

ARRIVA THE SHIRES LIMITED

Annual report and financial statements

For the Year Ended 31 December 2015

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ARRIVA THE SHIRES LIMITED

Company Information

Directors	R A Bowler M Alibhai R Lamerton M A Bowd
Company secretary	L Edwards
Registered number	2116519
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 THE SHIRES LIMITED

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ARRIVA THE SHIRES LIMITED

Strategic report For the Year Ended 31 December 2015

The directors present their Strategic report for the year ended 31 December 2015.

PRINCIPAL ACTIVITIES

The principal activity of the company continues to be the operation of bus and coach services.

REVIEW OF BUSINESS

The underlying trading of the company improved during the year through better reliability and efficiencies however, profit on ordinary activities before taxation has decreased by £3.0m to £1.9m (2014 : £4.9m). The fall in profit before taxation is significantly due to exceptional costs relating to a serious road traffic accident in the year which totalled £3.5m.

The transition to FRS 101, at 1 January 2014, has resulted in net assets at 31 December 2014 being restated from £17.4m to £13.2m. This is significantly due to the recognition of derivative financial instruments and more detail on the financial effect of the transition can be found in Note 27 to the financial statements.

On 1 January 2016, the company transferred part of its trade and certain assets to fellow group undertakings Arriva Kent Thameside Limited and Arriva London North Limited, further details can be found in Note 25 to the financial statements.

The directors consider the state of the company's affairs to be satisfactory and the company retains sufficient liquidity to fulfil capital expenditure and trading requirements for 2016.

PRINCIPAL RISKS AND UNCERTAINTIES

The management of the business and the execution of the company's strategy are subject to a number of risks. The key business risks and uncertainties affecting the company are considered to relate to local and national competition and factors which would cause a decline in the market. Further discussion of these risks and uncertainties in the context of the group as a whole, is provided in the annual report of the UK intermediate parent company, Arriva plc, which does not form part of this report.

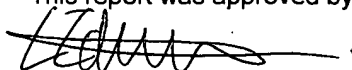
FUTURE DEVELOPMENTS

The directors remain confident that the company will continue to operate in line with expectations.

KEY PERFORMANCE INDICATORS

The directors of Deutsche Bahn AG manage the group's operations on a divisional basis. 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 The Shires Limited. The development performance and position of the group, including this company, is discussed in the group's annual report which does not form part of this report.

This report was approved by the board on 7 September 2016 and signed by order of the board.



L Edwards
Company secretary

ARRIVA THE SHIRES LIMITED

Directors' report For the Year Ended 31 December 2015

The directors present their report and the audited financial statements for the year ended 31 December 2015.

RESULTS AND DIVIDENDS

The profit for the year, after taxation, amounted to £1,592,000 (2014 : £3,665,000).

The company did not pay a dividend during the year (2014 : £Nil).

DIRECTOR

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

P Adcock (resigned 18 January 2016)
R A Bowler
M Alibhai
R Lamerton (appointed 23 March 2015)
M D J Yexley (resigned 31 March 2015)
K P Hawkins (resigned 31 March 2015)
B Barraclough (resigned 27 February 2015)
M A Bowd (appointed 22 January 2016)
H Williams (resigned 31 March 2015)

FRS 101

For the year ending 31 December 2015, the financial statements of Arriva The Shires Limited have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101), the date of transition being 1 January 2014. For the year ending 31 December 2015, the company has, for the first time, adopted FRS 101 and the effect of the transition to FRS 101, on both the financial position and financial performance of the company, is detailed in the reconciliation (Note 27) within the financial statements.

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Details of financial risk management objectives and policies are shown in the annual report of Arriva plc which does not form part of this report.

EMPLOYEE INVOLVEMENT

The company recognises that its employees are key to its success and is committed to creating a working environment where everyone has the opportunity to learn, develop and contribute to the success of the company, working within a common set of values.

The company continues to aim to be an employer of choice and to employ a diverse workforce with the skills, abilities and attitudes to meet business objectives and needs. The company's aim is to provide appropriate remuneration, benefits and conditions of employment which will serve to attract, retain, motivate and reward such employees.

The company has, subject to the restraints of commercial confidentiality, continued its policy of employee involvement, by making information available to employees on a regular basis regarding recent and probable future developments and business activities.

DISABLED EMPLOYEES

The company continues to give full and fair consideration to applications for employment by disabled persons, having regard to their respective aptitudes and abilities. The company's policy includes, where applicable, the continued employment of those who may become disabled during their employment.

