
ARRIVA THE SHIRES LIMITED

Annual report and financial statements

For the Year Ended 31 December 2018

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ARRIVA THE SHIRES LIMITED

Company Information

Directors	M A Bowd J M Perkin K L O'Leary S J Finnie T C Edwards
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 2018

The directors present their Strategic report for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

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

REVIEW OF BUSINESS

The company's statement of comprehensive income on page 7 shows a profit on ordinary activities before taxation of £3,831,000 (2017: £4,723,000). The reduction in profit before taxation is mostly due to an increase in operating costs.

At the balance sheet date, the company had net assets of £14,612,000 (2017: £20,929,000). The movement in net assets is largely due to the profit for the year and the payment of a dividend during the year. The directors consider the state of the company's affairs to be satisfactory.

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 Arriva 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

On 27th March 2019, Arriva The Shires Limited's ultimate parent company Deutsche Bahn AG ("DB") announced its intention to explore options to sell the company and the Arriva group, through either a sale of up to 100% of the shares in Arriva to one or more investors or through an Initial Public Offering ("IPO").

The directors have prepared the financial statements on a going concern basis as they expect that adequate financing will be in place and that the company will continue to operate for the foreseeable future.

However, the possibility of a change in ownership of the company within the next 12 months means that the directors are unable to assess or control all scenarios for the company's future, including its funding, a future owner's intentions for the company, the post-sale group structure, or the impact on intercompany balances. Given the uncertainties associated with these possible implications should a change of ownership occur, the potential effects of the proposed sale indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern.

KEY PERFORMANCE INDICATORS

The Management Board 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 29 August 2019 and signed by order of the board.



J M Perkin
Director

ARRIVA THE SHIRES LIMITED

Directors' report For the Year Ended 31 December 2018

The directors present their report and the audited financial statements for the year ended 31 December 2018.

RESULTS AND DIVIDENDS

The profit for the year, after taxation, amounted to £2,965,000 (2017 - £3,637,000).

The company paid a dividend during the year of £9,000,000 (2017: £Nil).

DIRECTORS

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

M Alibhai (resigned 1 March 2018)
M A Bowd
J M Perkin
K L O'Leary
M A Thornley (resigned 24 July 2018)
C Woodhouse (resigned 26 March 2019)
S J Finnie (appointed 20 June 2018)
T C Edwards (appointed 21 August 2018)

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Following the acquisition of Arriva by Deutsche Bahn in 2010, Deutsche Bahn AG is the principal source of funding for Arriva plc and its subsidiaries. The Arriva group's financial risks, including liquidity risks and those arising from interest rates, commodity prices and currency fluctuations are managed in accordance with the Deutsche Bahn treasury policy. For further details relating to financial risk management please refer to the Deutsche Bahn 2018 Integrated 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 2018

DIRECTORS' RESPONSIBILITIES STATEMENT IN RESPECT OF THE FINANCIAL STATEMENTS

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), comprising 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, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the audited financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the audited financial statements comply with the Companies Act 2006. The directors 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 29 August 2019 and signed by order of the board.



J M Perkin
Director

ARRIVA THE SHIRES LIMITED

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

Report on the audit of the financial statements

Opinion

In our opinion Arriva The Shires Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and financial statements (the "Annual Report"), which comprise: the balance sheet as at 31 December 2018; the statement of comprehensive income, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Material uncertainty related to going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 1.1 to the financial statements concerning the company's ability to continue as a going concern. The directors have prepared the financial statements on a going concern basis as they expect that adequate financing will be in place and that the company will continue to operate for the foreseeable future. However, due to Deutsche Bahn AG exploring options to sell the company within the next 12 months, the directors have been unable to assess the company's ability to continue as a going concern beyond that point because the form of the planned transaction is unknown, as are the purchaser's intentions for the future of the company. These conditions, along with the other matters explained in note 1.1 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company was unable to continue as a going concern.

ARRIVA THE SHIRES LIMITED

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

Reporting on other information

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

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

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

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Directors' Responsibilities Statement set out on page 3, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

ARRIVA THE SHIRES LIMITED

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

Use of this report

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


Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.



