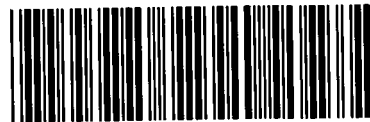


**ARRIVA THE SHIRES LIMITED**

**Annual report and financial statements**

**For the Year Ended 31 December 2017**

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<b>ARRIVA THE SHIRES LIMITED</b>
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**Company Information**

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<b>Directors</b>	M A Bowd J M Perkin K L O'Leary C Woodhouse S J Finnie
<b>Company secretary</b>	L Edwards
<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

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## Strategic report For the Year Ended 31 December 2017

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The directors present their Strategic report for the year ended 31 December 2017.

### 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 £4,723,000 (2016: £6,941,000). The reduction in profit before taxation is partly due to the company receiving no dividend income during the year (2016: dividends received of £7,700,000), offset by there being no impairment charges for 2017 (2016: impairment charge of £4,840,000). Excluding these two items, profitability increased year on year.

At the balance sheet date, the company had net assets of £20,929,000 (2016: £16,732,000). The increase in net assets is due to the profit during the year and an increase in the fair value of derivative financial instruments.

The directors consider the state of the company's affairs to be satisfactory and the company retains sufficient liquidity to fulfil capital expenditure and trading requirements for 2018.

### PRINCIPAL RISKS AND UNCERTAINTIES

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

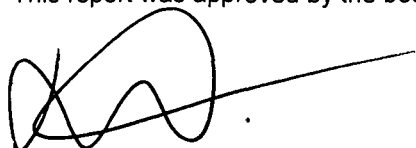
### FUTURE DEVELOPMENTS

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

### KEY PERFORMANCE INDICATORS

The 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 3 August 2018 and signed by order of the board.



**J M Perkin**  
Director

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## ARRIVA THE SHIRES LIMITED

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### Directors' report For the Year Ended 31 December 2017

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The directors present their report and the audited financial statements for the year ended 31 December 2017.

#### RESULTS AND DIVIDENDS

The profit for the year, after taxation, amounted to £3,637,000 (2016: £6,188,000).

The company did not pay a dividend during the year (2016: £7,700,000).

#### 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 (appointed 10 January 2017)

M A Thornley (appointed 6 February 2017, resigned 24 July 2018)

C Woodhouse (appointed 7 March 2017)

S J Finnie (appointed 20 June 2018)

#### FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

#### EMPLOYEE INVOLVEMENT

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

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

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

#### DISABLED EMPLOYEES

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

#### MATTERS COVERED IN THE STRATEGIC REPORT

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

# ARRIVA THE SHIRES LIMITED

## Directors' report For the Year Ended 31 December 2017

### 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 3 August 2018 and signed by order of the board.



**J M Perkin**  
Director

**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 2017 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 2017; 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.

**Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

**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 or, 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 2017 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](http://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  
Newcastle upon Tyne

3 August 2018

# ARRIVA THE SHIRES LIMITED

## Statement of comprehensive income For the Year Ended 31 December 2017

	Note	2017 £000	2016 £000
Turnover	3	49,520	49,180
Cost of sales		(37,757)	(38,323)
<b>Gross profit</b>		<b>11,763</b>	<b>10,857</b>
Administrative expenses		(7,042)	(6,790)
Other operating income		64	94
<b>Operating profit</b>	5	<b>4,785</b>	<b>4,161</b>
Income from shares in group undertakings		-	7,700
Amounts written off investments		-	(4,840)
Interest receivable and similar income	9	-	9
Interest payable and similar charges	10	(62)	(89)
<b>Profit on ordinary activities before taxation</b>		<b>4,723</b>	<b>6,941</b>
Taxation on profit on ordinary activities	11	(1,086)	(753)
<b>Profit for the financial year</b>		<b>3,637</b>	<b>6,188</b>
<b>Other comprehensive income:</b>			
<b>Items that may be reclassified to profit or loss:</b>			
Changes in market value of cash flow hedges		675	6,089
Deferred tax attributable to changes in market value of cash flow hedges	22	(115)	(1,100)
		560	4,989
<b>Total comprehensive income for the financial year</b>		<b>4,197</b>	<b>11,177</b>

