Registered number: 02116519

ARRIVA THE SHIRES LIMITED

Annual report and financial statements

For the Year Ended 31 December 2022

ARRIVA THE SHIRES LIMITED

Company Information

Directors	J M Perkin C D Burley L W Hall
Registered number	02116519
Registered office	1 Admiral Way Doxford International Business Park Sunderland Tyne and Wear SR3 3XP
Independent auditors	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors Central Square South Orchard Street Newcastle upon Tyne NE1 3AZ

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Strategic report
For the Year Ended 31 December 2022

The directors present their Strategic report for the year ended 31 December 2022.

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 shows a loss before tax of £3,735,000 (2021: £1,056,000) primarily due to a reduction in other operating income following the cessation of the COVID-19 Bus Services Support Grant Restart ('CBSSG Restart') from the Department for Transport ('DfT') which ended in August 2021.

At the balance sheet date, the company had net assets of £11,322,000 (2021: £14,689,000). The decrease in net assets reflects the impact of the loss for the year, recognised within the Statement of comprehensive income.

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 as patronage growth recovers beyond the pandemic.

The company is predominantly supported by funding via the Bus Service Operators Grant Plus (BSOG+) scheme. In addition, the company is further supported by the local transport authority via the Bus Service Improvement Plan Plus (BSIP+). Both BSOG+ and BSIP+ will continue to run into 2025. Further funding is also provided through the £2 fare cap mechanism, which has been further extended to December 2024.

On 19 October 2023, Deutsche Bahn AG ('DB') announced an agreement had been signed under which Arriva plc, the company's intermediate parent company, would be sold to I-Squared Capital. The sale is expected to complete in the first half of 2024, following which the company would cease to be part of the DB Group. Should a change in ownership occur, the directors are unable to assess or control all scenarios for the company's future, including the intent and ability of any future owner to continue to provide funding to the company.

Currently the company voluntarily participates in a group cash pooling and credit facility arrangement operated by its ultimate parent, DB. This is a long-standing arrangement operated by DB to manage the liquidity needs of DB group companies that the company has been party to for several years, and the arrangement is expected to remain in place up to the change in control. Under the arrangement substantially all the company's cash balances are swept into the group cash pool at the end of each business day.

FUTURE DEVELOPMENTS (CONTINUED)

At the balance sheet date the company has net current liabilities of £11,306,000 (2021: £11,216,000) and is currently dependent on cash and the DB credit facility for daily access to the cash flows required to operate and to support the going concern assumption. As the terms of the company's agreement with DB do not provide explicit rights for immediate access to these funds on request, this gives rise to a potential liquidity risk that funds may not be available as required to settle liabilities during the period of 12 months from the date of approval of the financial statements, which 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 DB 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 balances within the group cash pool to settle its liabilities as they fall due. The company has a unilateral right to terminate its participation in the DB group cash pooling arrangement by giving one month's notice to DB.

The directors also acknowledge there is no guarantee that a formal commitment will be in place for the DB credit facility. This also indicates the existence of a material uncertainty which may cast significant doubt on the company's ability to continue as a going concern. In completing their going concern assessment, the directors have also considered a severe but plausible downside scenario, along with associated management actions that would be taken to mitigate the impacts under the scenario on the company's cash and DB credit facility position. Actions management might need to implement include reducing services and delaying or curtailing discretionary operating or capital expenditures. If these actions were insufficient to allow cash requirements to be funded from within the current credit facility, additional funding might be required from DB.

The extension of government funding, including BSOG+ and BSIP+ funding to 2025 and the £2 fare cap funding to December 2024, give the directors confidence in continued future government support available to the sector and to the company, with continued government support committed to throughout the going concern assessment period.

Outcome of directors' going concern assessment

The directors acknowledge that the uncertainty regarding immediate access to funds placed with DB prior to the expected change in control, together with the uncertainty over replacement funding arrangements from the point of expected change in control onwards, indicate the existence of material uncertainties which may cast significant doubt about the company's ability to continue as a going concern and therefore, it may be unable to realise its assets and discharge its liabilities in the normal course of business.

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 cash or credit facility balances with DB, and that appropriate funding arrangements will be in place post the acquisition of the Arriva group by I-Squared Capital and therefore remain confident of the company's ability to continue to operate and to discharge its liabilities as they fall due 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.

SECTION 172 STATEMENT

Section 172 of the Companies Act 2006 requires a director of a company to act in the way he or she considers, in good faith, would most likely promote the success of the company for the benefit of its members as a whole.

In doing this, section 172 requires a director to have regard to (amongst other matters) to:

- the likely consequences of any decisions in the long-term;
- the interests of the company's employees;
- the need to foster the company's business relationships with suppliers, customers and others;
- the impact of the company's operations on the community and environment;
- the desirability of the company maintaining a reputation for high standards of business conduct; and
- the need to act fairly as between members of the company.

The role of the company's Board of Directors (the Board) is to be collectively responsible for the company's long-term sustainable success, providing strategic leadership, direction, and governance within a framework of effective controls. In giving due regard to their duties as directors, the Board are mindful of the principal activities and purpose of the company and its interaction with the wider Arriva group. The directors are particularly focussed on the interests of its employees and the need to foster business relationships with suppliers, customers, and others. The Board recognises that it is accountable to its stakeholders for ensuring that the company is appropriately managed and achieves its objectives in a way that is supported by the right culture and behaviours. The issues and factors which have guided the directors' decisions are outlined in the 'Principal Risks and Uncertainties' section of this report.

