

Registered number: 2116519

# ARRIVA THE SHIRES LIMITED

**Annual report and financial statements**

**For the Year Ended 31 December 2016**

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## ARRIVA THE SHIRES LIMITED

### Company Information

**Directors**

M Alibhai  
M A Bowd  
J M Perkin  
K L O'Leary  
M A Thornley  
C Robinson

**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

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**ARRIVA THE SHIRES LIMITED**

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# ARRIVA THE SHIRES LIMITED

## Strategic report For the Year Ended 31 December 2016

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

### PRINCIPAL ACTIVITIES

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

### REVIEW OF BUSINESS

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. Nevertheless, the underlying trading of the company improved during the year as a result of improved reliability and efficiencies. The 2015 results were also impacted by the exceptional charge of £3.5m. The company received dividends from a subsidiary undertaking of £7.7m and despite booking an impairment charge of £4.8m (following the receipt of that dividend), profit on ordinary activities before taxation increased by £5.0m to £6.9m.

At the balance sheet date, the company had net assets of £16.7m (2015 : £13.3m) with the increase reflecting the performance during the year noted above and the increase in the fair value of derivative financial instruments, albeit this increase was partly offset by the payment of a dividend to Arriva (2007) Limited.

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 2017.

### 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.

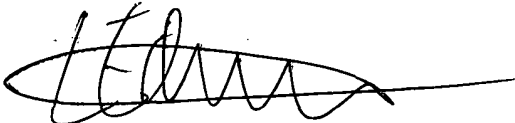
### FUTURE DEVELOPMENTS

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

### KEY PERFORMANCE INDICATORS

The directors of Deutsche Bahn AG, the company's ultimate parent company, 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 30 June 2017 and signed by order of the board.



**L Edwards**  
Company secretary

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## ARRIVA THE SHIRES LIMITED

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

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

#### RESULTS AND DIVIDENDS

The profit for the financial year, after taxation, amounted to £6,201,000 (2015 : £1,592,000).

The company paid a dividend totalling £7,700,000 during the year (2015 : £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 (resigned 30 September 2016)  
M Alibhai  
R Lamerton (resigned 22 August 2016)  
M A Bowd (appointed 22 January 2016)  
J M Perkin (appointed 26 October 2016)  
M A Bowd (appointed 22 January 2016)  
H Williams (resigned 31 March 2015)

#### 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.

#### MATTERS COVERED IN THE STRATEGIC REPORT

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

## ARRIVA THE SHIRES LIMITED

### 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 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.

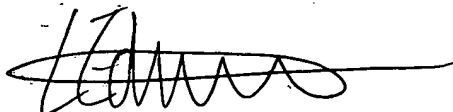
The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the audited financial statements comply with 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 30 June 2017 and signed by order of the board.



**L. Edwards**  
Company secretary

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## **ARRIVA THE SHIRES LIMITED**

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

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#### **Report on the financial statements**

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##### **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 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.

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##### **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.

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##### **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.

## ARRIVA THE SHIRES LIMITED

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

#### 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 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.

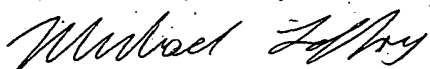
We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.



## ARRIVA THE SHIRES LIMITED

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

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.



Michael Jeffrey (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

30 June 2017

# ARRIVA THE SHIRES LIMITED

## Statement of comprehensive income For the Year Ended 31 December 2016

	Note	2016 £000	2015 £000
Turnover	3	49,180	91,285
Cost of sales		(38,323)	(74,179)
<b>Gross profit</b>		<b>10,857</b>	<b>17,106</b>
Administrative expenses		(6,790)	(11,655)
Other operating income		94	249
Exceptional items	12	-	(3,500)
<b>Operating profit</b>	5	<b>4,161</b>	<b>2,200</b>
Income from shares in group undertakings		7,700	-
Amounts written off investments	16	(4,840)	-
Interest receivable and similar income	9	9	1
Interest payable and similar charges	10	(89)	(318)
<b>Profit on ordinary activities before taxation</b>		<b>6,941</b>	<b>1,883</b>
Taxation on profit on ordinary activities	11	(753)	(291)
<b>Profit for the financial year</b>		<b>6,188</b>	<b>1,592</b>
<b>Other comprehensive income:</b>			
<b>Items that may be reclassified to profit or loss:</b>			
Changes in market value of cash flow hedges	21	6,089	(933)
Deferred tax attributable to changes in market value of cash flow hedges	22	(1,100)	58
		4,989	(875)
<b>Total comprehensive income for the financial year</b>		<b>11,177</b>	<b>717</b>

The notes on pages 11 to 30 form part of these financial statements.

