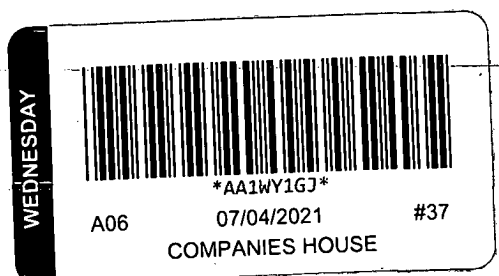


Registered number: 2116519

**ARRIVA THE SHIRES LIMITED**

**Annual report and financial statements**

**For the Year Ended 31 December 2019**



## ARRIVA THE SHIRES LIMITED

### Company Information

<b>Directors</b>	A Ashcroft S W Mathieson A Godley J M Perkin K L O'Leary S J Finnie
<b>Registered number</b>	2116519
<b>Registered office</b>	1 Admiral Way Doxford International Business Park Sunderland Tyne and Wear SR3 3XP
<b>Independent auditors</b>	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 2019

The directors present their Strategic report for the year ended 31 December 2019.

### 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 12 shows a profit before taxation of £2,445,000 (2018: £3,831,000). Despite a significant growth in revenue, there was a reduction to profit before taxation primarily due to an increase in commission payments, and higher agency costs related to driver turnover and vacancies.

At the balance sheet date, the company had net assets of £14,161,000 (2018: £14,612,000). The small movement in net assets is mainly due to the profit for the year offset by a dividend payment.

Following the year end, and consistent with other public transport operators, the company has experienced a significant fall in demand for its services since March 2020 as a result of the coronavirus (Covid-19) pandemic. To mitigate the financial impact of the pandemic on regional bus operators in England, including the company, the Department for Transport ('DfT') has provided financial support, through the Covid-19 Bus Services Support Grant ('CBSSG') which was introduced in March 2020.

The company has obtained CBSSG funding to support its ongoing operations since March 2020, and has also made use of the Covid-19 Bus Services Support Grant Restart ('CBSSG Restart'), an extension to the CBSSG funding support which was introduced in August 2020. Under CBSSG Restart, the DfT has also confirmed that funding of up to £27.3m per week will be made available on a rolling basis to bus service operators in England until such funding is no longer required.

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

The company is a wholly owned subsidiary of Arriva UK Bus Holdings Limited and part of the Arriva group which Deutsche Bahn AG heads. As a public transport operator, the Arriva group has been significantly impacted by the Covid-19 coronavirus pandemic with a resulting impact on passengers, colleagues, and other business stakeholders. The Arriva group has and continues to work closely with both local and national government bodies and transport authorities on support measures to ensure continuation of critical transportation services during the pandemic.

The company has been working with local authorities to increase services closer to pre-pandemic service levels, to ensure a reduced risk of overcrowding following the reopening of major sectors of the economy. The company will seek to maintain its services at or close to pre-pandemic levels, supported by continued use of available CBSSG Restart funding.

Strategic report (continued)  
For the Year Ended 31 December 2019

**FUTURE DEVELOPMENTS (continued)**

Liquidity and funding risk

The company voluntarily participates in a group cash and credit facility pooling arrangement operated by its ultimate parent, Deutsche Bahn AG ('DB'). This is a long-standing arrangement operated by DB to manage the liquidity needs of DB group companies, and the company has been party to this arrangement for several years. The company utilises a DB credit facility under this arrangement, which the directors expect will continue to be utilised over the going concern assessment period to meet the company's operational requirements. Under the arrangement substantially all the company's cash and utilised credit facility balances are swept into the group cash pool at the end of each business day.

The company had net current liabilities of £11,410,000 at 31 December 2019, and is currently dependent on the DB credit facility for daily access to the cash flows required to operate and to support the going concern assertion. The company is expecting the DB facility to increase from April 2021 onwards and the directors are confident that this increase will happen although this is not formally committed. As this facility is not formally committed for a specific period of time, and therefore could be withdrawn during the period of 12 months from the date of approval of the financial statements, the directors acknowledge that this indicates the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. However, the directors consider this risk to be highly improbable, as such action would contradict internal group policies and be inconsistent with past practice. Since inception of the pooling arrangement, the company has never experienced any issue being able to draw upon its cash and available facility balances within the group cash pool to settle its liabilities as they fall due.

Trading risk

In completing their going concern assessment, the directors have also considered the expected impact of the Covid-19 pandemic on the company's financial position, based on severe but plausible downside scenarios, along with associated management actions, including the continued use of the COVID-19 Bus Service Support Grant (CBSSG) Restart funding to mitigate those impacts on the company's cash and DB credit facility position. This includes consideration of the risk, which the directors believe to be remote, of potential amendments to calculation methodology within the CBSSG, which is at the discretion of the DfT, that could result in the need to repay funds received under the CBSSG to date.

The directors are confident that the company will remain within its credit facility limit over the assessment period if pandemic response measures impacting use of public transportation were to persist for longer than anticipated, as the directors expect that any withdrawal of government funding (including CBSSG Restart) would also be delayed. If, for any reason, current planned actions were insufficient in ensuring the company remains within its current DB credit facility limit during the assessment period, additional management actions might need to be implemented, which may include, reducing services, delaying or curtailing discretionary expenditures and capital expenditure. If these actions are insufficient to allow cash requirements to be funded from within the current credit facility additional funding might be required from DB. As there is no guarantee that CBSSG Restart or equivalent government funding, received to date or in the future, will remain in place or a formal commitment will be in place for the DB credit facility, this also indicates the existence of a material uncertainty that may cast significant doubt on the company's ability to continue as a going concern.

Outcome of directors' going concern assessment

The directors have prepared the financial statements on a going concern basis as they have a reasonable expectation that the company will continue to have full and immediate access to its pooled credit facility balances with DB and that management actions over the assessment period will be sufficient to remain within its credit facility limit, such that adequate financing will remain in place and that the company will continue to operate for the foreseeable future.