Governance

The company is a wholly owned subsidiary of Arriva plc, with Deutsche Bahn AG being the ultimate parent company. The directors of the company aim to meet monthly to discuss the matters that cannot be delegated under the Companies Act 2006.

The day-to-day management of the company's business and the implementation of the strategy and policies of the company, including those relating to its relationships with key stakeholders, is managed by the Board.

Board meetings of the company are attended by the directors and the agenda is set in collaboration between directors prior to such meetings. The Board's annual rolling agenda ensures that time is balanced between strategy and operational performance, as well as the Board's wide-ranging governance and regulatory responsibilities. To allow directors to utilise their time and skills effectively at Board meetings, papers are circulated securely and electronically to all directors ahead of each meeting.

The Board is supportive of regular director training. With the ever-evolving regulatory and policy landscape in which the Arriva group operates, it is important that the Board maintains a good working knowledge of the Bus sector and how the company operates within this sector, as well as being aware of recent and upcoming developments in the wider legal and regulatory environment. To support the Board's knowledge and skills, the directors of the Board are provided with directors' duties training.

During the year, the Board continued to operate in accordance with the Arriva group's Corporate Governance Manual, which includes formal procedures for the working of the Board and its committees within the governance framework and delegated authorities.

Principal decisions

Principal decisions are defined by the company as those which impact the long-term sustainable success of the company, or which have a significant effect on the company's stakeholders. Understanding the company's stakeholders and how they and their interests will impact the success of the company over the long-term is a key part of the Board decision making in which they are required to consider the future development, performance and position of the Arriva group.

SECTION 172 STATEMENT (CONTINUED)

Principal decisions (continued)
During the financial year ended 31 December 2022 the directors did not make any principal decisions that impacted the company or its ability to meet the expectations of the company's key stakeholders.

Sustainability
The Board considers the impact of the company's operations on the community and environment and the long-term sustainability of the company in their decision making to ensure that it is aligned with the Arriva group's mission to become the leading passenger transport partner across Europe and to accelerate the company's journey to becoming a climate neutral company.

Further information on how the directors have had regard to their duties as a director of the company can be found in the following sections:
Employee engagement and employee initiatives – pages 5 to 8
Engagement with stakeholders – pages 8 to 9
Streamlined energy and carbon report – pages 10 to 11

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 the company. 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 12 January 2024 and signed on behalf of the board.

J M Perkin
Director

Directors' report
For the Year Ended 31 December 2022

The directors present their report and the audited financial statements for the year ended 31 December 2022.

RESULTS AND DIVIDENDS

The loss for the year, after taxation, amounted to £3,307,000 *(2021: £688*,000).

The company did not pay a dividend (2021: £nil) during the financial year.

DIRECTORS

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

S W Mathieson (resigned 1 February 2023)
A Godley (resigned 14 July 2023)
J M Perkin
K L O'Leary (resigned 2 March 2023)
C D Burley (appointed 28 February 2022)
S J Finnie (resigned 28 February 2022)
N C Bland (appointed 9 February 2023, resigned 8 January 2024)
L W Hall (appointed 27 March 2023)

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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 AG treasury policy. For further details relating to financial risk management please refer to the Deutsche Bahn AG 2022 Integrated Report.

EMPLOYEE ENGAGEMENT

The Board 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, whilst working within a common set of values. The Board is committed to assist the company in its aspirations to be an employer of choice and to employ a workforce with the skills, abilities, diversity and attitudes to meet the company's business objectives and needs. The Board aims to provide appropriate remuneration, benefits and conditions of employment which serve to attract, retain, motivate and reward its employees.

The Board is supportive of the company's promotion of employee involvement and inclusion and subject to the restraints of commercial confidentiality, makes information available to employees about recent and future developments and the business activities of the company, including financial and economic factors that may have an impact on the company's performance.

The Board receive updates by the company's senior managers at Board meetings. These include proposals and relevant information impacting the strategy and policies of the company, including those relating to employee and workforce engagement. Information communicated to the Board by senior management about employees and the workforce helps to inform the Board to ensure workforce policies and procedures are consistent with the company's values, in promoting its long-term sustainable success. Information on principal decisions made by the company during the financial year ended 31 December 2022 can be found in the Section 172 Statement on pages 3 to 4 of this Annual report.

Employee feedback and communication
Both group-wide and local employee surveys are carried out regularly and the Board considers the results of these surveys to highlight areas of engagement and areas for improvement and action. The directors oversee initiatives to improve any areas of development highlighted by the surveys, as well as maintaining those areas highlighted as working well.

EMPLOYEE ENGAGEMENT (CONTINUED)

Employee feedback and communication (continued)
The results of the employee surveys are communicated via the Arriva group's intranet and across the UK Bus division via social media channels and applications as well as notice boards. In addition, meetings are held by line managers with representatives of their teams to address areas of concern and seek employee input to find solutions.

Employee health and wellbeing
During 2022, the Arriva groups new Inclusion strategy was launched with the aim of ensuring a co-ordinated approach to inclusion across all business units, so that all parts of the Arriva group are aligned behind common goals. The Board were supportive of progressing the implementation of the strategy throughout the company whereby all Arriva group employees are considered and given fair and equal consideration.

The UK Bus division also operates an Equality, Diversity and Inclusion council with a supporting governance structure. During 2022 the council launched a number of project streams to support equality in the workplace, increase colleague diversity and promote a more inclusive culture. Examples of the projects, include, conducting a diversity data collection survey to further understanding the diversity of our colleagues, thereby helping ensure that the UK Bus division welcomes and accommodates everyone. Other projects include marking events and celebrations, driver development and career pathways, flexible working, recruitment and selection improvements and training and education. These initiatives all support the overall aim to attract and retain colleagues and be an inclusive employer.