ARRIVA THE SHIRES LIMITED

Directors' report For the Year Ended 31 December 2015

MATTERS COVERED IN THE STRATEGIC REPORT

Details of future developments and post balance sheet events have been disclosed in the Strategic report.

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 audited 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 audited 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;
- notify its shareholders in writing about the use of disclosure exemptions, if any, of FRS 101 used in the preparation of 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.

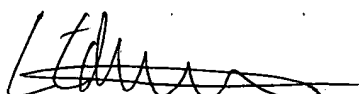
The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the audited financial statements comply with 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 7 September 2016 and signed by order of the board.



L Edwards
Company secretary

ARRIVA THE SHIRES LIMITED

Independent auditors' report to the members of Arriva The Shires Limited

Report on the financial statements

Our opinion

In our opinion Arriva The Shires Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2015 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 2015;
- the Statement of Comprehensive Income for the year then ended; and
- 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 the preparation of the financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 "Reduced Disclosure Framework".

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 other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report and the Strategic Report for the financial year which the financial statements are prepared is consistent with the financial statements.

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.

ARRIVA THE SHIRES LIMITED

Independent auditors' report to the members of Arriva The Shires Limited

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 3, 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.

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.



Michael Jeffrey (Senior statutory auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Orchard Street
Newcastle upon Tyne

9 September 2016

ARRIVA THE SHIRES LIMITED

Statement of comprehensive income For the Year Ended 31 December 2015

	Note	2015 £000	2014 £000
Turnover	3	91,285	90,877
Cost of sales		<u>(74,179)</u>	<u>(74,128)</u>
Gross profit		17,106	16,749
Administrative expenses		(11,655)	(11,380)
Other operating income		249	36
Exceptional items	11	<u>(3,500)</u>	<u>-</u>
Operating profit	4	2,200	5,405
Interest receivable and similar income	8	1	8
Interest payable and similar charges	9	<u>(318)</u>	<u>(492)</u>
Profit on ordinary activities before taxation		1,883	4,921
Tax on profit on ordinary activities	10	<u>(291)</u>	<u>(1,256)</u>
Profit for the financial year		<u>1,592</u>	<u>3,665</u>
Other comprehensive income:			
Items that may be reclassified to profit or loss:			
Changes in market value of cash flow hedges	20	(933)	(5,205)
Deferred tax attributable to changes in market value of cash flow hedges	21	58	1,041
		<u>(875)</u>	<u>(4,164)</u>
Total comprehensive income for the financial year		<u>717</u>	<u>(499)</u>

There were no recognised gains and losses for 2015 and 2014 other than those included in the statement of comprehensive income.


The notes on pages 10 to 31 form part of these financial statements.

ARRIVA THE SHIRES LIMITED
Registered number: 2116519

Balance sheet
As at 31 December 2015

	Note	2015 £000	2014 £000
Fixed assets			
Goodwill	13	572	572
Other intangible assets	12	643	857
Tangible assets	14	35,291	32,045
Investments	15	6,840	6,840
		<u>43,346</u>	<u>40,314</u>
Current assets			
Stocks	16	672	627
Debtors	17	38,742	40,015
Cash at bank and in hand		142	350
		<u>39,556</u>	<u>40,992</u>
Creditors: Amounts due within one year	18	(66,108)	(58,678)
Net current liabilities		<u>(26,552)</u>	<u>(17,686)</u>
Total assets less current liabilities		<u>16,794</u>	<u>22,628</u>
Creditors: Amounts due more than one year	19	(3,465)	(9,213)
Provisions for liabilities			
Deferred taxation	21	(74)	(184)
		<u>(74)</u>	<u>(184)</u>
Net assets		<u>13,255</u>	<u>13,231</u>
Capital and reserves			
Called up share capital	22	728	728
Cash flow hedge reserve		(5,259)	(4,384)
Profit and loss account		17,786	16,887
Total shareholders' funds		<u>13,255</u>	<u>13,231</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 7 September 2016.


R A Bowler
Director

The notes on pages 10 to 31 form part of these financial statements.

ARRIVA THE SHIRES LIMITED

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

	Called up share capital £000	Cash flow hedge reserve £000	Profit and loss account £000	Total shareholders' funds £000
At 1 January 2015	728	(4,384)	16,887	13,231
Comprehensive income for the year				
Profit for the financial year	-	-	1,592	1,592
Changes in market value of cash flow hedges	-	(933)	-	(933)
Deferred tax attributable to changes in market value of cash flow hedges	-	58	-	58
Other comprehensive income for the year	-	(875)	-	(875)
Total comprehensive income for the year	-	(875)	1,592	717
Amounts paid to a fellow group company in respect of group relief (Note 10)	-	-	(693)	(693)
At 31 December 2015	728	(5,259)	17,786	13,255

The notes on pages 10 to 31 form part of these financial statements.