These conditions indicate the existence of material uncertainties which may cast significant doubt about the company's ability to continue as a going concern. The financial statements do not contain the adjustments that would arise if the company were unable to continue as a going concern.

## ARRIVA THE SHIRES LIMITED

### Strategic report (continued) For the Year Ended 31 December 2019

#### SECTION 172 STATEMENT

The directors work to promote the success of the company, by considering the impact that their decisions may have on the company, along with the company's stakeholders. The issues and factors which have guided the directors' decisions are outlined in the 'Review of business' and the 'Principal Risks and Uncertainties' sections of this report.

The company's key stakeholders include, but are not limited to:

- Deutsche Bahn AG;
- Arriva UK Bus Investments Limited;
- Suppliers;
- The Department for Transport;
- Local Transport Authorities; and
- Local communities in which the company is based.

During the financial year ended 31 December 2019 the directors, having regard to the financial performance and position of the company, and ability to continue to meet the expectations of its key stakeholders, made a principal decision to pay a dividend to its parent company Arriva UK Bus Holdings Limited. The directors considered the business implications and reserves and determined that the payment of the dividend leaves the company with sufficient resources and would not impact the company's long-term success.

The Arriva group's values are working as "One Arriva", providing great customer experience, doing the right thing and thinking beyond. These values underpin the Arriva group's strategy and vision. Arriva group's vision is to be the preferred mobility partner of choice by customers, and its strategy is to have the best employees to strengthen its existing strong foundation and improve its business to create a platform for growth.

The directors of the company promote good governance, which is key to driving the success of the company. The directors also aim to achieve the above values of the Arriva group, as well as continuing good relationships with all stakeholders who are critical to the long-term success of the company. The directors consider the Arriva group values when making decisions.

During the financial year ended 31 December 2019, the company engaged, and continues to engage, with customers and customer groups to ensure a positive customer experience (including for passengers and the relevant local authorities in the area in which the company operates).

The company takes payment practice commitments to suppliers seriously and seeks to ensure prompt payment of invoices (in line with Arriva group's policies), and that there is a clear process in the event of any invoice dispute. The company believes that prompt payment of invoices is key to facilitating a good relationship with its suppliers.

The directors of the company aim to meet at least once in each financial year to discuss the matters that cannot be delegated under the Companies Act 2006.

The directors of the company delegate certain day to day management of the company's operations to Arriva UK Bus Leadership Team. The implementation of the strategy and policies of the company, including those relating to its relationships with key stakeholders, are managed locally by the board of the company, and oversight is provided by the Arriva UK Bus Leadership team. Any major matters of interest are then communicated to the Arriva Management Board (the "AMB"), a subcommittee of the board of Arriva plc. The membership of the AMB includes the Managing Director of the UK Bus division.

The company is committed to the communities that it serves. At Arriva group, a Director of Corporate & Social Responsibility ("CSR") has oversight of strategic commitments for CSR for the Arriva group, which forms part of the wider business strategy for the Arriva group.

**Strategic report (continued)  
For the Year Ended 31 December 2019**

**SECTION 172 STATEMENT (continued)**

During the financial year ended 31 December 2019, initiatives for the Arriva group across the UK including supporting food banks, supporting homeless charities and partaking in appeals for local children's charities. Initiatives for Arriva's UK Bus division included supporting the Royal British Legion, MIND and local food banks across our network.

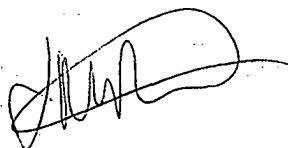
Further information on engagement with employees during the financial year ended 31 December 2019 is provided in the 'Employee engagement' section of the Directors' report.

Further information on engagement with customers during the financial year ended 31 December 2019 is provided in the 'Engagement with suppliers, customers and others' section of the Directors' report.

**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 31 March 2021 and signed on behalf of the board.



**J M Perkin**  
Director

## ARRIVA THE SHIRES LIMITED

### Directors' report For the Year Ended 31 December 2019

The directors present their report and the financial statements for the year ended 31 December 2019.

#### RESULTS AND DIVIDENDS

The profit for the year, after taxation, amounted to £1,903,000 (2018 - £2,965,000). The company paid a dividend during the year of £2,500,000 (2018 - £9,000,000).

#### DIRECTORS

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

A Ashcroft (appointed 11 October 2019)  
M A Bowd (resigned 31 March 2021)  
J M Perkin  
K L O'Leary  
C Woodhouse (resigned 26 March 2019)  
S J Finnie  
T C Edwards (resigned 1 April 2020)  
A Godley (appointed 1 April 2020)  
S W Matheison (appointed 17 February 2020)

#### 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 2019 Integrated Report.

#### EMPLOYEE ENGAGEMENT

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

The Arriva group conducts biennial employee surveys which are used to highlight areas of improvement, and areas of concern. The Arriva Management Board oversees initiatives to improve any areas of improvement highlighted by the surveys, as well as maintaining those areas highlighted as working well. The results of the employee surveys are communicated via the Arriva group's intranet and yammer pages, in addition meetings are held by line managers with their teams in order to address areas of concern and seek employee input to find solutions.

Information on matters impacting employees, including initiatives arising following the employee surveys, are communicated to employees through briefings via line managers, email bulletins and using the Arriva group's intranet. There is also a weekly update on the Arriva group's intranet highlighting success stories. The update is also used to improve connectivity within the Arriva group and to promote working together as One Arriva.

In 2019 Arriva group launched 'GAIN' for Mental Health, which is the Arriva group's Global Arriva Inclusion Network aimed at promoting support for mental health, and encouraging employees to share their stories in order to tackle mental health concerns, and provide support to the wider Arriva group.