All employees have access to online training and assessments on topics such as emotional wellbeing, mental health and remote working. This is in addition to the Arriva group programme Global Arriva Inclusion Network (GAIN), which is aimed at promoting support for mental health and encouraging employees to share their stories to tackle mental health concerns. GAIN is a place for employees to celebrate and share their experience of working at the Arriva group. Open and honest feedback is vital to making the Arriva group a place where employees can be themselves every day – regardless of their race, religion, disability, gender, sexual orientation, or any other characteristic.

The GAIN community is supported by members of the Arriva Management Board (AMB), who act as executive sponsors, using their voices to influence change within the business. Five colleagues also lead the GAIN communities and act as a driving force, helping to plan events, collate feedback and coordinate the group's activity.

Equal opportunities
The directors believe in equal opportunities regardless of gender, age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation. This approach is underpinned by the company's commitment to providing equal opportunities to its current and potential employees and applying fair and equitable employment practices. The company gives full and fair consideration to job applications from people with disabilities, considering their skills and abilities.

Where an employee may become disabled, whether through accident, illness or injury, every reasonable and practicable consideration will be given to ensure that they may remain in employment. There may be some instances where there are no reasonable adjustments that can be made; where this occurs, the company will endeavour to find a suitable alternative position. The Arriva group's Diversity, Inclusion and Equality Policy forms part of the Arriva group policies and standards.

Arriva The Shires Limited's equal opportunity policy includes providing career development and training opportunities, along with promotion opportunities for all employees with any disability.

EMPLOYEE ENGAGEMENT (CONTINUED)

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

The 'Emerging Leaders' programme 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.

The 'Lift Off for Leadership' programme is an initiative 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.

The Arriva Line Manager Programme (ALMP) is a group wide initiative aimed at providing front line people managers with the knowledge and skills to effectively lead their people. Based on the Arriva management competency framework, the programme is a blended curriculum covering areas such as leading others, communicating effectively, developing others and leading in an inclusive and diverse working environment. This collaborative approach invites managers from both the UK Bus division and the UK Train division to forge relationships and networks across the business.

The Arriva Supervisor Development Programme (ASDP) is aimed at helping first line supervisors to develop their knowledge and skills to become more effective in their role. A more practical programme than ALMP, this learning curriculum focuses more on day-to-day activities such as maintaining a safe working environment, coaching for performance and communicating tasks and company messages.

In the commitment to support leadership skills at all levels of the business the UK Bus division, the Board are supportive of the company's partnerships with higher education institutions to promote senior leader apprenticeship schemes.

Volunteering
Within its individual business functions, the Arriva group encourages employees to volunteer for charities and projects in the local community. Previous volunteering activities have included supporting local schools with career advice, as well as various types of fundraising and other projects. This work was undertaken in a manner that fits best with the company's structure and that maximises the benefit that the company can deliver to its communities.

In addition to the group activities, the UK Bus division supports local charitable/charity initiatives which are meaningful and relevant to the local teams and customer base.

EMPLOYEE ENGAGEMENT (CONTINUED)

Moving forward from the COVID-19 pandemic
Since the start of the pandemic, the safety and wellbeing of employees has been of the utmost importance to the Board and during this time the company has supported employees through flexible working arrangements, seeking regular feedback and making adjustments so that employees can conduct their roles safely.

With the introduction of the Omicron variant of COVID-19 in early 2022, the Board was again challenged to respond at pace to the wider deviation of measures and rules implemented across the United Kingdom and Europe. The Board, with the oversight of the UK Bus Executive Leadership Team (UKBELT) and the AMB, have continually focussed their efforts on safeguarding the health and wellbeing of the Arriva group's employees and passengers, and as a result of a resilient business model were able to respond rapidly to the changing requirements during the pandemic.

Throughout this extraordinary period, the company's employees have shown significant commitment and resilience to ensure that the business continued to deliver safe, reliable services for its customers and communities. As the restrictions of the pandemic were lifted during 2022, the Board remain collectively focused on fulfilling an important purpose in supporting society, its communities and the environment and this has continued to be demonstrated across the business unit as a new normal has been established.

ENGAGEMENT WITH SUPPLIERS, CUSTOMERS AND OTHERS

The Board seeks to achieve its strategic objectives by taking into account the needs of its stakeholders and the impact the company's business may have on them. The Board is aware that its decisions can impact one or more groups of stakeholders and aims to ensure effective engagement with stakeholder so that stakeholder interests are considered in Board discussions and decisions.

The key stakeholders which are most relevant to the decision making of the Board, include, but are not limited to:

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

During the financial year the Board have considered information from across the Arriva UK Bus division, received presentations from management, reviewed papers and reports and led discussions which considered, where relevant, the impact of the company's activities on its key stakeholders. These activities, together with direct engagement with the company's stakeholders, helped to inform the Board in its decision-making processes.

As a Board, the collective role of the directors is to act as effective and responsible stewards of the company. In so doing, the Board ensures that the company is well positioned to achieve long term sustainable success and deliver value for its stakeholders. Further information on the principal decisions made by the Board during the financial year ended 31 December 2022 can be found in the Section 172 statement on pages 3 to 4.

ENGAGEMENT WITH SUPPLIERS, CUSTOMERS AND OTHERS (CONTINUED)

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

• Participation in the National Bus Passenger Survey, a yearly survey of passenger views across bus operators lead by Transport Focus.
• Arriva UK Bus divisions carries out passenger satisfaction surveys and uses the results from them 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 stakeholders, 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 division also maintains frequent communication with stakeholders in Government, including with the Department for Transport, as well as other relevant departments, authorities and public bodies.