ARRIVA THE SHIRES LIMITED

Statement of changes in equity For the Year Ended 31 December 2014

	Called up share capital £000	Cash flow hedge reserve £000	Profit and loss account £000	Total shareholders' funds £000
At 1 January 2014 (as previously stated)	728	-	13,222	13,950
Effect of transition to FRS 101 (Note 27)	-	(220)	-	(220)
At 1 January 2014 (as restated)	728	(220)	13,222	13,730
Comprehensive income for the year				
Profit for the financial year (Note 27)	-	-	3,665	3,665
Effect of recognition of cash flow hedge derivatives on transition to FRS101	-	(5,205)	-	(5,205)
Deferred tax attributable to changes in market value of cash flow hedges	-	1,041	-	1,041
Other comprehensive income for the year	-	(4,164)	-	(4,164)
Total comprehensive income for the year	-	(4,164)	3,665	(499)
At 31 December 2014	728	(4,384)	16,887	13,231

The notes on pages 10 to 31 form part of these financial statements.

ARRIVA THE SHIRES LIMITED

**Notes to the financial statements
For the Year Ended 31 December 2015**

1. ACCOUNTING POLICIES

1.1 GENERAL INFORMATION

The company is a private limited company, incorporated and domiciled in the United Kingdom.

1.2 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 and in accordance with the Companies Act 2006.

Information on the impact of first-time adoption of FRS 101 is given in note 27.

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.

1.3 TURNOVER

Turnover consists of the gross revenue for road passenger transport together with the aggregate amounts receivable for other goods and services supplied in the ordinary course of the business, excluding value added tax. Income is accrued where it is earned in an earlier period to that in which it is billed or received in cash. Income is deferred where it is received in an earlier period than that to which it relates.

1.4 INTANGIBLE FIXED ASSETS AND AMORTISATION

Intangible fixed assets, other than Goodwill, which relate to licences for the use of the Arriva brand name, are being amortised through the statement of comprehensive income over the licence period of 15 years.

ARRIVA THE SHIRES LIMITED

Notes to the financial statements For the Year Ended 31 December 2015

1. ACCOUNTING POLICIES (continued)

1.5 GOODWILL

Goodwill is the difference between amounts paid on the acquisition of a business and the fair value of the identifiable assets and liabilities.

Cost comprises the fair value of assets given, liabilities assumed and equity instruments issued.

If the total of consideration transferred, non-controlling interest recognised and previously held interest measured at fair value is less than the fair value of the net assets of the business combination acquired, in the case of a bargain purchase, the difference is recognised directly in the statement of comprehensive income.

When a business combination agreement provides for an adjustment to the cost of the combination which is contingent on future events, the company includes the estimated amount of that adjustment in the cost of the combination at the acquisition date, if the adjustment is probable and can be measured reliably. However, if the potential adjustment is not recognised at the acquisition date but subsequently becomes probable and can be measured reliably, the additional consideration shall be treated as an adjustment to the cost of the combination. Changes in the estimated value of contingent consideration arising on business combinations completed as a consequence result in a change in the carrying value of the related goodwill.

Goodwill is capitalised as an intangible asset and is not amortised. Instead it is reviewed annually for impairment with any impairment in carrying value being charged to the statement of comprehensive income. The Companies Act 2006 requires acquired goodwill to be reduced by provisions for depreciation calculated to write off the amount systematically over a period chosen by the directors, not exceeding its useful economic life. It has been deemed, however, the non-amortisation of goodwill is a departure, for the overriding purpose of giving a true and fair view. The effect of this departure has been quantified and disclosed within the notes to the accounts.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the CGUs, or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

ARRIVA THE SHIRES LIMITED

**Notes to the financial statements
For the Year Ended 31 December 2015**

**1. ACCOUNTING POLICIES
(continued)**

1.6 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:

Leasehold property	-	straight line over the life of the lease
Plant, machinery, fixtures and motor vehicles	-	10% to 40% straight line
Public service vehicles	-	straight line over periods up to 15 years

1.7 INVESTMENTS

Investments are included at cost less provision for impairment. Impairment reviews are carried out on an annual basis. Profits or losses arising from disposals of investments are treated as part of the result from ordinary activities.