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 2017**

	Note	2017 £000	2016 £000
<b>Fixed assets</b>			
Other Intangible Assets	13	177	350
Goodwill	14	461	461
Tangible assets	15	30,088	27,760
Investments	16	2,000	2,000
		<u>32,726</u>	<u>30,571</u>
<b>Current assets</b>			
Stocks	17	460	325
Debtors: Amounts due more than one year	18	467	377
Debtors	18	5,669	3,874
Cash at bank and in hand		363	407
		<u>6,959</u>	<u>4,983</u>
Creditors: Amounts due within one year	19	(18,124)	(17,452)
<b>Net current liabilities</b>		<u>(11,165)</u>	<u>(12,469)</u>
<b>Total assets less current liabilities</b>		<u>21,561</u>	<u>18,102</u>
Creditors: Amounts due more than one year	20	(78)	(298)
<b>Provisions for liabilities</b>			
Deferred taxation	22	(554)	(1,072)
		<u>(554)</u>	<u>(1,072)</u>
<b>Net assets</b>		<u><u>20,929</u></u>	<u><u>16,732</u></u>
<b>Capital and reserves</b>			
Called up share capital	23	728	728
Cash flow hedge reserve		290	(270)
Profit and loss account		19,911	16,274
<b>Total shareholders' funds</b>		<u><u>20,929</u></u>	<u><u>16,732</u></u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 3 August 2018.

  
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 2017

	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
<b>Comprehensive income for the year</b>				
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)
<b>Other comprehensive income for the year</b>	-	560	-	560
<b>Total comprehensive income for the year</b>	-	560	3,637	4,197
<b>At 31 December 2017</b>	<b>728</b>	<b>290</b>	<b>19,911</b>	<b>20,929</b>

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

	Called up share capital £000	Cash flow hedge reserve £000	Profit and loss account £000	Total shareholders' funds £000
At 1 January 2016	728	(5,259)	17,786	13,255
<b>Comprehensive income for the year</b>				
Profit for the financial year	-	-	6,188	6,188
Changes in market value of cash flow hedges	-	6,089	-	6,089
Deferred tax attributable to changes in market value of cash flow hedges	-	(1,100)	-	(1,100)
<b>Other comprehensive income for the year</b>	-	4,989	-	4,989
<b>Total comprehensive expense for the year</b>	-	4,989	6,188	11,177
Dividends paid (Note 12)	-	-	(7,700)	(7,700)
<b>At 31 December 2016</b>	<b>728</b>	<b>(270)</b>	<b>16,274</b>	<b>16,732</b>

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

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## ARRIVA THE SHIRES LIMITED

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### Notes to the financial statements For the Year Ended 31 December 2017

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#### 1. ACCOUNTING POLICIES

##### 1.1 BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The financial statements have been prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101) and the Companies Act 2006. The principal accounting policies adopted in the preparation of the financial statements are set out below and have been consistently applied to all years, unless otherwise stated. The financial statements have been prepared on the going concern basis under the historic cost convention and in accordance with the Companies Act 2006.

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

##### 1.2 TURNOVER

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

##### 1.3 INTANGIBLE 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.

**Notes to the financial statements  
For the Year Ended 31 December 2017**

**1. ACCOUNTING POLICIES  
(continued)**

**1.4 GOODWILL**

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

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

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

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

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

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

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

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**ARRIVA THE SHIRES LIMITED**

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**Notes to the financial statements  
For the Year Ended 31 December 2017**

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**1. ACCOUNTING POLICIES  
(continued)**

**1.5 TANGIBLE FIXED ASSETS**

Tangible fixed assets are stated at cost less accumulated depreciation.

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

Depreciation is provided on the following bases:

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

**1.7 LEASING AND HIRE PURCHASE**

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

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

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

**1.8 OPERATING LEASES**

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

**Notes to the financial statements  
For the Year Ended 31 December 2017**

**1. ACCOUNTING POLICIES  
(continued)**

**1.9 DEBTORS**

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

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

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

**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.



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**Notes to the financial statements  
For the Year Ended 31 December 2017**

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**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 shareholders' equity with no impact on the statement of comprehensive income, and are only recognised in the statement of comprehensive income at the point at which the corresponding losses or profits from the underlying hedged item have an impact on the statement of comprehensive income or the transaction expires.

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

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**Notes to the financial statements  
For the Year Ended 31 December 2017**

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**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
  - paragraph 79(a)(iv) of IAS 1;
  - paragraph 73(e) of IAS 16 Property, Plant and Equipment;
  - paragraph 118(e) of IAS 38 Intangible Assets;
- the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134-136 of IAS 1 Presentation of Financial Statements
- the requirements of IAS 7 Statement of Cash Flows
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- the requirements of paragraph 17 of IAS 24 Related Party Disclosures
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member
- the requirements of paragraphs 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets.