Suppliers
Suppliers are fundamental contributors to the success of the company. The Board holds regular meetings and forums to manage relationships, understand challenges and to source, identify and implement solutions and more effective ways of working.

The directors take payment practice commitments to suppliers seriously and with the assistance of company employees, seek to ensure prompt payment of invoices in line with Arriva group's policies. The Board believes that prompt payment of invoices is key to facilitating good relationship with its suppliers.

Further information on how the company has fostered relationships with its employees during the financial year ended 31 December 2022 is provided in the Employee Engagement section of this report.

STREAMLINED ENERGY AND CARBON REPORTING DISCLOSURE (SECR)

UK energy consumption and greenhouse gas emissions for Arriva the Shires Limited (the company) for the period 1 January to 31 December.

Energy usage for the Company in the United Kingdom	Current reporting year 2022	Previous reporting year 2021
Scope 1 – Fuel use from transport and combustion of natural gas/tCO_2e*	20,869	21,628
Scope 2 – Emissions resulting from the purchase of electricity, including heat, steam, or cooling (location based)/tCO_2e	150	176
Scope 3 – Emissions from business travel in rental cars or employee-owned vehicles where the Company is responsible for purchasing the fuel/tCO_2e	NIL	NIL
Total gross emissions/tCO_2e	21,019	21,804
tCO2e per full time equivalent employees	30.8	30.0
Energy consumption used to calculate the above emissions / kWh	82,780,583	87,252,761

* tCO2e means tonnes (t) of carbon dioxide (CO2) equivalent (e)

Methodology
The company is required to report its UK energy use and carbon emissions in accordance with the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 which implement the UK Government's policy on Streamlined Energy and Carbon Reporting (SECR).

As a wholly owned subsidiary of Deutsche Bahn AG, the company is obliged to use their approved emission factors for site energy and the source for site consumption emission factors is the GEMIS database (GEMIS: IINAS, Darmstadt (Germany)). To calculate the emissions, the company has used the UK Government GHG Conversion Factors for Company Reporting 2022.

Source data has been obtained from the following:
Fuel Usage – Fuel Issues to Bus Report
Site Energy – Consumption Reports from Schneider
Employee Figures – Workday (internal HR system)

The energy usage data for 2022 financial year has reduced in comparison to the energy data for 2021 financial year and this is a trend that can be seen across the majority of Arriva UK Bus entities. The reason for the decrease in carbon emissions is attributable to the energy efficient actions (below) which have been implemented throughout the 2022 financial year.

STREAMLINED ENERGY AND CARBON REPORTING DISCLOSURE (SECR) (CONTINUED)

Environmental policy
Sustainability has a central role in the Arriva group's strategy. Arriva inspires and promotes greener, more connected transport for all, and is working towards becoming a climate neutral business it can be proud of.

The Arriva group has an Environmental, Health and Safety policy (EHS) policy, which consists of the group's internal environmental risk assurance standards and is built around the following objectives:
- Robust environmental management and risk assurance;
- Clear accountability;
- Clear communication of goals and progress;
- Targeting improvements in CO2e emissions, Energy, Water and Waste; and
- Ensuring compliance with local law regulations, and that key environmental risks are mitigated.

The Zero Emission (ZE) Institute was launched at the beginning of 2022, which supports and enables the transition to a zero emissions fleet.

Energy efficiency actions
The company strives for best practice in Health, Safety, Environment and Risk (HSER) and aims to play an important role in the reduction of greenhouse gases to stabilise the increase in global temperatures, reduce the ecological footprint, deliver business efficiencies and protect the environment. Examples of the carbon reducing initiatives which have been implemented across Arriva UK Bus division during the financial year ended 31 December 2022 include:

Fleet
- During 2022, almost 10% of the Arriva UK Bus fleet was subject to an environmental upgrade through the installation of Eminox retrofitted exhaust emissions technology which helps to reduce vehicle emissions.
- Arriva UK Bus has installed a driver telematics systems to its fleet to monitor driver behaviour, including ecological driving, in order to reduce emissions.
- Arriva UK Bus has two sites in the North that continue to operate compressed natural gas buses.
- Hydrogen fuelled buses were trialled by Arriva UK Bus during 2022 to gain a more comprehensive understanding of this relatively new technology.

Premises
An environmental management system was introduced to Arriva UK Bus that included operational standards for energy reduction in premises. Fundamental to this introduction is the development, distribution, and use of key performance indicators for energy (Electricity and Gas) to monitor usage at UK, Regional, Area and Site Level and to progress against targets to reduce emissions.

QUALIFYING THIRD PARTY INDEMNITY PROVISIONS

The company has made qualifying third-party indemnity provisions for the benefit of its directors as part of a group wide insurance policy. The qualifying third-party indemnity provisions (as defined in Section 234 of the Companies Act 2006) were in force during the year ended 31 December 2022 and continue to remain in force at the reporting date and up to the date of signing the financial statements.

POST BALANCE SHEET EVENTS

Details of post balance sheet events are provided in Note 27 of the financial statements.