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



**Directors' report  
For the Year Ended 31 December 2019**

**EMPLOYEE ENGAGEMENT (continued)**

The company has, subject to the restraints of commercial confidentiality, a policy of employee involvement and inclusion, by making information available to employees about recent and future developments and business activities of the company, including financial and economic factors that may have impacted on the company's performance.

Arriva group has a strategic objective to 'build the future generation of leaders' and building talent pools helps to achieve this. In addition to local initiatives, two group-wide programmes are in place to develop emerging and future leaders across the Arriva group.

In 2019 Arriva group launched the 'Emerging Leaders' programme which is aimed at identifying and developing future leaders whose next step is a senior manager role, and who demonstrate the performance, potential and aspiration required to progress to this. As part of this programme candidates are required to complete an assessment for development which will give them the opportunity to discuss their career goals and experience in more detail and receive valuable feedback on their strengths and development areas against the Arriva Leadership Model. The assessment will result in a development plan, highlighting what steps they can take to help them achieve their career goals. Following the assessment certain candidates progress to the next phase, which includes leadership workshops and projects.

Also, in 2019, the 'Lift Off for Leadership' programme was launched. This programme is for individuals who are still in the early stages of their career, who have demonstrated the potential to be a leader of the future. The programme focuses on improving readiness for broader roles. Participants join a 12-month programme of workshops and ongoing development activities, including coaching and job shadowing.

**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.

**Directors' report  
For the Year Ended 31 December 2019**

**ENGAGEMENT WITH SUPPLIERS, CUSTOMERS AND OTHERS**

The company's long-term success is dependent on fostering strong and effective business relationships with key stakeholders. The company's key stakeholders include, but are not limited to:

- Deutsche Bahn AG;
- Arriva UK Bus Investments Limited;
- Suppliers;
- The Department for Transport;
- Local Transport Authorities; and
- Local communities in which the company is based.

The company is part of the Arriva plc group, and its ultimate parent company is Deutsche Bahn AG.

The implementation of strategies and policies of the company relating to its relationships with key stakeholders are managed locally by the board of the company, and oversight is provided by the Arriva UK Bus Leadership team.

The company engages extensively with national and local passenger groups, and collects feedback from customers through a variety of methods:

- participation in the National Bus Passenger Survey, a yearly survey of passenger views across bus operators led by Transport Focus.
- Arriva UK Bus carry out an annual customer satisfaction survey and uses the results from the survey to address issues and develop services and products to meet changing demand.
- Regular engagement with passenger groups, including Bus Users UK and Transport Focus, which helps to ensure that the interests and voices of customers, and their experiences, inform decision making.
- A close working relationship with industry stakeholder groups, including the Confederation of Passenger Transport which promotes collaborative working on shared industry challenges.
- Arriva UK Bus also maintains frequent communication with stakeholders in Government, including with the Department for Transport, as well as other relevant departments, authorities and public bodies.

Further information on how the directors have fostered relationships with suppliers and the local communities in which the company operates is detailed in the Section 172 statement in the Strategic report. Further information on how the company has fostered relationships with its employees during the financial year ended 31 December 2019 is provided in the Employee Engagement section of this report.

**MATTERS COVERED IN THE STRATEGIC REPORT**

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

## ARRIVA THE SHIRES LIMITED

### Directors' report For the Year Ended 31 December 2019

#### STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law).

Under company law, directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- 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;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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.


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 financial statements comply with the Companies Act 2006.

#### DIRECTORS' CONFIRMATIONS

In the case of each director in office at the date the directors' report is approved:

- so far as that director is aware, there is no relevant audit information of which the company's auditors are unaware, and
- they have taken all the steps that they ought to have taken as a director in order to make themselves 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 31 March 2021 and signed by order of the board.



**J M Perkin**  
Director

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## ARRIVA THE SHIRES LIMITED

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

## **Report on the audit of the financial statements**

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### **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 2019 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 2019; the statement of comprehensive income and 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 company is reliant on the continued funding from its ultimate parent undertaking, Deutsche Bahn AG (DB) in the form of a credit facility. The credit facility with DB is not committed for a specific period of time, therefore, it could be withdrawn during the period of 12 months from the date of approval of the financial statements, which may result in the company not being able to continue to meet its operational funding requirements. In addition, in a severe but plausible downside scenario, if pandemic response measures impacting use of public transportation were to persist for longer than anticipated, the directors expect that any withdrawal of government funding including COVID-19 Bus Service Support Grant Restart would also be delayed and if required the company would be able to agree an increase to its credit facility limit with DB. However, there is no guarantee that CBSSG Restart or equivalent government funding, received to date or in the future, will remain in place in its current form and there is no formal commitment in place for the DB credit facility. These conditions, along with the other matters explained in note 1.1 to the financial statements, indicate the existence of material uncertainties 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.

### **Reporting on other information**

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

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<b>ARRIVA THE SHIRES LIMITED</b>
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## ***Independent auditors' report to the members of Arriva The Shires Limited (continued)***

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### **Reporting on other information (continued)**

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 2019 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.

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### **Responsibilities for the financial statements and the audit**

#### ***Responsibilities of the directors for the financial statements***

As explained more fully in the Statement of Directors' Responsibilities in respect of the Financial Statements, 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](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

#### ***Use of this report***

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with 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.

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<b>ARRIVA THE SHIRES LIMITED</b>
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## ***Independent auditors' report to the members of Arriva The Shires Limited (continued)***

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### **Other required reporting**

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#### **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.