1.8 LEASING AND HIRE PURCHASE

Where assets are financed by leasing agreements ("finance leases") the assets are included in the balance sheet at cost less depreciation in accordance with the company's normal accounting policies.

The present value of future rentals is shown as a liability. The interest element of rental obligations is charged to the statement of comprehensive income over the period of the lease in proportion to the balance of capital repayments outstanding. Assets under finance leases are depreciated over their estimated useful life or the term of the lease, whichever is the shorter.

Where assets are leased out under a finance lease arrangement any amounts due from the lessee are recorded in the balance sheet as a debtor at the amount of the net investment in the lease. Finance lease income under the finance lease is allocated to accounting periods so as to give a constant periodic rate of return on the net cash investment in the lease, over the lease term.

1.9 OPERATING LEASES

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

ARRIVA THE SHIRES LIMITED

Notes to the financial statements For the Year Ended 31 December 2015

1. ACCOUNTING POLICIES (continued)

1.10 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.

1.11 CREDITORS

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

1.12 PENSIONS

During the year the company operated a contract based pension scheme, which covered employees of the company.

Arriva plc also operates a defined benefit pension scheme. The assets of the defined benefit scheme are held separately from those of the company in independently administered funds. As the company is unable to identify its share of the assets and liabilities of the group scheme, it accounts for contributions as if they were to a defined contribution pension scheme. Contributions payable by the company are charged to the statement of comprehensive income in the period in which they fall due. Contributions payable under the contract based scheme are charged to the profit and loss account as they arise.

1.13 DIVIDENDS

Dividend distributions to the company's shareholders are recognised in the company's financial statements in the period in which the dividends are paid.

1.14 STOCKS

Stocks are valued at the lower of cost and net realisable value after making due allowance for obsolete and slow-moving stocks. Cost includes all direct costs and an appropriate proportion of fixed and variable overheads.

ARRIVA THE SHIRES LIMITED

**Notes to the financial statements
For the Year Ended 31 December 2015**

**1. ACCOUNTING POLICIES
(continued)****1.15 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.

1.16 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 with 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 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, no credit risk adjustment is used for the present value of hedged transactions.

ARRIVA THE SHIRES LIMITED

Notes to the financial statements For the Year Ended 31 December 2015

1. ACCOUNTING POLICIES (continued)

1.17 FINANCIAL REPORTING STANDARD 101 - REDUCED DISCLOSURE EXEMPTIONS

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

- the requirements of paragraphs 62, B64(d), B64(e), B64(g), B64(h), B64(j) to B64(m), B64(n)(ii), B64(o)(ii), B64(p), B64(q)(ii), B66 and B67 of IFRS 3 Business Combinations
- the requirements of IFRS 7 Financial Instruments: Disclosures
- the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement
 - paragraph 79(a)(iv) of IAS 1;
 - paragraph 73(e) of IAS 16 Property, Plant and Equipment;
 - paragraph 118(e) of IAS 38 Intangible Assets;
- the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134-136 of IAS 1 Presentation of Financial Statements
- the requirements of IAS 7 Statement of Cash Flows
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- the requirements of paragraph 17 of IAS 24 Related Party Disclosures
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member
- the requirements of paragraphs 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets.

In the current year the group has adopted FRS 100 and FRS 101, in previous years the financial statements were prepared in accordance with applicable UK accounting standards.

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 company is a qualifying entity for the purpose of FRS 101 and Note 26 gives details of the company's ultimate parent and from where its consolidated financial statements, prepared in accordance with IFRS, may be obtained.

These are the first financial statements of the company prepared in accordance with FRS 101. The company's date of transition is 1 January 2014. The company has notified its shareholders in writing about, and they do not object to, the use of the disclosure exemptions used by the company in these financial statements.

The change in basis of preparation has enabled the group to take advantage of all the available disclosure exemptions permitted by FRS 101 in the financial statements, the most significant of which are summarised above. 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 "Application of financial reporting requirements".

There have been no other material amendments to the disclosure requirements previously applied in accordance with UK GAAP.

ARRIVA THE SHIRES LIMITED

Notes to the financial statements For the Year Ended 31 December 2015

1. ACCOUNTING POLICIES (continued)

1.18 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.

Where companies within the UK Group make payments for tax losses where the amount paid exceeds the tax value of the losses, any excess is reported as a movement through equity.

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.

1.19 Exceptional items

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

ARRIVA THE SHIRES LIMITED

**Notes to the financial statements
For the Year Ended 31 December 2015**

**2. 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.

2.1 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 when 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 above for the useful economic lives for each class of assets.