MATTERS COVERED IN THE STRATEGIC REPORT

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

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Annual Report and 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 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 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 also 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 the directors are 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 12 January 2024 and signed on behalf 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

Qualified opinion

In our opinion, except for the possible effects of the matter described in the Basis for qualified opinion paragraph below, 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 2022 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including 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 2022; 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 qualified opinion

As explained in note 1.9 of the financial statements, the Company's average monthly number of employees disclosed in note 8 is based on the number of persons that operationally provide services to the Company. This is since staff perform work for entities, with which they do not have employment contracts, within the same group as the entity with which they have their employment contract. Therefore, it is not possible to determine what the number of employees is based on contracts. As such, the financial statements do not include the average monthly number of employees based on persons employed under contracts of service by the Company as required in Section 411 (1) and Section 411 (4)(a) of the Companies Act 2006. We are unable to quantify the magnitude of the difference between management's disclosure and the disclosure that would be determined if the Companies Act requirements were followed.

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 qualified 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

Without further modifying our opinion on the financial statements, 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 dependent on the Deutsche Bahn AG ("DB") cash pooling and credit facility arrangement for access to the cash necessary for the day-to-day running of the company and to support the going concern assertion. The company does not have explicit rights for immediate access to these funds on request. This gives rise to a potential liquidity risk that funds may not be available as required to settle liabilities 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. Furthermore, on 19 October 2023, DB announced an agreement had been signed under which Arriva plc, the company's intermediate parent company, would be sold to I-Squared Capital. The sale is expected to complete in the first half of 2024, following which the company would cease to be part of the DB Group. Should a change in ownership occur, the directors are unable to assess or control all scenarios for the company's future, including the intent and ability of any future owner to continue to provide funding to the company. These conditions, along with the other matters explained in note 1.1 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company were unable to continue as a going concern.

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

Material uncertainty related to going concern (continued)

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

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 our work undertaken in the course of the audit, the Companies Act 2006 requires 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 2022 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 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.

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

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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to the Companies Act 2006 and UK tax legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journals to improve financial results and management bias in significant accounting estimates. Audit procedures performed by the engagement team included:

- Discussions with management including consideration of known or suspected instances of non-compliance with laws and regulations and fraud;
- Evaluation of management's controls designed to prevent and detect irregularities;
- Identifying and testing journal entries, in particular, any journal entries posted with unusual account combinations; and
- Testing and challenging of assumptions and judgements made by management in making significant accounting estimates.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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

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.

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

Other required reporting

Companies Act 2006 exception reporting

In respect solely of the limitation on our work relating to the quantification of the number of persons employed under contracts of service for this company, described in the Basis for qualified opinion paragraph above:

- we have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and
- we were unable to determine whether adequate accounting records have been kept by the company.

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

- 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.

Paul Hudson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Newcastle upon Tyne
12 January 2024

Statement of comprehensive income
For the Year Ended 31 December 2022

	Note	2022 £000	*2021 £000*
Turnover	4	**40,365**	*31,323*
Cost of sales		**(44,190)**	*(41,919)*
Gross loss		**(3,825)**	*(10,596)*
Administrative expenses		**(7,658)**	*(6,910)*
Other operating income	5	**8,046**	*16,632*
Operating loss	6	**(3,437)**	*(874)*
Interest payable and similar expenses	10	**(298)**	*(182)*
Loss before tax		**(3,735)**	*(1,056)*
Tax on loss	11	**428**	*368*
Loss for the financial year		**(3,307)**	*(688)*
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Changes in market value of cash flow hedges	19	**2,014**	*1,846*
Total other comprehensive income for the financial year		**2,014**	*1,846*
Total comprehensive (expense)/income for the financial year		**(1,293)**	*1,158*

The notes on pages 21 to 45 form part of these financial statements.

Balance sheet
As at 31 December 2022

	Note		2022 £000		2021 £000
Fixed assets					
Goodwill	12		**461**		*461*
Tangible assets	13		**27,986**		*30,151*
Investments	14		**2,000**		*2,000*
			30,447		*32,612*
Current assets					
Stocks	15	**457**		*571*	
Debtors: Amounts falling due after more than one year	16	**2,623**		*1,779*	
Debtors: Amounts falling due within one year	16	**7,303**		*7,520*	
Cash at bank and in hand		**276**		*221*	
		10,659		*10,091*	
Creditors: Amounts falling due within one year	17	**(21,965)**		*(21,307)*	
Net current liabilities			**(11,306)**		*(11,216)*
Total assets less current liabilities			**19,141**		*21,396*
Creditors: Amounts falling due after more than one year	18		**(4,052)**		*(4,028)*
Provisions for liabilities	20		**(3,767)**		*(2,679)*
Net assets			**11,322**		*14,689*

Balance sheet (continued)
As at 31 December 2022

	Note	2022 £000	*2021 £000*
Capital and reserves			
Called up share capital	22	**728**	*728*
Cash flow hedge reserve	23	**717**	*777*
Profit and loss account	23	**9,877**	*13,184*
Total shareholders' funds		**11,322**	*14,689*

The financial statements on pages 17 to 45 were approved and authorised for issue by the board and were signed on its behalf on 12 January 2024.

J M Perkin
Director

The notes on pages 21 to 45 form part of these financial statements.

Statement of changes in equity
For the Year Ended 31 December 2022

	Called up share capital	Cash flow hedge reserve	Profit and loss account	Total shareholders' funds
	£000	£000	£000	£000
At 1 January 2021	728	(1,069)	13,872	13,531
Comprehensive income/(expense) for the year				
Loss for the financial year	-	-	(688)	(688)
Changes in market value of cash flow hedges	-	1,846	-	1,846
Total other comprehensive income for the year	-	1,846	-	1,846
Total comprehensive income/(expense) for the year	-	1,846	(688)	1,158
At 31 December 2021 and 1 January 2022	728	777	13,184	14,689
Comprehensive income/(expense) for the year				
Loss for the financial year	-	-	(3,307)	(3,307)
Changes in market value of cash flow hedges	-	2,014	-	2,014
Total other comprehensive income for the year	-	2,014	-	2,014
Total comprehensive income/(expense) for the year	-	2,014	(3,307)	(1,293)
Transfers to inventory	-	(2,074)	-	(2,074)
At 31 December 2022	728	717	9,877	11,322

The notes on pages 21 to 45 form part of these financial statements.