Craig Willis (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Newcastle upon Tyne  
31st March 2021

**ARRIVA THE SHIRES LIMITED**

**Statement of comprehensive income  
For the Year Ended 31 December 2019**

	Note	2019 £000	2018 £000
Turnover	3	51,940	49,928
Cost of sales		<u>(41,052)</u>	<u>(38,555)</u>
<b>Gross profit</b>		<b>10,888</b>	<b>11,373</b>
Administrative expenses		(8,526)	(7,583)
Other operating income		<u>289</u>	<u>99</u>
<b>Operating profit</b>	5	<b>2,651</b>	<b>3,889</b>
Interest payable and similar charges	9	<u>(206)</u>	<u>(58)</u>
<b>Profit before taxation</b>		<b>2,445</b>	<b>3,831</b>
Tax on profit	10	<u>(542)</u>	<u>(866)</u>
<b>Profit for the financial year</b>		<u><b>1,903</b></u>	<u><b>2,965</b></u>
<b>Other comprehensive income / (expense):</b>			
<b>Items that may be reclassified to profit or loss:</b>			
Changes in market value of cash flow hedges (Note 20)		175	(339)
Deferred tax attributable to changes in market value of cash flow hedges	21	<u>(29)</u>	<u>57</u>
		<b>146</b>	<b>(282)</b>
<b>Total comprehensive income for the financial year</b>		<u><b>2,049</b></u>	<u><b>2,683</b></u>

The notes on pages 15 to 41 form part of these financial statements.

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

**Balance sheet**  
**As at 31 December 2019**

	Note	2019 £000	2018 £000
<b>Fixed assets</b>			
Other Intangible Assets	12	-	-
Goodwill	13	461	461
Tangible assets	14	28,297	26,089
Investments	15	2,000	2,000
		<u>30,758</u>	<u>28,550</u>
<b>Current assets</b>			
Stocks	16	536	455
Debtors: Amounts falling due more than one year	17	116	275
Debtors: Amounts falling due within one year	17	6,973	7,211
Cash at bank and in hand		307	286
		<u>7,932</u>	<u>8,227</u>
Creditors: Amounts falling due within one year	18	(19,342)	(21,738)
<b>Net current liabilities</b>		<u>(11,410)</u>	<u>(13,511)</u>
<b>Total assets less current liabilities</b>		<u>19,348</u>	<u>15,039</u>
Creditors: Amounts falling due more than one year	19	(5,187)	(237)
<b>Provisions for liabilities</b>			
Deferred taxation	21	-	(190)
		<u>-</u>	<u>(190)</u>
<b>Net assets</b>		<u>14,161</u>	<u>14,612</u>
<b>Capital and reserves</b>			
Called up share capital	22	728	728
Cash flow hedge reserve		154	8
Profit and loss account		13,279	13,876
<b>Total shareholders' funds</b>		<u>14,161</u>	<u>14,612</u>

The financial statements on pages 12 to 41 were approved and authorised for issue by the board and were signed on its behalf on 31 March 2021.

  
**J M Perkin**  
Director

The notes on pages 15 to 41 form part of these financial statements.



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

**Statement of changes in equity  
For the Year Ended 31 December 2019**

	Called up share capital £000	Cash flow hedge reserve £000	Profit and loss account £000	Total shareholders' funds £000
<b>At 1 January 2018</b>	<b>728</b>	<b>290</b>	<b>19,911</b>	<b>20,929</b>
<b>Comprehensive income for the year</b>				
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
<b>Other comprehensive expense for the year</b>	<b>-</b>	<b>(282)</b>	<b>-</b>	<b>(282)</b>
<b>Total comprehensive (expense) / income for the year</b>	<b>-</b>	<b>(282)</b>	<b>2,965</b>	<b>2,683</b>
Dividends paid (Note 11)	-	-	(9,000)	(9,000)
<b>At 1 January 2019</b>	<b>728</b>	<b>8</b>	<b>13,876</b>	<b>14,612</b>
<b>Comprehensive income for the year</b>				
Profit for the financial year	-	-	1,903	1,903
Changes in market value of cash flow hedges	-	175	-	175
Deferred tax attributable to changes in market value of cash flow hedges	-	(29)	-	(29)
<b>Other comprehensive income for the year</b>	<b>-</b>	<b>146</b>	<b>-</b>	<b>146</b>
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>146</b>	<b>1,903</b>	<b>2,049</b>
Dividends paid (Note 11)	-	-	(2,500)	(2,500)
<b>At 31 December 2019</b>	<b>728</b>	<b>154</b>	<b>13,279</b>	<b>14,161</b>

The notes on pages 15 to 41 form part of these financial statements.

Notes to the financial statements  
For the Year Ended 31 December 2019

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 16 "Leases", which has had a material impact on the company's financial statements (see Note 26). There are no other amendments to accounting standards, or IFRS IC interpretations, that are effective for the year ended 31 December 2019, that have had a material impact on the company's financial statements.

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**

The company is a wholly owned subsidiary of Arriva UK Bus Holdings Limited and part of the Arriva group which Deutsche Bahn AG heads. As a public transport operator, the Arriva group has been significantly impacted by the Covid-19 coronavirus pandemic with a resulting impact on passengers, colleagues, and other business stakeholders. The Arriva group has and continues to work closely with both local and national government bodies and transport authorities on support measures to ensure continuation of critical transportation services during the pandemic.

The company has been working with local authorities to increase services closer to pre-pandemic service levels, to ensure a reduced risk of overcrowding following the reopening of major sectors of the economy. The company will seek to maintain its services at or close to pre-pandemic levels, supported by continued use of available CBSSG Restart funding.

Liquidity and funding risk

The company voluntarily participates in a group cash and credit facility pooling arrangement operated by its ultimate parent, Deutsche Bahn AG ('DB'). This is a long-standing arrangement operated by DB to manage the liquidity needs of DB group companies, and the company has been party to this arrangement for several years. The company utilises a DB credit facility under this arrangement, which the directors expect will continue to be utilised over the going concern assessment period to meet the company's operational requirements. Under the arrangement substantially all the company's cash and utilised credit facility balances are swept into the group cash pool at the end of each business day.