**ARRIVA THE SHIRES LIMITED**  
Registered number: 2116519

**Balance sheet**  
**As at 31 December 2016**

	Note	2016 £000	2015 £000
<b>Fixed assets</b>			
Goodwill	14	461	572
Other intangible assets	13	350	643
Tangible assets	15	27,760	35,291
Investments	16	2,000	6,840
		<u>30,571</u>	<u>43,346</u>
<b>Current assets</b>			
Stocks	17	325	672
Debtors: Amounts due more than one year	18	377	-
Debtors	18	3,874	38,742
Cash at bank and in hand		407	142
		<u>4,983</u>	<u>39,556</u>
Creditors: Amounts due within one year	19	(17,452)	(66,108)
<b>Net current liabilities</b>		<u>(12,469)</u>	<u>(26,552)</u>
<b>Total assets less current liabilities</b>		<u>18,102</u>	<u>16,794</u>
Creditors: Amounts due more than one year	20	(298)	(3,465)
<b>Provisions for liabilities</b>			
Deferred taxation	22	(1,072)	(74)
		<u>(1,072)</u>	<u>(74)</u>
<b>Net assets</b>		<u><u>16,732</u></u>	<u><u>13,255</u></u>
<b>Capital and reserves</b>			
Called up share capital	23	728	728
Cash flow hedge reserve		(270)	(5,259)
Profit and loss account		16,274	17,786
<b>Total shareholders' funds</b>		<u><u>16,732</u></u>	<u><u>13,255</u></u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 30 June 2017.

  
**J M Perkin**  
Director

The notes on pages 11 to 30 form part of these financial statements.

# ARRIVA THE SHIRES LIMITED

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

	Called up share capital £000	Cash flow hedge reserve £000	Profit and loss account £000	Total shareholders' funds £000
At 1 January 2016	728	(5,259)	17,786	13,255
<b>Comprehensive income for the year</b>				
Profit for the financial year	-	-	6,188	6,188
Changes in market value of cash flow hedges	-	6,089	-	6,089
Deferred tax attributable to changes in market value of cash flow hedges	-	(1,100)	-	(1,100)
<b>Other comprehensive income for the year</b>	-	4,989	-	4,989
<b>Total comprehensive income for the year</b>	-	4,989	6,188	11,177
Dividends paid	-	-	(7,700)	(7,700)
<b>At 31 December 2016</b>	<b>728</b>	<b>(270)</b>	<b>16,274</b>	<b>16,732</b>

The notes on pages 11 to 30 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
<b>Comprehensive income for the year</b>				
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
<b>Other comprehensive income for the year</b>	-	(875)	-	(875)
<b>Total comprehensive expense for the year</b>	-	(875)	1,592	717
Amounts paid to a fellow group company in respect of group relief	-	-	(693)	(693)
<b>At 31 December 2015</b>	<b>728</b>	<b>(5,259)</b>	<b>17,786</b>	<b>13,255</b>

The notes on pages 11 to 30 form part of these financial statements.

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**ARRIVA THE SHIRES LIMITED**

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

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**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 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 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.

**1.3 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.

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**ARRIVA THE SHIRES LIMITED**

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

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**1. ACCOUNTING POLICIES  
(continued)**

**1.4 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.

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## ARRIVA THE SHIRES LIMITED

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

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#### 1. ACCOUNTING POLICIES (continued)

##### 1.5 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

##### 1.6 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.

##### 1.7 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.

##### 1.8 OPERATING LEASES

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



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## ARRIVA THE SHIRES LIMITED

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

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#### 1. ACCOUNTING POLICIES (continued)

##### 1.9 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.

##### 1.10 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.

##### 1.11 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.

##### 1.12 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.

##### 1.13 STOCKS

Stocks are valued at the lower of cost and net realisable value after making due allowance for obsolete and slow-moving stocks.