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, as modified by the revaluation of derivative financial assets and financial liabilities measured at fair value through cash flow hedge reserves, 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 401 of the Companies Act 2006. These financial statements therefore present information about the company as an individual undertaking and not about its group.

There were no amendments to accounting standards, or IFRS IC interpretations that are effective for the year ended 31 December 2022 that have had a material impact on the company's financial statements.

Functional and presentation currency
Items included in the financial statements of the company are measured using the currency of the primary economic environment in which the company operates ('the functional currency'). The financial statements are presented in 'Pounds Sterling' (£), which is also the company's functional currency.

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 as patronage growth recovers beyond the pandemic.

The company is predominantly supported by funding via the Bus Service Operators Grant Plus (BSOG+) scheme. In addition, the company is further supported by the local transport authority via the Bus Service Improvement Plan Plus (BSIP+). Both BSOG+ and BSIP+ will continue to run into 2025. Further funding is also provided through the £2 fare cap mechanism, which has been further extended to December 2024.

On 19 October 2023, Deutsche Bahn AG ('DB') announced an agreement had been signed under which Arriva plc, the company's intermediate parent company, would be sold to I-Squared Capital. The sale is expected to complete in the first half of 2024, following which the company would cease to be part of the DB Group. Should a change in ownership occur, the directors are unable to assess or control all scenarios for the company's future, including the intent and ability of any future owner to continue to provide funding to the company.

1. ACCOUNTING POLICIES (CONTINUED)

1.1 BASIS OF PREPARATION OF FINANCIAL STATEMENTS (CONTINUED)

GOING CONCERN (CONTINUED)

Currently the company voluntarily participates in a group cash pooling and credit facility arrangement operated by its ultimate parent, DB. This is a long-standing arrangement operated by DB to manage the liquidity needs of DB group companies that the company has been party to for several years, and the arrangement is expected to remain in place up to the change in control. Under the arrangement substantially all the company's cash balances are swept into the group cash pool at the end of each business day.

At the balance sheet date the company has net current liabilities of £11,306,000 (2021: £11,216,000) and is currently dependent on cash and the DB credit facility for daily access to the cash flows required to operate and to support the going concern assumption. As the terms of the company's agreement with DB do not provide explicit rights for immediate access to these funds on request, this gives rise to a potential liquidity risk that funds may not be available as required to settle liabilities during the period of 12 months from the date of approval of the financial statements, which 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 DB 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 balances within the group cash pool to settle its liabilities as they fall due. The company has a unilateral right to terminate its participation in the DB group cash pooling arrangement by giving one month's notice to DB.

The directors also acknowledge there is no guarantee that a formal commitment will be in place for the DB credit facility. This also indicates the existence of a material uncertainty which may cast significant doubt on the company's ability to continue as a going concern. In completing their going concern assessment, the directors have also considered a severe but plausible downside scenario, along with associated management actions that would be taken to mitigate the impacts under the scenario on the company's cash and DB credit facility position. Actions management might need to implement include reducing services and delaying or curtailing discretionary operating or capital expenditures. If these actions were insufficient to allow cash requirements to be funded from within the current credit facility, additional funding might be required from DB.

The extension of government funding, including BSOG+ and BSIP+ funding to 2025 and the £2 fare cap funding to December 2024, give the directors confidence in continued future government support available to the sector and to the company, with continued government support committed to throughout the going concern assessment period.

<u>Outcome of directors' going concern assessment</u>
The directors acknowledge that the uncertainty regarding immediate access to funds placed with DB prior to the expected change in control, together with the uncertainty over replacement funding arrangements from the point of expected change in control onwards, indicate the existence of material uncertainties which may cast significant doubt about the company's ability to continue as a going concern and therefore, it may be unable to realise its assets and discharge its liabilities in the normal course of business.

1. ACCOUNTING POLICIES (CONTINUED)

1.1 BASIS OF PREPARATION OF FINANCIAL STATEMENTS (CONTINUED)

GOING CONCERN (CONTINUED)

Outcome of directors' going concern assessment (continued)
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 cash or credit facility balances with DB, and that appropriate funding arrangements will be in place post the acquisition of the Arriva group by I-Squared Capital and therefore remain confident of the company's ability to continue to operate and to discharge its liabilities as they fall due 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 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 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.

1. ACCOUNTING POLICIES (CONTINUED)

1.2 FINANCIAL REPORTING STANDARD 101 - REDUCED DISCLOSURE EXEMPTIONS (continued)

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 UK, but makes amendments where necessary in order to comply with the Companies Act 2006 and to take advantage of FRS 101 disclosure exemptions.

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".

1.3 TURNOVER

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

1.4 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 financial statements.

1. ACCOUNTING POLICIES (CONTINUED)

1.4 GOODWILL (CONTINUED)

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.

1.5 TANGIBLE ASSETS

Tangible assets are stated at cost less accumulated depreciation. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use.

Depreciation is provided at rates calculated to write off the cost of the assets 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:

Property	-	2% straight line
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

Land is not depreciated.

1.6 INVESTMENTS

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

1.7 LEASES

Lessee accounting

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).