The company had net current liabilities of £11,410,000 at 31 December 2019, and is currently dependent on the DB credit facility for daily access to the cash flows required to operate and to support the going concern assertion. The company is expecting the DB facility to increase from April 2021 onwards and the directors are confident that this increase will happen although this is not formally committed. As this facility is not formally committed for a specific period of time, and therefore could be withdrawn during the period of 12 months from the date of approval of the financial statements, the directors acknowledge that this indicates the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. However, the directors consider this risk to be highly improbable, as such action would contradict internal group policies and be inconsistent with past practice.

Notes to the financial statements  
For the Year Ended 31 December 2019

1. ACCOUNTING POLICIES  
(CONTINUED)

GOING CONCERN (continued)

Since inception of the pooling arrangement, the company has never experienced any issue being able to draw upon its cash and available facility balances within the group cash pool to settle its liabilities as they fall due.

Trading risk

In completing their going concern assessment, the directors have also considered the expected impact of the Covid-19 pandemic on the company's financial position, based on severe but plausible downside scenarios, along with associated management actions, including the continued use of the COVID-19 Bus Service Support Grant (CBSSG) Restart funding to mitigate those impacts on the company's cash and DB credit facility position. This includes consideration of the risk, which the directors believe to be remote, of potential amendments to calculation methodology within the CBSSG, which is at the discretion of the DfT, that could result in the need to repay funds received under the CBSSG to date.

The directors are confident that the company will remain within its credit facility limit over the assessment period if pandemic response measures impacting use of public transportation were to persist for longer than anticipated, as the directors expect that any withdrawal of government funding (including CBSSG Restart) would also be delayed. If, for any reason, current planned actions were insufficient in ensuring the company remains within its current DB credit facility limit during the assessment period, additional management actions might need to be implemented, which may include, reducing services, delaying or curtailing discretionary expenditures and capital expenditure. If these actions are insufficient to allow cash requirements to be funded from within the current credit facility additional funding might be required from DB. As there is no guarantee that CBSSG Restart or equivalent government funding, received to date or in the future, will remain in place or a formal commitment will be in place for the DB credit facility, this also indicates the existence of a material uncertainty that may cast significant doubt on the company's ability to continue as a going concern.

Outcome of directors' going concern assessment

The directors have prepared the financial statements on a going concern basis as they have a reasonable expectation that the company will continue to have full and immediate access to its pooled credit facility balances with DB and that management actions over the assessment period will be sufficient to remain within its credit facility limit, such that adequate financing will remain in place and that the company will continue to operate for the foreseeable future.

These conditions indicate the existence of material uncertainties which may cast significant doubt about the company's ability to continue as a going concern. The financial statements do not contain the adjustments that would arise if the company were unable 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.

Notes to the financial statements  
For the Year Ended 31 December 2019

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.

Notes to the financial statements  
For the Year Ended 31 December 2019

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
Right-of-use assets	-	over the lease term

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.

Notes to the financial statements  
For the Year Ended 31 December 2019

1. ACCOUNTING POLICIES  
(CONTINUED)

1.7 LEASES

For lease contracts within the scope of IFRS 16, a lease liability and corresponding right-of-use asset are recognised at the lease commencement date.

The lease liability is initially measured at the present value of future lease payments, discounted using the incremental borrowing rate of the company (or rate implicit in the lease, if available).

Future lease payments include fixed and variable payments, amounts repayable under a residual value guarantee, and the exercise price of future purchase options the company is reasonably certain to exercise (where applicable). Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability. The liability is subsequently measured at amortised cost using the effective interest method, with the financing cost recognised within 'Interest payable and similar charges'.

Corresponding right-of-use assets are measured at the initial amount of the lease liability, adjusted for any lease payments prepaid at the commencement date, initial direct costs, lease incentives, and an estimate of costs to dismantle or remove the underlying asset. Subsequently, the right-of-use asset is depreciated on a straight-line basis over the lease term. Where an impairment indicator is identified the right-of-use asset is adjusted by any associated impairment losses. The right-of-use asset is also adjusted for any remeasurements of the lease liability.

The company has elected to apply the exemption included within IFRS 16 for short-term leases (lease terms of less than 12 months from the commencement date), and low value leases (asset values less than €5,000). The lease payments associated with these leases are recognised as an expense on a straight-line basis over the lease term.

Prior to the adoption of IFRS 16 on 1 January 2019, the company classified its lease contracts as operating or finance leases in line with IAS 17, with contracts categorised as finance leases where it was determined that the risks and rewards of ownership of the asset had transferred to the company. All of the company's leases were previously categorised as operating leases under IAS 17, with the associated costs recognised as an expense on a straight-line basis over the lease term.

1.8 DEBTORS

Trade and other debtors are held with the intention to collect the contractual cash flows and are initially measured at fair value and subsequently at amortised cost less any allowance for impairment (where such allowance is material).

The simplified approach is used to measure expected lifetime credit loss allowances under IFRS 9 for trade and other debtors on a collective basis for any assets that are not considered to be individually impaired. Trade and other debtors are considered to be individually impaired when there is objective evidence that the estimated future cash flows associated with the asset have been affected. Objective evidence for impairment could be observable changes in national or local economic conditions / government policies on transport. Allowances for expected credit losses on trade and other debtors are recognised only where they are material.

**Notes to the financial statements  
For the Year Ended 31 December 2019**

**1. ACCOUNTING POLICIES  
(CONTINUED)**

**1.9 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.

**1.10 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.

**1.11 STOCKS**

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

**1.12 GOVERNMENT GRANTS**

Government grants related to income comprise research and development grants and other government grants which are not related to assets. They are presented in the balance sheet as deferred income and released as other operating income in the statement of comprehensive income in the periods necessary to match them with the related costs which they are intended to compensate.