2.2 Stock provisioning

The recoverability of the cost of stock is considered and when calculating a stock provision, management consider the nature and condition of the stock as well as applying assumptions around anticipated future usage of the stock or recoverability. See note 16 for the carrying amount of the stock.

2.3 Impairment of debtors

The company make 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 credit rating of the receivable, the ageing profile of debtors and historical experience. See note 17 for the carrying amount of debtors.

2.4 Insurance provisions

The company makes a provision for the amounts payable under insurance incidents as presented under accruals and deferred income, see note 18 for the carrying amount of accruals and deferred income included within creditors. The estimation of the insurance provision is based on an assessment of the expected settlement on known claims based on the experience of insurance claims handlers.

3. ANALYSIS OF TURNOVER

The whole of the turnover is attributable to the company's principal activity.

All turnover arose within the United Kingdom.

ARRIVA THE SHIRES LIMITED

Notes to the financial statements For the Year Ended 31 December 2015

4. OPERATING PROFIT

The operating profit is stated after charging:

	2015 £000	2014 £000
Depreciation of tangible fixed assets - owned by the company	5,964	6,081
Depreciation of tangible fixed assets - held under hire purchase and finance lease agreements	-	71
Amortisation of intangible assets, other than goodwill	214	213
Cost of stocks recognised as an expense	11,968	13,301
Operating lease rentals		
- plant and machinery	1,337	1,337
- land and buildings	682	698

During the year the company made a profit on disposal of fixed assets of £39,000 (2014 : loss of £28,000).

5. 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:

	2015 £000	2014 £000
Fees for the audit of the company	23	26
	<u>23</u>	<u>26</u>

ARRIVA THE SHIRES LIMITED

Notes to the financial statements For the Year Ended 31 December 2015

6. STAFF COSTS

Staff costs, including directors' remuneration, were as follows:

	2015 £000	2014 £000
Wages and salaries	45,582	43,480
Social security costs	4,092	3,969
Other pension costs (Note 23)	1,378	1,468
	<u>51,052</u>	<u>48,917</u>

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

	2015 No.	2014 No.
Drivers	1,241	1,271
Engineering	177	137
Administrative	175	183
	<u>1,593</u>	<u>1,591</u>

7. DIRECTORS' EMOLUMENTS

	2015 £000	2014 £000
Remuneration	332	267
Employers pension contributions	20	22
	<u>352</u>	<u>289</u>

During the year retirement benefits were accruing to 2 directors (2014 : 3) in respect of defined benefit pension schemes.

The highest paid director received remuneration of £163,000 (2014 : £119,000).

The value of the company's contributions paid to a defined benefit pension scheme in respect of the highest paid director amounted to £14,000 (2014 : £10,000).

ARRIVA THE SHIRES LIMITED

Notes to the financial statements For the Year Ended 31 December 2015

8. INTEREST RECEIVABLE AND SIMILAR INCOME

	2015 £000	2014 £000
Interest receivable from group undertakings	1	8
	<u>1</u>	<u>8</u>

9. INTEREST PAYABLE AND SIMILAR CHARGES

	2015 £000	2014 £000
Interest payable to group undertakings	318	487
On finance leases and hire purchase contracts	-	5
	<u>318</u>	<u>492</u>

10. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2015 £000	2014 £000
Corporation tax		
Current tax on profits for the year	398	1,229
Adjustments in respect of prior years	(55)	144
Total current tax	<u>343</u>	<u>1,373</u>
Deferred tax		
Origination and reversal of timing differences	(74)	(121)
Adjustments in respect of prior years	22	4
Total deferred tax (Note 21)	<u>(52)</u>	<u>(117)</u>
Taxation on profit on ordinary activities	<u>291</u>	<u>1,256</u>

ARRIVA THE SHIRES LIMITED

Notes to the financial statements For the Year Ended 31 December 2015

10. TAX ON PROFIT ON ORDINARY ACTIVITIES (continued)

FACTORS AFFECTING TAX CHARGE FOR THE YEAR

The tax assessed for the year is lower than (2014 - *higher than*) the standard rate of corporation tax in the UK of 20.25% (2014 - 21.50%). The differences are explained below:

	2015 £000	2014 £000
Profit on ordinary activities before tax	1,883	4,921
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 20.25% (2014 - 21.50%)	381	1,058
Effects of:		
Non-tax deductible amortisation of intangible assets	64	46
Expenses not deductible for tax purposes	16	18
Adjustments to tax charge in respect of prior years	(33)	148
Other	-	(23)
Impact of rate change on deferred tax	(137)	9
Total tax charge for the year	291	1,256

During the year the company paid a fellow UK group company for tax losses where the amount paid exceeded the tax value of those losses. The excess (being £693,000) has been reported as a movement through equity.