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

FRS 101 sets out a reduced disclosure framework for a "qualifying entity" as defined in the standard which permits a qualifying entity to apply the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU, 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 2017**

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**1. ACCOUNTING POLICIES  
(continued)**

**1.16 CURRENT AND DEFERRED TAXATION**

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

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

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

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

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

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

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

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

Deferred tax assets and liabilities are not discounted.

**Notes to the financial statements  
For the Year Ended 31 December 2017**

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

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

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

**2.1 Useful economic lives of tangible fixed assets**

The annual depreciation charge for tangible fixed assets is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are reassessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets. See note 15 for the carrying amount of the tangible fixed assets and Note 1.5 for the useful economic lives for each class of assets.

**2.2 Stock provisioning**

The recoverability of the cost of stock is considered and when calculating a stock provision, management consider the nature and condition of the stock as well as applying assumptions around anticipated future usage of the stock or recoverability. See note 17 for the carrying amount of the stock.

**2.3 Impairment of debtors**

The company make an estimate of the recoverable value of 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 18 for the carrying amount of debtors.

**2.4 Insurance provisions**

The company makes a provision for the amounts payable under insurance incidents as presented under accruals and deferred income, see note 19 for the carrying amount of accruals and deferred income included within creditors. The estimation of the insurance provision is based on an assessment of the expected settlement on known claims based on the experience of insurance claims handlers.

**3. ANALYSIS OF TURNOVER**

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

All turnover arose within the United Kingdom.

**4. GENERAL INFORMATION**

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

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

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**ARRIVA THE SHIRES LIMITED**

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**Notes to the financial statements  
For the Year Ended 31 December 2017**

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**5. OPERATING PROFIT**

The operating profit is stated after charging:

	<b>2017</b>	<b>2016</b>
	<b>£000</b>	<b>£000</b>
Depreciation of tangible fixed assets - owned	<b>2,749</b>	<b>2,800</b>
Amortisation of intangible assets, other than goodwill	<b>173</b>	<b>173</b>
Cost of stocks recognised as an expense	<b>9,047</b>	<b>9,152</b>
<b>Operating lease rentals</b>		
- plant and machinery	<b>236</b>	<b>418</b>
- land and buildings	<b>353</b>	<b>353</b>
- other leases	<b>350</b>	<b>-</b>

During the year the company made a loss on disposal of fixed assets of £35,000 (2016: profit of £29,000).

**6. AUDITORS' REMUNERATION**

Fees payable to the company's auditors in respect of the audit of the financial statements and for other services provided to the company:

	<b>2017</b>	<b>2016</b>
	<b>£000</b>	<b>£000</b>
Fees for the audit of the company	<b>13</b>	<b>27</b>
Auditors' remuneration - non-audit	<b>-</b>	<b>2</b>
	<b>13</b>	<b>29</b>

# ARRIVA THE SHIRES LIMITED

## Notes to the financial statements For the Year Ended 31 December 2017

### 7. STAFF COSTS

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

	2017 £000	2016 £000
Wages and salaries	23,687	23,408
Social security costs	2,244	2,244
Other pension costs (Note 24)	731	736
	<u>26,662</u>	<u>26,388</u>

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

	2017 No.	2016 No.
Drivers	657	640
Engineering	90	99
Administrative	76	83
	<u>823</u>	<u>822</u>

### 8. DIRECTORS' EMOLUMENTS

	2017 £000	2016 £000
Remuneration	118	140
Employers pension contributions	3	4
	<u>121</u>	<u>144</u>

During the year retirement benefits were accruing to no directors (2016 - 1) in respect of defined benefit pension schemes.

**ARRIVA THE SHIRES LIMITED**

**Notes to the financial statements  
For the Year Ended 31 December 2017**

**9. INTEREST RECEIVABLE AND SIMILAR INCOME**

	2017 £000	2016 £000
Interest receivable from group undertakings	-	9
	<u>-</u>	<u>9</u>
	<u>-</u>	<u>9</u>

**10. INTEREST PAYABLE AND SIMILAR CHARGES**

	2017 £000	2016 £000
Interest payable to group undertakings	62	89
	<u>62</u>	<u>89</u>
	<u>62</u>	<u>89</u>

**11. TAXATION ON PROFIT ON ORDINARY ACTIVITIES**

	2017 £000	2016 £000
<b>Corporation tax</b>		
Current tax on profits for the year	704	844
Adjustments in respect of prior years	1,015	11
<b>Total current tax</b>	<u>1,719</u>	<u>855</u>
<b>Deferred tax</b>		
Origination and reversal of timing differences	235	(46)
Adjustments in respect of prior years	(868)	(56)
<b>Total deferred tax (Note 22)</b>	<u>(633)</u>	<u>(102)</u>
<b>Taxation on profit on ordinary activities</b>	<u>1,086</u>	<u>753</u>