Government grants are recognised in other operating income only when there is reasonable assurance that the company will comply with the conditions attaching to them and that the grants will be received or will not need to be repaid.

**Notes to the financial statements  
For the Year Ended 31 December 2019**

**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.



Notes to the financial statements  
For the Year Ended 31 December 2019

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 requirements of paragraph 52, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16 Leases. The requirements of paragraph 58 of IFRS 16, provided that the disclosure of details in indebtedness relating to amounts payable after 5 years required by company law is presented separately for lease liabilities and other liabilities, and in total
- 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 24 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 2019

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 2019

**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.

The preparation of financial statements in conformity with FRS 101 requires management to make estimates and judgements in the application of accounting policies that affect the reported amounts of assets, liabilities, income and expense. Estimates and judgements are based on historical experience and management's best knowledge of the amount. Due to the inherent uncertainty in making estimates and judgements, actual results in future periods may be based on amounts which differ from those estimates.

**Critical judgements in applying accounting policies**

The following is a critical judgement that has been made in the process of applying the company's accounting policies, apart from those involving estimations, that had the most significant effect on the financial statements.

Accounting for contributions to multi-employer defined benefit pension schemes

Certain of the company's employees are members of group multi-employer defined benefit pension schemes and the company pays contributions to those schemes in respect of those employees. As the company is unable to identify its share of the assets and liabilities of the group defined benefit schemes, it accounts for contributions payable as if they were to a defined contribution pension scheme, with the amounts payable charged to the statement of comprehensive, as outlined in Note 1.9.

**Critical assumptions and key sources of estimation uncertainty**

The following areas are the critical assumptions concerning the future and the key sources of estimation uncertainty in the reporting period. These areas may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

Useful economic lives of tangible assets

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.

Impairment of debtors

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

Accruals

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.

## ARRIVA THE SHIRES LIMITED

### Notes to the financial statements For the Year Ended 31 December 2019

#### 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, limited by shares and incorporated and domiciled in England, 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.

#### 5. OPERATING PROFIT

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

	2019 £000	2018 £000
Depreciation of tangible assets	3,490	2,641
Loss / (profit) on disposal of tangible assets	259	(56)
Amortisation of intangible assets, other than goodwill	-	177
Research and development grants receivable	110	-
Cost of stocks recognised as an expense	9,612	9,526
<b>LEASE EXPENSES*</b>		
- other leases	-	1,027

\* There are no comparative expenses related to short-term leases and leases in accordance with IFRS 16. Other lease expenses in the year ended 31 December 2018 represent the total lease expense recognised in accordance with IAS 17. See Note 26 for the impact of adoption of IFRS 16.

#### 6. AUDITORS' REMUNERATION

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

	2019 £000	2018 £000
Fees for the audit of the company	19	13
	<u>19</u>	<u>13</u>

# ARRIVA THE SHIRES LIMITED

## Notes to the financial statements For the Year Ended 31 December 2019

### 7. STAFF COSTS

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

	2019 £000	2018 £000
Wages and salaries	23,740	23,409
Social security costs	2,183	2,152
Other pension costs (Note 23)	2,418	1,644
	<u>28,341</u>	<u>27,205</u>

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

	2019 No.	2018 No.
Drivers	643	651
Engineering	99	96
Administrative	65	71
	<u>807</u>	<u>818</u>

### 8. DIRECTORS' EMOLUMENTS

	2019 £000	2018 £000
Remuneration	-	74
Employers pension contributions	-	5
	<u>-</u>	<u>79</u>

During the year retirement benefits were accruing to no directors (2018 - NIL) in respect of defined benefit pension schemes.

### 9. INTEREST PAYABLE AND SIMILAR CHARGES

	2019 £000	2018 £000
Interest payable to group undertakings	154	58
Interest on lease liabilities	52	-
	<u>206</u>	<u>58</u>

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**ARRIVA THE SHIRES LIMITED**

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**Notes to the financial statements  
For the Year Ended 31 December 2019**

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**10. TAX ON PROFIT**

	<b>2019 £000</b>	<b>2018 £000</b>
<b>Corporation tax</b>		
Current tax on profit for the year	<b>92</b>	<b>542</b>
Adjustments in respect of prior years	<b>815</b>	<b>631</b>
<b>Total current tax charge</b>	<b>907</b>	<b>1,173</b>
<b>Deferred tax</b>		
Origination and reversal of timing differences	<b>349</b>	<b>212</b>
Adjustments in respect of prior years	<b>(714)</b>	<b>(519)</b>
<b>Total deferred tax credit (Note 21)</b>	<b>(365)</b>	<b>(307)</b>
<b>Total tax charge on profit</b>	<b>542</b>	<b>866</b>

# ARRIVA THE SHIRES LIMITED

## Notes to the financial statements For the Year Ended 31 December 2019

### 10. TAX ON PROFIT (CONTINUED)

#### FACTORS AFFECTING TAX CHARGE FOR THE YEAR

The tax assessed for the year is higher than (2018 - *higher than*) the standard rate of corporation tax in the UK of 19.0% (2018 - 19.0%). The differences are explained below:

	2019 £000	2018 £000
Profit before tax	2,445	3,831
Profit multiplied by standard rate of corporation tax in the UK of 19.0% (2018 - 19.0%)	465	728
Effects of:		
Non-tax deductible amortisation of intangible assets	-	33
Depreciation in respect of ineligible fixed assets	18	18
Adjustments to tax charge in respect of prior years	101	112
Impact of rate change on deferred tax	(42)	(25)
Total tax charge for the year	542	866

#### FACTORS THAT MAY AFFECT FUTURE TAX CHARGES

In the Spring Budget 2020, the Government announced that from 1 April 2020 the corporation tax rate would remain at 19% (rather than reducing to 17%, as previously enacted). This new law was substantively enacted on 17 March 2020. As the proposal to keep the rate at 19% had not been substantively enacted at the balance sheet date, its effects are not included in these financial statements.