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

29 August 2019

ARRIVA THE SHIRES LIMITED

Statement of comprehensive income For the Year Ended 31 December 2018

	Note	2018 £000	2017 £000
Turnover	3	49,928	49,520
Cost of sales		(38,555)	(37,757)
Gross profit		11,373	11,763
Administrative expenses		(7,583)	(7,042)
Other operating income		99	64
Operating profit	5	3,889	4,785
Interest payable and similar charges	9	(58)	(62)
Profit on ordinary activities before taxation		3,831	4,723
Taxation on profit on ordinary activities	10	(866)	(1,086)
Profit for the financial year		2,965	3,637
Other comprehensive (expense) / income:			
Items that may be reclassified to profit or loss:			
Changes in market value of cash flow hedges	20	(339)	675
Deferred tax attributable to changes in market value of cash flow hedges	21	57	(115)
		(282)	560
Total comprehensive income for the financial year		2,683	4,197

The notes on pages 10 to 29 form part of these financial statements.

ARRIVA THE SHIRES LIMITED
Registered number:2116519

Balance sheet
As at 31 December 2018

	Note	2018 £000	2017 £000
Fixed assets			
Other Intangible Assets	12	-	177
Goodwill	13	461	461
Tangible assets	14	26,089	30,088
Investments	15	2,000	2,000
		<u>28,550</u>	<u>32,726</u>
Current assets			
Stocks	16	455	460
Debtors: Amounts due more than one year	17	275	467
Debtors	17	7,211	5,669
Cash at bank and in hand		286	363
		<u>8,227</u>	<u>6,959</u>
Creditors: Amounts due within one year	18	(21,738)	(18,124)
		<u>(13,511)</u>	<u>(11,165)</u>
Net current liabilities			
		<u>15,039</u>	<u>21,561</u>
Total assets less current liabilities			
Creditors: Amounts due more than one year	19	(237)	(78)
Provisions for liabilities			
Deferred taxation	21	(190)	(554)
		<u>(190)</u>	<u>(554)</u>
Net assets		<u>14,612</u>	<u>20,929</u>
Capital and reserves			
Called up share capital	22	728	728
Cash flow hedge reserve		8	290
Profit and loss account		13,876	19,911
Total shareholders' funds		<u>14,612</u>	<u>20,929</u>

The financial statements on pages 7 to 29 were approved and authorised for issue by the board and were signed on its behalf on 29 August 2019.


J.M. Perkin
Director

The notes on pages 10 to 29 form part of these financial statements.

ARRIVA THE SHIRES LIMITED

Statement of changes in equity For the Year Ended 31 December 2018

	Called up share capital £000	Cash flow hedge reserve £000	Profit and loss account £000	Total shareholders' funds £000
At 1 January 2017	728	(270)	16,274	16,732
Comprehensive income for the year				
Profit for the financial year	-	-	3,637	3,637
Changes in market value of cash flow hedges	-	675	-	675
Deferred tax attributable to changes in market value of cash flow hedges	-	(115)	-	(115)
Other comprehensive income for the year	-	560	-	560
Total comprehensive income for the year	-	560	3,637	4,197
At 1 January 2018	728	290	19,911	20,929
Comprehensive income for the year				
Profit for the financial year	-	-	2,965	2,965
Changes in market value of cash flow hedges	-	(339)	-	(339)
Deferred tax attributable to changes in market value of cash flow hedges	-	57	-	57
Other comprehensive expense for the year	-	(282)	-	(282)
Total comprehensive (expense) / income for the year	-	(282)	2,965	2,683
Dividends paid (Note 11)	-	-	(9,000)	(9,000)
At 31 December 2018	728	8	13,876	14,612

The notes on pages 10 to 29 form part of these financial statements.

ARRIVA THE SHIRES LIMITED

Notes to the financial statements For the Year Ended 31 December 2018

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. During the year the company adopted IFRS 15 "Revenue from contracts with customers" and IFRS 9 "Financial Instruments". There were no material changes on adoption.

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.

GOING CONCERN

On 27th March 2019, Arriva The Shires Limited's ultimate parent company Deutsche Bahn AG ("DB") announced its intention to explore options to sell the company and the Arriva group, through either a sale of up to 100% of the shares in Arriva to one or more investors or through an Initial Public Offering ("IPO").

The directors have prepared the financial statements on a going concern basis as they expect that adequate financing will be in place and that the company will continue to operate for the foreseeable future.

However, the possibility of a change in ownership of the company within the next 12 months means that the directors are unable to assess or control all scenarios for the company's future, including its funding, a future owner's intentions for the company, the post-sale group structure, or the impact on intercompany balances. Given the uncertainties associated with these possible implications should a change of ownership occur, the potential effects of the proposed sale indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern.