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**ARRIVA THE SHIRES LIMITED**

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

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**1. ACCOUNTING POLICIES  
(continued)****1.14 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.

**1.15 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 hedged item 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.

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## ARRIVA THE SHIRES LIMITED

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

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#### 1. ACCOUNTING POLICIES (continued)

##### 1.16 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.

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.

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's date of transition to FRS 101 was 1 January 2014 and 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 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".

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## ARRIVA THE SHIRES LIMITED

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

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#### 1. ACCOUNTING POLICIES (continued)

##### 1.17 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.

##### 1.18 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.

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**ARRIVA THE SHIRES LIMITED**

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

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**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 15 for the carrying amount of the tangible fixed assets and Note 1.6 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 17 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 18 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.*

**4. GENERAL INFORMATION**

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

The registered company number is 2116519 and the address of the registered office is 1 Admiral Way, Doxford International Business Park, Sunderland, SR3 3XP.

# ARRIVA THE SHIRES LIMITED

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

### 5. OPERATING PROFIT

The operating profit is stated after charging:

	2016 £000	2015 £000
Depreciation of tangible fixed assets - owned by the company	2,800	5,964
Amortisation of intangible assets, other than goodwill	173	214
Cost of stocks recognised as an expense	653	11,968
<b>Operating lease rentals</b>		
- plant and machinery	418	1,337
- land and buildings	353	682

During the year the company made a profit on disposal of fixed assets of £29,000 (2015 : profit of £39,000).

### 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:

	2016 £000	2015 £000
Fees for the audit of the Company	27	23
Auditors' remuneration - non-audit	2	-
	<u>29</u>	<u>23</u>

# ARRIVA THE SHIRES LIMITED

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

### 7. STAFF COSTS

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

	2016 £000	2015 £000
Wages and salaries	23,408	45,582
Social security costs	2,244	4,092
Other pension costs (Note 24)	736	1,378
	<u>26,388</u>	<u>51,052</u>

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

	2016 No.	2015 No.
Drivers	640	1,241
Engineering	99	177
Administrative	83	175
	<u>822</u>	<u>1,593</u>

### 8. DIRECTORS' EMOLUMENTS

	2016 £000	2015 £000
Remuneration	140	332
Employers pension contributions	4	20
	<u>144</u>	<u>352</u>

During the year retirement benefits were accruing to 1 director (2015 : 2) in respect of defined benefit pension schemes.

The highest paid director received remuneration of £99,000 (2015 : £163,000).

The value of the company's contributions paid to a defined benefit pension scheme in respect of the highest paid director amounted to £NIL (2015 : £14,000).

During the year, payments were paid to directors for compensation for loss of office totalling £19,077.

# ARRIVA THE SHIRES LIMITED

## 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	9	1
	<u>9</u>	<u>1</u>

### 10. INTEREST PAYABLE AND SIMILAR CHARGES

	2016 £000	2015 £000
Interest payable to group undertakings	89	318
	<u>89</u>	<u>318</u>

### 11. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

	2016 £000	2015 £000
<b>Corporation tax</b>		
Current tax on profits for the year	844	398
Adjustments in respect of prior years	11	(55)
<b>Total current tax</b>	<u>855</u>	<u>343</u>
<b>Deferred tax</b>		
Origination and reversal of timing differences	(46)	(74)
Adjustments in respect of prior years	(56)	22
<b>Total deferred tax (Note 22)</b>	<u>(102)</u>	<u>(52)</u>
<b>Taxation on profit on ordinary activities</b>	<u>753</u>	<u>291</u>