### 11. DIVIDENDS

	2019 £000	2018 £000
Dividends paid on ordinary shares	2,500	9,000
	2,500	9,000

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**ARRIVA THE SHIRES LIMITED**

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**Notes to the financial statements  
For the Year Ended 31 December 2019**

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**12. OTHER INTANGIBLE ASSETS**

	<b>Licences £000</b>
<b>Cost</b>	
At 1 January 2019	<u>2,600</u>
<b>At 31 December 2019</b>	<u>2,600</u>
<b>Accumulated amortisation</b>	
At 1 January 2019	<u>2,600</u>
<b>At 31 December 2019</b>	<u>2,600</u>
<b>Net book value</b>	
<b>At 31 December 2019</b>	<u>-</u>
<i>At 31 December 2018</i>	<u>-</u>



**ARRIVA THE SHIRES LIMITED**

**Notes to the financial statements  
For the Year Ended 31 December 2019**

**13. GOODWILL**

	<b>2019 £000</b>
<b>Cost</b>	
At 1 January 2019	1,472
<b>At 31 December 2019</b>	<b>1,472</b>
<b>Accumulated amortisation</b>	
At 1 January 2019	1,011
<b>At 31 December 2019</b>	<b>1,011</b>
<b>Net book value</b>	
<b>At 31 December 2019</b>	<b>461</b>
<i>At 31 December 2018</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 2019

### 14. TANGIBLE ASSETS

	Freehold and leasehold property £000	Plant, machinery, fixtures and motor vehicles £000	Public service vehicles £000	Total £000
<b>COST OR VALUATION</b>				
At 1 January 2019	8,431	3,492	25,977	37,900
Adoption of IFRS 16 (Note 26)	2,493	42	747	3,282
At 1 January 2019 (adjusted balance)	10,924	3,534	26,724	41,182
Additions	39	1,225	1,413	2,677
Disposals	-	(638)	(4,088)	(4,726)
At 31 December 2019	10,963	4,121	24,049	39,133
<b>ACCUMULATED DEPRECIATION</b>				
At 1 January 2019	539	3,103	8,169	11,811
Charge for the year	536	278	2,676	3,490
Disposals	-	(589)	(3,876)	(4,465)
At 31 December 2019	1,075	2,792	6,969	10,836
<b>NET BOOK VALUE</b>				
At 31 December 2019	9,888	1,329	17,080	28,297
At 31 December 2018	7,892	389	17,808	26,089

The net book value of long leasehold property is £303,000 (2018: £351,000), the net book value of short leasehold property is £Nil (2018: £56,000) and the net book value of freehold property is £7,491,000 (2018: £7,485,000). Right-of-use assets included in leasehold property totalled £2,094,000 and more detail showing the split of right-of-use assets is shown in the table overleaf.

# ARRIVA THE SHIRES LIMITED

## Notes to the financial statements For the Year Ended 31 December 2019

### 14. TANGIBLE ASSETS (continued)

Information on right-of-use lease assets included within tangible assets is provided in the following table:

	Freehold and leasehold property £000	Plant, machinery, fixtures and motor vehicles £000	Public service vehicles £000	Total £000
<b>Right-of-use assets</b>				
<b>Cost</b>				
At 1 January 2019 (on adoption)	2,493	42	747	3,282
At 31 December 2019	<u>2,493</u>	<u>42</u>	<u>747</u>	<u>3,282</u>
<b>Accumulated depreciation</b>				
At 1 January 2019	-	-	-	-
Charge for the year	399	26	560	985
At 31 December 2019	<u>399</u>	<u>26</u>	<u>560</u>	<u>985</u>
<b>Net book value</b>				
At 31 December 2019	<u>2,094</u>	<u>16</u>	<u>187</u>	<u>2,297</u>

# ARRIVA THE SHIRES LIMITED

## Notes to the financial statements For the Year Ended 31 December 2019

### 15. INVESTMENTS

	Investments in subsidiary companies £000
<b>COST OR VALUATION</b>	
At 1 January 2019	6,840
At 31 December 2019	6,840
<b>IMPAIRMENT</b>	
At 1 January 2019	4,840
At 31 December 2019	4,840
<b>NET BOOK VALUE</b>	
At 31 December 2019	2,000
At 31 December 2018	2,000

### SUBSIDIARY UNDERTAKINGS

The following were subsidiary undertakings of the company:

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

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 2019

### 16. STOCKS

	2019 £000	2018 £000
Raw materials and consumables	536	455

### 17. DEBTORS

	2019 £000	2018 £000
<b>Amounts falling due more than one year</b>		
Derivative financial instruments (Note 20)	116	275
	<u>116</u>	<u>275</u>
<b>Amounts falling due within one year</b>		
Trade debtors	1,312	702
Amounts owed by group undertakings	3,254	3,892
Other debtors	478	1,107
Prepayments and accrued income	1,441	1,290
Deferred tax asset (Note 21)	146	-
Derivative financial instruments (Note 20)	342	220
	<u>6,973</u>	<u>7,211</u>

All amounts owed by group undertakings were unsecured, interest free and repayable on demand.

# ARRIVA THE SHIRES LIMITED

## Notes to the financial statements For the Year Ended 31 December 2019

### 18. CREDITORS: Amounts falling due within one year

	2019 £000	2018 £000
Lease liabilities	581	-
Deferred grants	22	-
Amounts owed to group undertakings	11,889	15,867
Corporation tax	92	542
Other taxation and social security	909	932
Other creditors	861	1,356
Accruals and deferred income	4,854	2,795
Derivative financial instruments (Note 20)	134	246
	<u>19,342</u>	<u>21,738</u>

All amounts owed to group undertakings are unsecured, interest free and repayable on demand.