FACTORS THAT MAY AFFECT FUTURE TAX CHARGES

On 8 July 2015, the Chancellor announced that the main rate of UK Corporation Tax from 1 April 2016 would remain at 20% and that the main rate of UK Corporation Tax would reduce further to 19% from 1 April 2017, with a further reduction to 18% on 1 April 2020. These changes were enacted on 26 October 2015.

On 16 March 2016, the Chancellor announced that the main rate of UK Corporation Tax would instead reduce to 17% on 1 April 2020.

11. EXCEPTIONAL ITEMS

	2015 £000	2014 £000
Exceptional items	3,500	-

During the year, costs of £3,500,000 were incurred as result of a serious road traffic accident.

ARRIVA THE SHIRES LIMITED

Notes to the financial statements For the Year Ended 31 December 2015

12. OTHER INTANGIBLE ASSETS

	Licences £000
Cost	
At 1 January 2015	2,840
At 31 December 2015	2,840
Accumulated amortisation	
At 1 January 2015	1,983
Charge for the year	214
At 31 December 2015	2,197
Net book value	
At 31 December 2015	643
<i>At 31 December 2014</i>	<i>857</i>

13. GOODWILL

	2015 £000
Cost	
At 1 January 2015	2,508
At 31 December 2015	2,508
Accumulated amortisation	
At 1 January 2015	1,936
At 31 December 2015	1,936
Net book value	
At 31 December 2015	572
<i>At 31 December 2014</i>	<i>572</i>

Goodwill amortisation is not permitted under FRS 101 however this is a departure from the requirements of the Companies Act 2006. The directors believe that the non-amortisation of goodwill represents a true and fair view therefore the departure from the Companies Act 2006 is appropriate. Amortisation of £170,000 would have been charged during the year under the Companies Act 2006.

ARRIVA THE SHIRES LIMITED

**Notes to the financial statements
For the Year Ended 31 December 2015**

14. TANGIBLE ASSETS

	Leasehold property £000	Plant, machinery, fixtures and motor vehicles £000	Public service vehicles £000	Total £000
Cost				
At 1 January 2015	1,199	6,750	42,761	50,710
Additions	12	221	9,216	9,449
Disposals	-	(38)	(7,391)	(7,429)
At 31 December 2015	1,211	6,933	44,586	52,730
Accumulated depreciation				
At 1 January 2015	611	4,984	13,070	18,665
Charge for the year	80	420	5,464	5,964
Disposals	-	(38)	(7,152)	(7,190)
At 31 December 2015	691	5,366	11,382	17,439
Net book value				
At 31 December 2015	520	1,567	33,204	35,291
<i>At 31 December 2014</i>	<i>588</i>	<i>1,766</i>	<i>29,691</i>	<i>32,045</i>

The depreciation charged to the financial statements in the year, in respect of assets held under finance leases or hire purchase contracts, amounted to £Nil (2014 : £71,000).

The net book value of long leasehold property is £447,000 (2014 : £480,000) and the net book value of short leasehold property is £73,000 (2014 : £108,000).

ARRIVA THE SHIRES LIMITED

Notes to the financial statements For the Year Ended 31 December 2015

15. INVESTMENTS

	Shares in group undertakings £000
Cost	
At 1 January 2015	6,840
At 31 December 2015	<u>6,840</u>
Net book value	
At 31 December 2015	<u>6,840</u>
At 31 December 2014	<u>6,840</u>

SUBSIDIARY UNDERTAKINGS

The following were subsidiary undertakings of the company:

Name	Country of incorporation	Class of shares	Holding	Principal activity
Premier Buses Limited	United Kingdom	Ordinary	100 %	Holding company
M K Metro Limited	United Kingdom	Ordinary - indirectly held	100 %	Dormant

The directors believe that the carrying value of the investments is supported by their underlying value.