# ARRIVA THE SHIRES LIMITED

## Notes to the financial statements For the Year Ended 31 December 2017

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

#### FACTORS AFFECTING TAX CHARGE FOR THE YEAR

The tax assessed for the year is higher than (2016 - *lower than*) the standard rate of corporation tax in the UK of 19.25% (2016 - 20%). The differences are explained below:

	2017 £000	2016 £000
Profit on ordinary activities before tax	4,723	6,941
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.25% (2016 - 20%)	909	1,388
<b>Effects of:</b>		
Non-tax deductible amortisation of intangible assets	33	35
Depreciation in respect of ineligible fixed assets	28	16
Adjustments to tax charge in respect of prior years	147	(45)
Impairment of investment	-	968
Non-taxable dividend income	-	(1,540)
Impact of rate change on deferred tax	(31)	(69)
<b>Total tax charge for the year</b>	<b>1,086</b>	<b>753</b>

#### 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.

### 12. DIVIDENDS

	2017 £000	2016 £000
Dividends paid on ordinary shares	-	7,700
	-	7,700



# ARRIVA THE SHIRES LIMITED

## Notes to the financial statements For the Year Ended 31 December 2017

### 13. OTHER INTANGIBLE ASSETS

	Licences £000
<b>Cost</b>	
At 1 January 2017	2,600
<b>At 31 December 2017</b>	<b>2,600</b>
<b>Accumulated amortisation</b>	
At 1 January 2017	2,250
Charge for the year	173
<b>At 31 December 2017</b>	<b>2,423</b>
<b>Net book value</b>	
<b>At 31 December 2017</b>	<b>177</b>
<i>At 31 December 2016</i>	<i>350</i>

### 14. GOODWILL

	2017 £000
<b>Cost</b>	
At 1 January 2017	1,472
<b>At 31 December 2017</b>	<b>1,472</b>
<b>Accumulated amortisation</b>	
At 1 January 2017	1,011
<b>At 31 December 2017</b>	<b>1,011</b>
<b>Net book value</b>	
<b>At 31 December 2017</b>	<b>461</b>
<i>At 31 December 2016</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 2017

### 15. TANGIBLE ASSETS

	Freehold and leasehold property £000	Plant, machinery, fixtures and motor vehicles £000	Public service vehicles £000	Total £000
<b>Cost</b>				
At 1 January 2017	8,400	6,210	29,581	44,191
Additions	-	172	5,338	5,510
Disposals	-	(28)	(4,982)	(5,010)
<b>At 31 December 2017</b>	<b>8,400</b>	<b>6,354</b>	<b>29,937</b>	<b>44,691</b>
<b>Accumulated depreciation</b>				
At 1 January 2017	275	5,570	10,586	16,431
Charge for the year	132	216	2,401	2,749
Disposals	-	(27)	(4,550)	(4,577)
<b>At 31 December 2017</b>	<b>407</b>	<b>5,759</b>	<b>8,437</b>	<b>14,603</b>
<b>Net book value</b>				
<b>At 31 December 2017</b>	<b>7,993</b>	<b>595</b>	<b>21,500</b>	<b>30,088</b>
<i>At 31 December 2016</i>	<i>8,125</i>	<i>640</i>	<i>18,995</i>	<i>27,760</i>

The net book value of long leasehold property is £399,000 (2016: £447,000), the net book value of short leasehold property is £49,000 (2016: £73,000) and the net book value of freehold property is £7,545,000 (2016: £7,605,000).

# ARRIVA THE SHIRES LIMITED

## Notes to the financial statements For the Year Ended 31 December 2017

### 16. INVESTMENTS

	Shares in group undertakings £000
<b>Cost</b>	
At 1 January 2017	6,840
<b>At 31 December 2017</b>	<b>6,840</b>
<b>Impairment</b>	
At 1 January 2017	4,840
<b>At 31 December 2017</b>	<b>4,840</b>
<b>Net book value</b>	
<b>At 31 December 2017</b>	<b>2,000</b>
<i>At 31 December 2016</i>	<i>2,000</i>
<b>SUBSIDIARY UNDERTAKINGS</b>	

The following were subsidiary undertakings of the company:

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

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

# ARRIVA THE SHIRES LIMITED

## Notes to the financial statements For the Year Ended 31 December 2017

### 17. STOCKS

	2017 £000	2016 £000
Raw materials and consumables	460	325

### 18. DEBTORS

	2017 £000	2016 £000
<b>Amounts due more than one year</b>		
Derivative financial instruments (Note 21)	467	377
	<u>467</u>	<u>377</u>