1. ACCOUNTING POLICIES (CONTINUED)

1.7 LEASES (CONTINUED)

Leasee accounting (continued)

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.

Lessor accounting for sub-leases

Where the company is an intermediate lessor to fellow group undertakings, the head lease and sub-lease are accounted for separately. The treatment on the sub-lease is determined with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset.

For sub-leases determined to be finance leases, the company does not recognise a right-of-use asset (to the extent that it is subject to the sub-lease) and instead recognises a lease receivable, which is reflected in amounts owed by group undertakings.

For sub-leases determined to be operating leases, the right-of use asset relating to the head lease is not derecognised, with amounts receivable under the sub-lease recognised within other operating income.

1.8 DEBTORS

Trade and other debtors, including amounts owed by group undertakings, 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 credit impaired.

Allowances for expected credit losses on trade and other debtors are recognised only where they are material.

1. ACCOUNTING POLICIES (CONTINUED)

1.9 EMPLOYEE BENEFITS

The company provides a range of benefits to employees, including annual bonus arrangements, paid holiday arrangements and defined benefit and defined contribution pension plans. In some instances employees have contracts of service with another group company. Short term benefits, including holiday pay and other similar non-monetary benefits, are recognised as an expense in the period in which the service is received and relates to staff costs for all employees employed in fulfilling the company's operations. In some instances employees have contracts of service with another group company.

The company's average monthly number of employees disclosed in note 8 is based on the number of persons that operationally provide services to the company. This is since staff perform work for entities, with which they do not have employment contracts, within the same group as the entity with which they have their employment contract. Therefore, it is not possible to determine what the number of employees is based on contracts.

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 CREDITORS

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business. Trade and other creditors, including amounts owed to group undertakings, are initially stated at fair value and are measured subsequently at amortised cost using the effective interest method.

Accrued expenses are recognised at the point a service is received by the company and released to the Statement of comprehensive income over the period of the service received.

1.11 STOCKS

Stocks primarily comprise fuel consumable by the company's public service vehicles, valued at the weighted-average of cost price and hedge prices, reflecting basis adjustments for hedged fuel purchases. Other stocks, such as consumable engineering spares, are valued at the lower of cost and net realisable value after making due allowance for obsolete and slow-moving stocks. Cost of other stocks is measured on a first-in, first-out basis.

1. ACCOUNTING POLICIES (CONTINUED)

1.12 GOVERNMENT GRANTS

Government grants related to income comprise 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.

1.13 OTHER OPERATING INCOME

Other operating income mainly comprises of bus depot recharges, commission and other income.

1.14 CASH

Cash balances comprise cash in hand and all bank balances and are stated in the balance sheet at fair value. The company does not hold any cash equivalents.

Where cash balances are held under cash pooling arrangements operated by the company's ultimate parent, on behalf of the company, such cash balances are disclosed within amounts owed to group undertakings.

1.15 DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are recognised as a financial asset or a financial liability in the balance sheet, at the trade date. Derivative financial instruments are initially and subsequently measured at fair value. At the point at which the contract is taken out, derivative financial instruments are classified as a hedging instrument for hedging cash flows arising from a contractual obligation or an expected transaction. Cash flow hedges are used to provide protection against fluctuations in the cash flows of financial assets or liabilities or anticipated transactions. When future cash flows are hedged, the hedging instruments are recognised with their fair value. Changes in value are initially recognised in 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. Where a hedged forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, that amount is removed from the cash flow hedge reserve and included in the carrying amount of the asset or liability.

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.

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.

1. ACCOUNTING POLICIES (CONTINUED)

1.16 CURRENT AND DEFERRED TAXATION (CONTINUED)

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.

1.17 SHARES AND SHARE PREMIUM

Proceeds from the issuance of shares are accounted as equity (forming part of Total shareholders' funds) only to the extent that they include no contractual obligation upon the company to deliver cash or other financial assets to another party (or exchange financial assets or financial liabilities with another party on unfavourable terms). Where this condition is not satisfied, the proceeds of issuance are accounted as financial liabilities, initially measured at fair value and subsequently at amortised cost.

1.18 PROVISIONS FOR LIABILITIES

Provisions are made where an event has taken place that gives the company a legal or constructive obligation that probably requires settlement by a transfer of economic benefit, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to profit or loss in the year that the company becomes aware of the obligation, and are measured at the best estimate at the Balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance sheet.

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 income, 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 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 13 for the carrying amount of the tangible assets and Note 1.5 for the useful economic lives for each class of assets.

Where there is an indicator of impairment, management is required to perform an impairment review over tangible fixed assets. The significant increase in market interest rates in the year ended 31 December 2022 is considered by management to be an indicator of impairment. For the purpose of impairment testing, the Company is considered a single CGU. The recoverable amount of the tangible fixed assets has been determined as the higher of fair value less costs of disposal and value-in-use. Management have prepared an assessment which supports their view that no reversals of impairments exist at the reporting date, accordingly no tangible fixed asset impairment reversals have been recognised in the year. The value-inuse for the CGU has been calculated through a discounted cash flow, using a post tax discount rate of 7.86% (2021: 6.00%) and a long term growth rate of 1.9% (2021: 1.9%). The impact of climate change has been assessed and incorporated, where relevant, into the underlying cash flows used as the basis for the value-in-use calculation.

2. JUDGMENTS IN APPLYING ACCOUNTING POLICIES (CONTINUED)

Critical assumptions and key sources of estimation uncertainty (continued)

Useful economic lives of tangible assets (continued)
See Note 13 for the carrying amount of the tangible assets and Note 1.5 for the useful economic lives for each class of assets.