16. STOCKS

	2015 £000	2014 £000
Raw materials and consumables	<u>672</u>	<u>627</u>

ARRIVA THE SHIRES LIMITED

Notes to the financial statements For the Year Ended 31 December 2015

17. DEBTORS

	2015 £000	2014 £000
Due within one year		
Trade debtors	624	996
Amounts owed by group undertakings	35,290	36,613
Other debtors	715	921
Prepayments and accrued income	2,113	1,485
	<u>38,742</u>	<u>40,015</u>

18. CREDITORS: Amounts due within one year

	2015 £000	2014 £000
Amounts owed to group undertakings	51,397	48,362
Corporation tax	398	1,229
Other taxation and social security	1,426	1,227
Other creditors	1,482	1,306
Accruals and deferred income	8,357	4,178
Derivative financial instruments	3,048	2,376
	<u>66,108</u>	<u>58,678</u>

ARRIVA THE SHIRES LIMITED

Notes to the financial statements For the Year Ended 31 December 2015

19. CREDITORS: Amounts due more than one year

	2015 £000	2014 £000
Amounts owed to group undertakings	-	6,000
Accruals and deferred income	100	109
Derivative financial instruments	3,365	3,104
	<u>3,465</u>	<u>9,213</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. Energy price hedging has been entered into with the intention to reduce price fluctuations attributable to energy sourcing.

The receipts/payments from energy derivatives are recognised in the income statement in the periods in which they fall due.

The effectiveness of the hedge is assessed prospectively using linear regression. The retrospective effectiveness measurement is carried out as of every balance sheet date by means of linear regression. The ineffectiveness is also calculated using the dollar-offset method. Under this method, the changes in the market values of the underlying are compared with the changes in the market value of the hedging instrument. The resultant quotient determines the inefficiency.

The inefficiencies of cash flow hedges of the energy price derivatives recognised in the statement of comprehensive income are £Nil (2014 : £Nil).

The amounts recognised within the financial statements are as follows:

	2015 £000	2014 £000
Creditors : Amounts due within one year	3,048	2,376
Creditors : Amounts due more than one year	3,365	3,104
	<u>6,413</u>	<u>5,480</u>

ARRIVA THE SHIRES LIMITED

Notes to the financial statements For the Year Ended 31 December 2015

21. DEFERRED TAXATION

	Deferred tax £000
At 1 January 2015	184
Credited to comprehensive income (Note 10)	(52)
Credited to other comprehensive income	(58)
At 31 December 2015	74

The provision for deferred taxation is made up as follows:

	2015 £000	2014 £000
Accelerated capital allowances	1,247	1,353
Short term timing differences	(19)	(73)
Derivative financial instruments	(1,154)	(1,096)
	74	184

22. CALLED UP SHARE CAPITAL

	2015 £	2014 £
Authorised		
10,000,000 Ordinary shares of £0.10 each (2014 : 10,000,000)	1,000,000	1,000,000
Allotted, called up and fully paid		
7,283,079 Ordinary shares of £0.10 each (2014 : 7,283,079)	728,308	728,308

ARRIVA THE SHIRES LIMITED

Notes to the financial statements For the Year Ended 31 December 2015

23. PENSION COMMITMENTS

At 31 December 2015 the UK intermediate parent company, Arriva plc, operated a contract based retirement benefit scheme providing benefits to certain employees within Arriva The Shires Limited. The schemes are the Arriva Passenger Services Pension Plan (APSP) and the Arriva Passenger Services National Pension Scheme (APSNPS) and are financed through separate Trustee administered funds managed by independent professional fund managers on behalf of the Trustees.

Arriva Passenger Services Pension Plan (APSP)

Contributions to the defined benefit scheme, the Arriva Passenger Services Pension Plan, are based upon actuarial advice following the most recent actuarial valuation of the funds. The latest actuarial valuations were performed as at 5th April 2014, using the Projected Unit Method. The principal actuarial assumptions were that:

- (i) the annual rate of return on investment would be 6.5 per cent higher than the annual increase in total pensionable remuneration of nil per cent (frozen for 4 years from 1 December 2009, capped at 1% thereafter); and
- (ii) there would be no variation from the scheme's rules to pensions in payment.

On the basis of these assumptions the actuarial value of the funds at 5th April 2014 was sufficient to cover 97.0 per cent of the benefits then accrued to members. The market value of the Scheme's assets at 5th April 2014 was £422.3 million.

Arriva Passenger Services National Pension Scheme (APSNPS)

Contributions to the Arriva Passenger Services National Pension Scheme are based upon actuarial advice following the most recent actuarial valuation of the fund. The latest actuarial valuation was performed as at 6th April 2013, using the Projected Unit Method. The principal actuarial assumptions were that:

- (i) the annual rate of return on investment would be 6.5 per cent higher than the annual increase in total pensionable remuneration of 1.0 per cent; and
- (ii) there would be no variation from the scheme's rules to pensions in payment.

On the basis of these assumptions the actuarial value of the funds at 6th April 2013 was sufficient to cover 209.0 per cent of the benefits then accrued to members. The market value of the Scheme's assets at 6th April 2013 was £10.7 million.