### 19. CREDITORS: Amounts falling due more than one year

	2019 £000	2018 £000
Lease liabilities	1,613	-
Deferred grants	186	-
Amounts owed to group undertakings	3,250	-
Derivative financial instruments (Note 20)	138	237
	<u>5,187</u>	<u>237</u>

Lease liabilities above include £664,000 (2018: £nil) due after more than 5 years.

## ARRIVA THE SHIRES LIMITED

### Notes to the financial statements For the Year Ended 31 December 2019

#### 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 (2018: £Nil).

The amounts recognised within the financial statements are as follows:

	2019 £000	2018 £000
Debtors : Amounts due more than one year (Note 17)	116	275
Debtors : Amounts due within one year (Note 17)	342	220
Creditors : Amounts due within one year (Note 18)	(134)	(246)
Creditors : Amounts due more than one year (Note 19)	(138)	(237)
	<u>186</u>	<u>12</u>

#### 21. DEFERRED TAX (ASSET) / LIABILITY

	2019 £000	2018 £000
At 1 January	190	554
Credited to profit for the financial year (Note 10)	(365)	(307)
Charged / (credited) to other comprehensive income	29	(57)
At 31 December	<u>(146)</u>	<u>190</u>

# ARRIVA THE SHIRES LIMITED

## Notes to the financial statements For the Year Ended 31 December 2019

### 21. DEFERRED TAX (ASSET) / LIABILITY (CONTINUED)

The (asset) / liability for deferred tax is made up as follows:

	2019 £000	2018 £000
Accelerated capital allowances	(156)	213
Short term timing differences	(22)	(25)
Derivative financial instruments	32	2
	<u>(146)</u>	<u>190</u>

### 22. CALLED UP SHARE CAPITAL

	2019 £	2018 £
<b>Authorised</b>		
10,000,000 Ordinary shares of £0.10 each (2018: 10,000,000)	<u>1,000,000</u>	<u>1,000,000</u>
<b>Allotted, called up and fully paid</b>		
7,283,079 Ordinary shares of £0.10 each (2018: 7,283,079)	<u>728,308</u>	<u>728,308</u>



**Notes to the financial statements  
For the Year Ended 31 December 2019**

**23. PENSION COMMITMENTS**

At 31 December 2019 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 2019. 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 £2,418,000 (2018: £1,644,000).

## ARRIVA THE SHIRES LIMITED

### Notes to the financial statements For the Year Ended 31 December 2019

#### 24. COMMITMENTS UNDER OPERATING LEASES

Prior to the adoption of IFRS 16, the company had future minimum lease payments under noncancellable operating leases at 31 December 2018 as follows:

	2019 £000	2018 £000
<b>Land and buildings</b>		
Not later than 1 year	-	293
Later than 1 year and not later than 5 years	-	973
Later than 5 years	-	834
	<hr/>	<hr/>
<b>Total land and buildings commitments</b>	-	2,100
<b>Other leases</b>		
Not later than 1 year	-	599
Later than 1 year and not later than 5 years	-	211
	<hr/>	<hr/>
<b>Total other leases commitments</b>	-	810
	<hr/>	<hr/>

#### 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 the company. 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 the company.

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.

**Notes to the financial statements  
For the Year Ended 31 December 2019**

**26. IMPACT OF ADOPTION OF IFRS 16**

On 1 January 2019 the company adopted IFRS 16 using the modified retrospective approach, with the cumulative effect of initially applying the Standard recognised on that date.

On transition, the company recognised an additional £3,282,000 of right-of-use assets and £3,156,000 of lease liabilities. The difference represents prepayments at 31 December 2018.

The weighted average incremental borrowing rate applied to lease liabilities recognised in the statement of financial position at the date of initial application was 1.8%.

The company has applied the following practical expedients on transition to IFRS 16 for existing lease contracts previously classified as operating leases under IAS 17:

- to not reassess whether a contract is, or contains, a lease at the date of initial application to all leases which previously qualified as a lease under the provisions of IAS 17 and IFRS IC 4;
- to account for leases as short term where the lease term ends within 12 months of initial application; and
- initial direct costs have been excluded from the measurement of the right-of-use asset on initial application

	<b>£000</b>
Operating lease commitment as at 31 December 2018	2,910
Recognition exemptions:	
- Short term leases	(10)
Additional lease commitments identified on transition to IFRS 16	340
Effect from consideration of termination and extension option	241
Effect from discounting	(325)
<b>Lease liabilities as at 1 January 2019</b>	<b>3,156</b>
Prepaid lease expenses as at 31 December 2018	126
<b>Right-of-use assets as at 1 January 2019</b>	<b>3,282</b>

**Notes to the financial statements  
For the Year Ended 31 December 2019**

**27. POST BALANCE SHEET EVENTS**

As a public transport operator, the Arriva group has been significantly impacted by the Covid-19 coronavirus pandemic, which is a non-adjusting post balance sheet event, with a resulting impact on passengers, colleagues, and other business stakeholders.

The Arriva group has and continues to work closely with both local and national government bodies and transport authorities on support measures to ensure continuation of critical transportation services during the pandemic. The company has been working with local authorities to increase services closer to pre pandemic service levels, to ensure a reduced risk of overcrowding following the reopening of major sectors of the economy. The company will seek to maintain maintain its services at or close to pre pandemic levels, supported by continued use of available CBSSG Restart funding.

Impairment charges may need to be recognised in the company's financial statements for the year ended 31 December 2020 on certain of the company's fixed assets, due to the impact of the pandemic on the company's and its subsidiaries financial projections. The value of the potential impairments cannot be quantified at this time, as the financial projections and associated impairment reviews have not yet been finalised.