculations used to assess the IAS 19 'Employee Benefits' (revised 2011) of the retirement benefit scheme are based on the most recent actuarial valuations, updated to 31 December 2016 by qualified independent actuaries, Willis Towers Watson Plc. The schemes assets are stated at their market value at 31 December 2016.

The amounts recognised in the balance sheet are as follows:

	2016 £000	2015 £000
Present value of funded obligations	(768,133)	(587,580)
Fair value of scheme assets	604,779	543,280
Pension deficit (net)	(163,354)	(44,300)

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Notes to the financial statements For the Year Ended 31 December 2016

23. PENSION COMMITMENTS (continued)

The net pension deficit is split between pension schemes in surplus of £2,447,000 and pension schemes in deficit of £165,801,000, as at 31 December 2016 (2015 : pension surplus of £10,491,000 and pension deficit of £54,791,000).

The amounts recognised in the statement of comprehensive income are as follows:

	2016 £000	2015 £000
Current service cost	(3,110)	(4,967)
Interest cost on defined benefit obligation	(21,283)	(20,819)
Interest income on pension scheme assets	19,893	18,120
Pension administration charges - paid by the company	(353)	(303)
Pension administration charges - paid by the schemes	(1,850)	(1,831)
Past service credit in respect of pension liability management exercise (Note 4)	-	33,000
Contributions paid by other participating employers	7,077	7,485
Gain on settlements	170	-
	<u>544</u>	<u>30,685</u>
Actual return on scheme assets	<u>80,758</u>	<u>18,048</u>

Movements in the present value of the defined benefit obligations were as follows:

	2016 £000	2015 £000
Opening defined benefit obligation	587,580	620,442
Current service cost	3,110	4,967
Interest cost on defined benefit obligation	21,283	20,819
Actuarial loss / (gain)	182,324	(7,231)
Past service credit	-	(33,000)
Benefits paid	(29,834)	(23,247)
Settlements	(1,900)	(330)
Member contributions paid	5,570	5,160
	<u>768,133</u>	<u>587,580</u>

ARRIVA PLC

Notes to the financial statements For the Year Ended 31 December 2016

23. PENSION COMMITMENTS (continued)

Changes in the fair value of pension scheme assets were as follows:

	2016 £000	2015 £000
Opening fair value of pension scheme assets	543,280	536,814
Interest income on pension scheme assets	19,893	18,120
Return on pension scheme assets (excluding interest)	60,856	(72)
Employer contributions	8,594	8,666
Member contributions	5,570	5,160
Pension administration charges	(1,850)	(1,831)
Settlements	(1,900)	(330)
Gain on settlements	170	-
Benefits paid	(29,834)	(23,247)
	<u>604,779</u>	<u>543,280</u>

The cumulative amount of actuarial gains and losses recognised in other comprehensive income was £178,687,000 loss (2015 : £57,219,000 loss).

The company and participating employers expect to contribute £11.1 million to the defined benefit pension schemes in 2017.

Principal actuarial assumptions at the balance sheet date:

	2016 %	2015 %
Discount rate	2.8	3.7
Rate of increase in deferred pensions	2.3	2.1
Future salary increases (Arriva Passenger Services National Pension scheme)	3.9	3.7
Future pension increases (Arriva Passenger Services National Pension scheme)	2.0	2.1
Inflation rate	3.3	3.1

Future pensionable salary increases for the Arriva Pension Scheme and the Arriva Passenger Services Pension Plan are fixed at 1%.

Future pension increases at the balance sheet date for the Arriva Pension Scheme and Arriva Passenger Services Pension Plan were 3.1%.

The average life expectancy for members aged 65 are male: 20 years (2015 : 18 years) and female: 22 years (2015 : 20 years).

The average life expectancy at 65 for members aged 45 are male: 22 years (2015 : 20 years) and female: 24 years (2015 : 22 years).

ARRIVA PLC

Notes to the financial statements For the Year Ended 31 December 2016

23. PENSION COMMITMENTS (continued)

The major categories of scheme assets as a percentage of total scheme assets are as follows:

	2016 %	2015 %
Equities	71.2	68.7
Bonds	16.6	16.0
Other	12.2	15.3

Amounts in relation to defined benefit pension schemes for the current and previous year are as follows:

	2016 £000	2015 £000
Defined benefit obligation	(768,133)	(587,580)
Pension scheme assets	<u>604,779</u>	<u>543,280</u>
Pension deficit (net)	<u>(163,354)</u>	<u>(44,300)</u>
Experience adjustments on scheme liabilities	(1,455)	(2,827)
Demographic assumptions on scheme liabilities	96,778	23,900
Financial assumptions on scheme liabilities	87,001	(28,304)

The sensitivity analysis for the (increase) / decrease in the defined benefit obligation balance is as follows:

	2016 £000	2015 £000
Calculated with +1% discount rate	123,624	88,421
Calculated with -1% discount rate	(149,202)	(105,399)
Calculated with +1% inflation rate	(57,163)	(36,462)
Calculated with -1% inflation rate	53,509	34,299
Calculated with +0.5% compensation increase	-	-
Calculated with +0.5% pension increase rate	(26,047)	(18,231)
Calculated with increased expectation of life of 1 year	(20,766)	(16,322)

At 31 December 2016, the weighted average remaining duration/maturity of the defined benefit obligation was 16 years for the Arriva Pension Scheme, 29 years for the Arriva Passenger Services National Pension Scheme and 18 years for the Arriva Passenger Services Pension Plan.

ARRIVA PLC

Notes to the financial statements For the Year Ended 31 December 2016

24. OPERATING LEASE COMMITMENTS

At 31 December 2016 the Company had future minimum lease payments under non-cancellable operating leases as follows:

	2016 £000	2015 £000
Not later than 1 year	719	674
Later than 1 year and not later than 5 years	1,252	1,172
Later than 5 years	1,755	1,920
	<u>3,726</u>	<u>3,766</u>

25. ULTIMATE PARENT AND CONTROLLING PARTY

The ultimate parent company and ultimate controlling party is Deutsche Bahn AG, a company registered in Germany, which has prepared group financial statements incorporating the results of Arriva plc. Copies of these financial statements can be obtained from Potsdamer Platz 2, 10785 Berlin.

Deutsche Bahn AG is the largest and smallest group to consolidate the financial statements of Arriva plc.

The immediate parent company is DB (UK) Investments Limited.

Information on Arriva plc can be obtained from their registered address 1 Admiral Way, Doxford International Business Park, Sunderland, Tyne and Wear, SR3 3XP.

Transactions with other companies in the Deutsche Bahn Group are not specifically disclosed as the company has taken advantage of the exemption available under IAS 24 'Related party disclosures' for wholly-owned subsidiaries.