IAS 19 'Employee Benefits' (revised 2011)

The company makes contributions to the aforementioned schemes which are operated by the UK intermediate parent company, Arriva plc. Other companies within the Arriva group make contributions to the Arriva Passenger Services Pension Plan, therefore it is not possible for the company to identify its share of the underlying assets and liabilities as at 31 December 2015. As the company is unable to identify its share of the assets and liabilities of the group scheme, it accounts for contributions as if they were to a defined contribution pension scheme. Contributions payable by the company are charged to the statement of comprehensive income in the period in which they fall due.

The pension cost charge for the year represents contributions payable by the company to both schemes and amounted to £1,378,000 (2014 : £1,468,000).

ARRIVA THE SHIRES LIMITED

**Notes to the financial statements
For the Year Ended 31 December 2015**

24. COMMITMENTS UNDER OPERATING LEASES

At 31 December 2015 the company had future minimum lease payments under non-cancellable operating leases as follows:

	2015 £000	2014 £000
Land and buildings		
Not later than 1 year	683	665
Later than 1 year and not later than 5 years	2,157	1,508
Later than 5 years	3,305	1,960
Other leases		
Not later than 1 year	674	691

25. POST BALANCE SHEET EVENTS

On 1 January 2016, the company transferred part of its trade and certain assets to Arriva Kent Thameside Limited and Arriva London North Limited, both fellow group undertakings.

Fixed assets with a value of £16.1m and stock with a value of £0.3m were transferred for no gain / loss. The part of the trade which was transferred accounted for 49.2% of turnover generated by the company during 2015.

26. ULTIMATE PARENT UNDERTAKING 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 The Shires Limited.

Copies of these financial statements can be obtained from Potsdamer Platz 2, 10785 Berlin.

Deutsche Bahn AG is the largest group to consolidate the financial statements of Arriva The Shires Limited and DB Mobility Logistics AG is the smallest.

Information on Arriva The Shires Limited can be obtained from their registered address 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.

ARRIVA THE SHIRES LIMITED

Notes to the financial statements
For the Year Ended 31 December 2015

27. FIRST TIME ADOPTION OF FRS 101

	Note	As previously stated 1 January 2014 £000	Effect of transition 1 January 2014 £000	FRS 101 (as restated) 1 January 2014 £000	As previously stated 31 December 2014 £000	Effect of transition 31 December 2014 £000	FRS 101 (as restated) 31 December 2014 £000
Fixed assets	2	44,116	-	44,116	40,144	170	40,314
Current assets	1	49,281	42	49,323	40,992	-	40,992
Creditors: amounts falling due within one year	1	(65,837)	(50)	(65,887)	(56,302)	(2,376)	(58,678)
		(16,556)	(8)	(16,564)	(15,310)	(2,376)	(17,686)
Total assets less current liabilities		27,560	(8)	27,552	24,834	(2,206)	22,628
Creditors: amounts falling due after more than one year	1	(12,213)	(267)	(12,480)	(6,109)	(3,104)	(9,213)
Provisions for liabilities	1,2	(1,397)	55	(1,342)	(1,280)	1,096	(184)
Net assets		13,950	(220)	13,730	17,445	(4,214)	13,231
Total shareholders' funds	1,2	13,950	(220)	13,730	17,445	(4,214)	13,231

ARRIVA THE SHIRES LIMITED

Notes to the financial statements For the Year Ended 31 December 2015

27. FIRST TIME ADOPTION OF FRS 101 (continued)

		As previously stated 31 December 2014 £000	Effect of transition 31 December 2014 £000	FRS 101 (as restated) 31 December 2014 £000
Turnover		90,877	-	90,877
Cost of sales		(74,128)	-	(74,128)
Gross profit		16,749	-	16,749
Administrative expenses	2	(11,550)	170	(11,380)
Other operating income		36	-	36
Operating profit		5,235	170	5,405
Interest receivable and similar income		8	-	8
Interest payable and similar charges		(492)	-	(492)
Tax on ordinary activities		(1,256)	-	(1,256)
Profit for the financial year		3,495	170	3,665

Explanation of changes to previously reported profit and equity:

1 Derivative financial instruments

Derivative financial instruments, under FRS101, are required to be accounted for within the financial statements which previously, under UK GAAP, were only required to be disclosed within the notes.

2 Goodwill amortisation

Goodwill is not permitted to be amortised under FRS 101 therefore the amortisation charge for the year ending 31 December 2014, has been reversed.