# ARRIVA THE SHIRES LIMITED

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

### 11. TAXATION ON PROFIT ON ORDINARY ACTIVITIES (continued)

#### FACTORS AFFECTING TAX CHARGE FOR THE YEAR

The tax assessed for the year is lower than (2015 - *lower 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	6,941	1,883
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2015 - 20.25%)	1,388	381
<b>Effects of:</b>		
Non-tax deductible amortisation of intangible assets	35	64
Expenses not deductible for tax purposes	-	16
Depreciation in respect of ineligible fixed assets	16	-
Adjustments to tax charge in respect of prior years	(45)	(33)
Impairment of investment	968	-
Non-taxable dividend income	(1,540)	-
Impact of rate change on deferred tax	(69)	(137)
<b>Total tax charge for the year</b>	<b>753</b>	<b>291</b>

#### 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 instead reduce to 17% on 1 April 2020. These changes were enacted on 15 September 2016.

### 12. EXCEPTIONAL ITEMS

	2016 £000	2015 £000
Exceptional items	-	3,500

In 2015, 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 2016

### 13. OTHER INTANGIBLE ASSETS

	Licences £000
<b>Cost</b>	
At 1 January 2016	2,840
Disposals	(240)
<b>At 31 December 2016</b>	<b>2,600</b>
<b>Accumulated amortisation</b>	
At 1 January 2016	2,197
Charge for the year	173
Disposals	(120)
<b>At 31 December 2016</b>	<b>2,250</b>
<b>Net book value</b>	
<b>At 31 December 2016</b>	<b>350</b>
<i>At 31 December 2015</i>	<i>643</i>

### 14. GOODWILL

	2016 £000
<b>Cost</b>	
At 1 January 2016	2,508
Disposals	(1,036)
<b>At 31 December 2016</b>	<b>1,472</b>
<b>Accumulated amortisation</b>	
At 1 January 2016	1,936
Disposals	(925)
<b>At 31 December 2016</b>	<b>1,011</b>
<b>Net book value</b>	
<b>At 31 December 2016</b>	<b>461</b>
<i>At 31 December 2015</i>	<i>572</i>

# ARRIVA THE SHIRES LIMITED

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

### 14. GOODWILL (continued)

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.

### 15. TANGIBLE ASSETS

	Leasehold property £000	Plant, machinery, fixtures and motor vehicles £000	Public service vehicles £000	Total £000
<b>Cost</b>				
At 1 January 2016	1,211	6,933	44,586	52,730
Additions	7,778	77	4,675	12,530
Disposals	(589)	(800)	(19,680)	(21,069)
<b>At 31 December 2016</b>	<b>8,400</b>	<b>6,210</b>	<b>29,581</b>	<b>44,191</b>
<b>Accumulated depreciation</b>				
At 1 January 2016	691	5,366	11,382	17,439
Charge for the year	81	229	2,490	2,800
Disposals	(497)	(25)	(3,286)	(3,808)
<b>At 31 December 2016</b>	<b>275</b>	<b>5,570</b>	<b>10,586</b>	<b>16,431</b>
<b>Net book value</b>				
<b>At 31 December 2016</b>	<b>8,125</b>	<b>640</b>	<b>18,995</b>	<b>27,760</b>
<i>At 31 December 2015</i>	<i>520</i>	<i>1,567</i>	<i>33,204</i>	<i>35,291</i>

The net book value of long leasehold property is £447,000 (2015 : £447,000) and the net book value of short leasehold property is £49,000 (2015 : £73,000).

# ARRIVA THE SHIRES LIMITED

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

### 16. INVESTMENTS

	Shares in group undertakings £000
<b>Cost</b>	
At 1 January 2016	6,840
<b>At 31 December 2016</b>	<b>6,840</b>
<b>Impairment</b>	
At 1 January 2016	-
Charge for the year	4,840
<b>At 31 December 2016</b>	<b>4,840</b>
<b>Net book value</b>	
<b>At 31 December 2016</b>	<b>2,000</b>
<i>At 31 December 2015</i>	<i>6,840</i>
<b>SUBSIDIARY UNDERTAKINGS</b>	

The following were subsidiary undertakings of the Company:

Name	Address of registered office	Class of shares	Holding	Principal activity
Premier Buses Limited	1 Admiral Way, Doxford International Business, Park, Sunderland, Tyne & Wear, SR3 3XP	Ordinary	100 %	Holding company
M K Metro Limited	As above	Ordinary - indirectly held	100 %	Dormant company

During 2016, an impairment charge of £4,840,000 (2015 : £Nil) was made in relation to the company's investment in Premier Buses Limited, to reflect a further reduction in the value of the net assets of that company, as at 31 December 2016.