	2017 £000	2016 £000
<b>Amounts due within one year</b>		
Trade debtors	1,363	901
Amounts owed by group undertakings	1,210	1,201
Other debtors	1,712	806
Prepayments and accrued income	1,179	865
Derivative financial instruments (Note 21)	205	101
	<u>5,669</u>	<u>3,874</u>

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

	2017 £000	2016 £000
Amounts owed to group undertakings	11,344	9,743
Corporation tax	704	844
Other taxation and social security	1,347	1,444
Other creditors	1,530	1,490
Accruals and deferred income	2,956	3,427
Derivative financial instruments (Note 21)	243	504
	<u>18,124</u>	<u>17,452</u>

# ARRIVA THE SHIRES LIMITED

## Notes to the financial statements For the Year Ended 31 December 2017

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

	2017 £000	2016 £000
Derivative financial instruments (Note 21)	78	298
	<u>78</u>	<u>298</u>

### 21. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

The effectiveness of the hedge is assessed prospectively using linear regression. The retrospective effectiveness measurement is carried out as of every balance sheet date by means of linear regression.

The ineffectiveness is also calculated using the dollar-offset method. Under this method, the changes in the market values of the underlying are compared with the changes in the market value of the hedging instrument. The resultant quotient determines the inefficiency.

The inefficiencies of cash flow hedges of the energy price derivatives recognised in the statement of comprehensive income are £Nil (2016: £Nil).

The amounts recognised within the financial statements are as follows:

	2017 £000	2016 £000
Debtors : Amounts due more than one year	467	377
Debtors : Amounts due within one year	205	101
Creditors : Amounts due within one year	(243)	(504)
Creditors : Amounts due more than one year	(78)	(298)
	<u>351</u>	<u>(324)</u>

# ARRIVA THE SHIRES LIMITED

## Notes to the financial statements For the Year Ended 31 December 2017

### 22. DEFERRED TAX LIABILITY

	2017 £000	2016 £000
At 1 January	1,072	74
Credited to profit or loss (Note 11)	(633)	(102)
Charged to other comprehensive income	115	1,100
<b>At 31 December</b>	<b>554</b>	<b>1,072</b>

The liability for deferred tax is made up as follows:

	2017 £000	2016 £000
Accelerated capital allowances	524	1,155
Short term timing differences	(29)	(28)
Derivative financial instruments	59	(55)
	<b>554</b>	<b>1,072</b>

### 23. CALLED UP SHARE CAPITAL

	2017 £	2016 £
<b>Authorised</b>		
10,000,000 Ordinary shares of £0.10 each (2016: 10,000,000)	<b>1,000,000</b>	<b>1,000,000</b>
<b>Allotted, called up and fully paid</b>		
7,283,079 Ordinary shares of £0.10 each (2016: 7,283,079)	<b>728,308</b>	<b>728,308</b>

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## ARRIVA THE SHIRES LIMITED

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### Notes to the financial statements For the Year Ended 31 December 2017

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#### 24. PENSION COMMITMENTS

At 31 December 2017 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 (APSP) and the Arriva Passenger Services National Pension Scheme (APSNPS) and are financed through separate Trustee administered funds managed by independent professional fund managers on behalf of the Trustees.

##### **Arriva Passenger Services Pension Plan (APSP)**

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

##### **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 2017. 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 £731,000 (2016: £736,000).

# ARRIVA THE SHIRES LIMITED

## Notes to the financial statements For the Year Ended 31 December 2017

### 25. COMMITMENTS UNDER OPERATING LEASES

At 31 December 2017 the company had future minimum lease payments under non-cancellable operating leases as follows:

	2017 £000	2016 £000
<b>Land and buildings</b>		
Not later than 1 year	249	249
Later than 1 year and not later than 5 years	902	1,120
Later than 5 years	814	930
<b>Total land and buildings</b>	<b>1,965</b>	<b>2,299</b>
<b>Other leases</b>		
Not later than 1 year	567	349
Later than 1 year and not later than 5 years	755	-
<b>Total other leases</b>	<b>1,322</b>	<b>349</b>

### 26. ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY

The immediate parent company is Arriva UK Bus Holdings Limited (formerly Arriva (2007) Limited).

The ultimate parent company and ultimate controlling party is Deutsche Bahn AG, a company registered in Germany, which has prepared group financial statements incorporating the results of Arriva The Shires Limited.

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

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

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

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