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.

ARRIVA THE SHIRES LIMITED

Notes to the financial statements For the Year Ended 31 December 2018

1. ACCOUNTING POLICIES (continued)

1.3 INTANGIBLE ASSETS AND AMORTISATION

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

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.

ARRIVA THE SHIRES LIMITED

Notes to the financial statements For the Year Ended 31 December 2018

1. ACCOUNTING POLICIES (continued)

1.5 TANGIBLE ASSETS

Tangible assets are stated at cost less accumulated depreciation.

Depreciation is provided at rates calculated to write off the cost of tangible assets, less their estimated residual value, over their expected useful lives. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if it is greater than its estimated recoverable amount.

Depreciation is provided on the following bases:

Freehold and 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 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.

ARRIVA THE SHIRES LIMITED

Notes to the financial statements For the Year Ended 31 December 2018

1. ACCOUNTING POLICIES (continued)

1.9 DEBTORS

Trade and other debtors are initially measured at fair value and subsequently at amortised cost. 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.

1.10 PENSIONS

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

Arriva plc also operates a defined benefit pension schemes. 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 both schemes are charged to the statement of comprehensive income as they arise.

1.11 DIVIDENDS

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

1.12 STOCKS

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

Notes to the financial statements
For the Year Ended 31 December 2018

1. ACCOUNTING POLICIES
(continued)

1.13 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.

1.14 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 other 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.

ARRIVA THE SHIRES LIMITED

Notes to the financial statements For the Year Ended 31 December 2018

1. ACCOUNTING POLICIES (continued)

1.15 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
- the requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers
- the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
 - 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 and 18A 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 130(f)(ii), 130(f)(iii), 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 25 gives details of the company's ultimate parent and from where its consolidated financial statements, prepared in accordance with IFRS, may be obtained.

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

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".

Notes to the financial statements
For the Year Ended 31 December 2018

1. ACCOUNTING POLICIES
(continued)

1.16 CURRENT AND DEFERRED TAXATION

The tax charge or credit in the statement of comprehensive income represents the sum of the current tax charge or credit and the deferred tax charge or credit 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 tax charge or credit is based on the taxable profit for the year. Taxable profit can differ from the profit or loss 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 or asset relating to current tax is calculated using rates prevailing during the year.

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

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

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

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

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

Deferred tax assets and liabilities are not discounted.

Notes to the financial statements
For the Year Ended 31 December 2018

**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 assets (estimates)

The annual depreciation charge for tangible 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 assets and Note 1.5 for the useful economic lives for each class of assets.

2.2 Stock provisioning (estimates and judgements)

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 (estimates)

The company make an estimate of the recoverable value of trade and other debtors. When assessing impairment of trade and other debtors, management considers factors including the the ageing profile of debtors and historical experience. See Note 17 for the carrying amount of debtors.

2.4 Insurance provisions (estimates)

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.

2.5 Accruals and deferred income (estimates)

The company recognise accrued expenses within the financial statements. They are calculated at the cost the company expect to be paid in future periods, based on reliable evidence available at the time the financial statements are prepared.

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 2018**

5. OPERATING PROFIT

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

	2018 £000	2017 £000
Depreciation of tangible assets	2,641	2,749
(Profit) / loss on disposal of tangible assets	(56)	35
Amortisation of intangible assets, other than goodwill	177	173
Cost of stocks recognised as an expense	9,526	9,047
Operating lease rentals		
- plant and machinery	567	236
- land and buildings	371	353
- other leases	89	350
	<u> </u>	<u> </u>

6. AUDITORS' REMUNERATION

Fees payable to the company's auditors in respect of the audit of the financial statements of the company:

	2018 £000	2017 £000
Fees for the audit of the company	13	13
	<u> </u>	<u> </u>
	<u>13</u>	<u>13</u>

ARRIVA THE SHIRES LIMITED

Notes to the financial statements For the Year Ended 31 December 2018

7. STAFF COSTS

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

	2018 £000	2017 £000
Wages and salaries	23,409	23,687
Social security costs	2,152	2,244
Other pension costs (Note 23)	1,644	731
	<u>27,205</u>	<u>26,662</u>

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

	2018 No.	2017 No.
Drivers	651	657
Engineering	96	90
Administrative	71	76
	<u>818</u>	<u>823</u>

8. DIRECTORS' EMOLUMENTS

	2018 £000	2017 £000
Remuneration	74	118
Employers pension contributions	5	3
	<u>79</u>	<u>121</u>

During the year retirement benefits were accruing to no directors (2017 - NIL) in respect of defined benefit pension schemes.