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

**ARRIVA THE SHIRES LIMITED**

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

**17. STOCKS**

	2016 £000	2015 £000
Raw materials and consumables	325	672

**18. DEBTORS**

	2016 £000	2015 £000
<b>Due after more than one year</b>		
Derivative financial instruments (Note 21)	377	-
	377	-

	2016 £000	2015 £000
<b>Due within one year</b>		
Trade debtors	901	624
Amounts owed by group undertakings	1,201	35,290
Other debtors	806	715
Prepayments and accrued income	865	2,113
Derivative financial instruments (Note 21)	101	-
	3,874	38,742

**19. CREDITORS: Amounts due within one year**

	2016 £000	2015 £000
Amounts owed to group undertakings	9,743	51,397
Corporation tax	844	398
Other taxation and social security	1,444	1,426
Other creditors	1,490	1,482
Accruals and deferred income	3,427	8,357
Derivative financial instruments (Note 21)	504	3,048
	17,452	66,108

# ARRIVA THE SHIRES LIMITED

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

### 20. CREDITORS: Amounts due more than one year

	2016 £000	2015 £000
Accruals and deferred income	-	100
Derivative financial instruments (Note 21)	298	3,365
	<u>298</u>	<u>3,465</u>

### 21. 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 (2015 : £Nil).

The amounts recognised within the financial statements are as follows:

	2016 £000	2015 £000
Debtors : Amounts due more than one year	377	-
Debtors : Amounts due within one year	101	-
Creditors : Amounts due within one year	(504)	(3,048)
Creditors : Amounts due more than one year	(298)	(3,365)
	<u>(324)</u>	<u>(6,413)</u>

# ARRIVA THE SHIRES LIMITED

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

### 22. DEFERRED TAXATION

	Deferred tax £000
At 1 January 2016	74
Credited to comprehensive income (Note 11)	(102)
Charged to other comprehensive income	1,100
<b>At 31 December 2016</b>	<b>1,072</b>

The provision for deferred taxation is made up as follows:

	2016 £000	2015 £000
Accelerated capital allowances	1,155	1,247
Short term timing differences	(28)	(19)
Derivative financial instruments	(55)	(1,154)
	<b>1,072</b>	<b>74</b>

### 23. CALLED UP SHARE CAPITAL

	2016 £	2015 £
<b>Authorised</b>		
10,000,000 Ordinary shares of £0.10 each (2015 : 10,000,000)	<b>1,000,000</b>	<b>1,000,000</b>
<b>Allotted, called up and fully paid</b>		
7,283,079 Ordinary shares of £0.10 each (2015 : 7,283,079)	<b>728,308</b>	<b>728,308</b>

## ARRIVA THE SHIRES LIMITED

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

#### 24. PENSION COMMITMENTS

At 31 December 2016 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 (APSPP) 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 (APSPP)**

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 2016. 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 £736,000 (2015 : £1,378,000).



# ARRIVA THE SHIRES LIMITED

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

### 25. COMMITMENTS UNDER OPERATING LEASES

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

	2016 £000	2015 £000
<b>Land and buildings</b>		
Not later than 1 year	249	683
Later than 1 year and not later than 5 years	1,120	2,157
Later than 5 years	930	3,305
<b>Total land and buildings</b>	<b>2,299</b>	<b>6,145</b>
<b>Other leases</b>		
Not later than 1 year	349	674
<b>Total other leases</b>	<b>349</b>	<b>674</b>

### 26. ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY

The immediate parent company is Arriva (2007) Limited.

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 and smallest group to consolidate the financial statements of Arriva The Shires Limited.

Information on Arriva The Shires Limited 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.