9. INTEREST PAYABLE AND SIMILAR CHARGES

	2018 £000	2017 £000
Interest payable to group undertakings	58	62
	<u>58</u>	<u>62</u>

ARRIVA THE SHIRES LIMITED

Notes to the financial statements For the Year Ended 31 December 2018

10. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

	2018 £000	2017 £000
Corporation tax		
Current tax on profit for the year	542	704
Adjustments in respect of prior years	631	1,015
Total current tax charge	1,173	1,719
Deferred tax		
Origination and reversal of timing differences	212	235
Adjustments in respect of prior years	(519)	(868)
Total deferred tax credit (Note 21)	(307)	(633)
Total taxation charge on profit on ordinary activities	866	1,086

ARRIVA THE SHIRES LIMITED

Notes to the financial statements For the Year Ended 31 December 2018

10. TAXATION ON PROFIT ON ORDINARY ACTIVITIES (CONTINUED)

FACTORS AFFECTING TAX CHARGE FOR THE YEAR

The tax assessed for the year is higher than (2017 - *higher than*) the standard rate of corporation tax in the UK of 19.0% (2017 - 19.25%). The differences are explained below:

	2018 £000	2017 £000
Profit on ordinary activities before tax	3,831	4,723
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.0% (2017 - 19.25%)	728	909
Effects of:		
Non-tax deductible amortisation of intangible assets	33	33
Depreciation in respect of ineligible fixed assets	18	28
Adjustments to tax charge in respect of prior years	112	147
Impact of rate change on deferred tax	(25)	(31)
Total tax charge for the year	866	1,086

FACTORS THAT MAY AFFECT FUTURE TAX CHARGES

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

11. DIVIDENDS

	2018 £000	2017 £000
Dividends paid on ordinary shares	9,000	-
	9,000	-

ARRIVA THE SHIRES LIMITED

Notes to the financial statements For the Year Ended 31 December 2018

12. OTHER INTANGIBLE ASSETS

	Licences £000
Cost	
At 1 January 2018	2,600
At 31 December 2018	2,600
Accumulated amortisation	
At 1 January 2018	2,423
Charge for the year	177
At 31 December 2018	2,600
Net book value	
At 31 December 2018	-
<i>At 31 December 2017</i>	<i>177</i>

13. GOODWILL

	2018 £000
Cost	
At 1 January 2018	1,472
At 31 December 2018	1,472
Accumulated amortisation	
At 1 January 2018	1,011
At 31 December 2018	1,011
Net book value	
At 31 December 2018	461
<i>At 31 December 2017</i>	<i>461</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 2018

14. TANGIBLE ASSETS

	Freehold and leasehold property £000	Plant, machinery, fixtures and motor vehicles £000	Public service vehicles £000	Total £000
Cost				
At 1 January 2018	8,400	6,354	29,937	44,691
Additions	31	8	166	205
Disposals	-	(2,870)	(4,126)	(6,996)
At 31 December 2018	8,431	3,492	25,977	37,900
Accumulated depreciation				
At 1 January 2018	407	5,759	8,437	14,603
Charge for the year	132	214	2,295	2,641
Disposals	-	(2,870)	(2,563)	(5,433)
At 31 December 2018	539	3,103	8,169	11,811
Net book value				
At 31 December 2018	7,892	389	17,808	26,089
<i>At 31 December 2017</i>	<i>7,993</i>	<i>595</i>	<i>21,500</i>	<i>30,088</i>

The net book value of long leasehold property is £351,000 (2017: £399,000), the net book value of short leasehold property is £56,000 (2017: £49,000) and the net book value of freehold property is £7,485,000 (2017: £7,545,000).

ARRIVA THE SHIRES LIMITED

Notes to the financial statements For the Year Ended 31 December 2018

15. INVESTMENTS

	Shares in group undertakings £000
Cost	
At 1 January 2018	6,840
At 31 December 2018	6,840
Impairment	
At 1 January 2018	4,840
At 31 December 2018	4,840
Net book value	
At 31 December 2018	2,000
<i>At 31 December 2017</i>	<i>2,000</i>
SUBSIDIARY UNDERTAKINGS	

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

Name	Address of registered office	Class of shares	Holding	Principal activity
Premier Buses Limited	1 Admiral Way, Doxford International Business Park, Sunderland, Tyne and Wear, SR3 3XP	Ordinary	100 %	Holding company
Great North Eastern Railway Company Limited	As above	Ordinary - indirectly held	100 %	Dormant company

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

ARRIVA THE SHIRES LIMITED

Notes to the financial statements For the Year Ended 31 December 2018

16. STOCKS

	2018 £000	2017 £000
Raw materials and consumables	455	460

17. DEBTORS

	2018 £000	2017 £000
Amounts due more than one year		
Derivative financial instruments (Note 20)	275	467
	<u>275</u>	<u>467</u>
Amounts due within one year		
Trade debtors	702	1,363
Amounts owed by group undertakings	3,892	1,210
Other debtors	1,107	1,712
Prepayments and accrued income	1,290	1,179
Derivative financial instruments (Note 20)	220	205
	<u>7,211</u>	<u>5,669</u>

18. CREDITORS: Amounts due within one year

	2018 £000	2017 £000
Amounts owed to group undertakings	15,867	11,344
Corporation tax	542	704
Other taxation and social security	932	1,347
Other creditors	1,356	1,530
Accruals and deferred income	2,795	2,956
Derivative financial instruments (Note 20)	246	243
	<u>21,738</u>	<u>18,124</u>

ARRIVA THE SHIRES LIMITED

Notes to the financial statements For the Year Ended 31 December 2018

19. CREDITORS: Amounts due more than one year

	2018 £000	2017 £000
Derivative financial instruments (Note 20)	237	78
	<u>237</u>	<u>78</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 (2017: £Nil).

The amounts recognised within the financial statements are as follows:

	2018 £000	2017 £000
Debtors : Amounts due more than one year (Note 17)	275	467
Debtors : Amounts due within one year (Note 17)	220	205
Creditors : Amounts due within one year (Note 18)	(246)	(243)
Creditors : Amounts due more than one year (Note 19)	(237)	(78)
	<u>12</u>	<u>351</u>

ARRIVA THE SHIRES LIMITED

Notes to the financial statements For the Year Ended 31 December 2018

21. DEFERRED TAX LIABILITY

	2018 £000	2017 £000
At 1 January	554	1,072
Credited to comprehensive income (Note 10)	(307)	(633)
(Credited) / charged to other comprehensive income	(57)	115
At 31 December	190	554

The liability for deferred tax is made up as follows:

	2018 £000	2017 £000
Accelerated capital allowances	213	524
Short term timing differences	(25)	(29)
Derivative financial instruments	2	59
	190	554

22. CALLED UP SHARE CAPITAL

	2018 £	2017 £
Authorised		
10,000,000 Ordinary shares of £0.10 each (2017: 10,000,000)	1,000,000	1,000,000
Allotted, called up and fully paid		
7,283,079 Ordinary shares of £0.10 each (2017: 7,283,079)	728,308	728,308

ARRIVA THE SHIRES LIMITED

Notes to the financial statements For the Year Ended 31 December 2018

23. PENSION COMMITMENTS

At 31 December 2018 the UK intermediate parent company, Arriva plc, operated a contract based pension 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 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 2017, using the Projected Unit Method.

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 2016, using the Projected Unit Method.

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 and the Arriva Passenger Services National Pension Scheme, therefore it is not possible for the company to identify its share of the underlying assets and liabilities as at 31 December 2018. 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 the pension schemes and amounted to £1,644,000 (2017: £731,000).

ARRIVA THE SHIRES LIMITED

Notes to the financial statements For the Year Ended 31 December 2018

24. COMMITMENTS UNDER OPERATING LEASES

At 31 December 2018 the company had future minimum lease payments under non-cancellable operating leases as follows:

	2018 £000	2017 £000
Land and buildings		
Not later than 1 year	293	249
Later than 1 year and not later than 5 years	973	902
Later than 5 years	834	814
	<hr/>	<hr/>
Total land and buildings commitments	2,100	1,965
Other leases		
Not later than 1 year	599	567
Later than 1 year and not later than 5 years	211	755
	<hr/>	<hr/>
Total other leases commitments	810	1,322

25. ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY

The immediate parent company is Arriva UK Bus Holdings 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.