Insurance and dilapidations provisions
The company makes a provision for the amounts payable under insurance incidents and dilapidation costs in Note 20. 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. The estimation of the dilapidations provision is based on the directors' best estimate of future dilapidation costs arising from existing contractual obligations.

3. GENERAL INFORMATION

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

The registered company number is 02116519 and the address of the registered office is 1 Admiral Way, Doxford International Business Park, Sunderland, Tyne and Wear, SR3 3XP.

4. TURNOVER

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

All turnover arose within the United Kingdom.

5. OTHER OPERATING INCOME

	2022	*2021*
	£000	*£000*
Other operating income	**892**	*323*
Government grants receivable	**7,154**	*16,309*
	8,046	*16,632*

6. OPERATING LOSS

The operating loss is stated after charging:

	2022 £000	2021 £000
Depreciation of tangible fixed assets (Note 13)	3,617	3,917
Loss on disposal of tangible assets	8	22
Staff costs (Note 8)	26,923	26,280
Short term lease expense	65	44
Management fees	3,876	3,719
Cost of stocks recognised as an expense	10,307	7,932

7. AUDITORS' REMUNERATION

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

	2022 £000	2021 £000
Fees for the audit of the company	131	74

8. STAFF COSTS

Staff costs, including directors' remuneration were as follows:

	2022 £000	2021 £000
Wages and salaries	23,984	23,283
Social security costs	2,359	2,134
Other pension costs (Note 25)	580	863
	26,923	26,280

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

	2022 No.	2021 No.
Drivers	545	589
Engineering	87	88
Administrative	51	50
	683	727

Notes to the financial statements
For the Year Ended 31 December 2022

9. DIRECTORS' EMOLUMENTS

	2022 £000	2021 £000
Directors' emoluments	**218**	*134*
	218	*134*

The directors did not receive any emoluments from the company in the financial year for their directorship (2021: £nil) of the company. The directors received remuneration in respect of all their directorships from Arriva plc. These amounts have been recharged to the company and disclosed above.

The highest paid director's remuneration recharge from Arriva plc is £61,000 (2021: £32,000).

10. INTEREST PAYABLE AND SIMILAR EXPENSES

	2022 £000	2021 £000
Interest payable to group undertakings	**261**	*150*
Interest on lease liabilities	**37**	*32*
	298	*182*

11. TAX ON LOSS

	2022 £000	2021 £000
Corporation tax		
Current tax on losses for the year	**(996)**	*(419)*
Adjustments in respect of prior years	**568**	*51*
Tax on loss	**(428)**	*(368)*

11. TAX ON LOSS (CONTINUED)

FACTORS AFFECTING TAX CREDIT FOR THE YEAR

The tax assessed for the year is higher than *(2021: lower than)* the standard rate of corporation tax in the UK of 19% *(2021: 19%).*

	2022 £000	*2021 £000*
Loss before tax	**(3,735)**	*(1,056)*
Loss multiplied by standard rate of corporation tax in the UK of 19% (2021: 19%)	**(710)**	*(201)*
Effects of:		
Depreciation in respect of ineligible fixed assets	**-**	*9*
Adjustments in respect of prior years	**568**	*51*
Deferred tax assets not recognised	**(286)**	*(227)*
Total tax credit for the year	**(428)**	*(368)*

FACTORS THAT MAY AFFECT FUTURE TAX CHARGES

In the Spring Budget 2021, the Government announced that from 1 April 2023 the corporation tax rate will increase to 25%. The proposal to increase the rate to 25% was substantively enacted before the balance sheet date, so its effects are included in these financial statements.

On 20 June 2023, Finance (No.2) Act 2023 was substantively enacted in the UK, introducing a global minimum effective tax rate of 15%. The legislation implements a domestic top-up tax and a multinational top-up tax, effective for accounting periods starting on or after 31 December 2023. The Arriva Group is reviewing these rules to understand any potential impacts. The company does not account for deferred tax on top-up taxes and therefore, if these rules had been substantively enacted on the balance sheet date, there would have been no deferred tax accounting impact.

Notes to the financial statements
For the Year Ended 31 December 2022

12. GOODWILL

	£000
Cost	
At 1 January 2022	1,472
At 31 December 2022	**1,472**
Accumulated Impairment	
At 1 January 2022	1,011
At 31 December 2022	**1,011**
Net book value	
At 31 December 2022	**461**
At 31 December 2021	*461*

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.

13. TANGIBLE ASSETS

	Property £000	Plant, machinery, fixtures and motor vehicles £000	Public service vehicles £000	Total £000
COST OR VALUATION				
At 1 January 2022	11,318	2,990	34,067	48,375
Additions	455	377	893	1,725
Disposals	-	(148)	(2,856)	(3,004)
At 31 December 2022	11,773	3,219	32,104	47,096
ACCUMULATED DEPRECIATION				
At 1 January 2022	2,192	2,019	14,013	18,224
Charge for the year	443	291	2,883	3,617
Disposals	-	(148)	(2,583)	(2,731)
At 31 December 2022	2,635	2,162	14,313	19,110
NET BOOK VALUE				
At 31 December 2022	9,138	1,057	17,791	27,986
At 31 December 2021	*9,126*	*971*	*20,054*	*30,151*

13. TANGIBLE ASSETS (continued)

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

	Leasehold property £000	Plant, machinery, fixtures and motor vehicles £000	Total £000
Right-of-use assets			
Cost			
At 1 January 2022	2,748	124	2,872
Additions	185	47	232
Disposals	-	-	-
At 31 December 2022	2,933	171	3,104
Accumulated depreciation			
At 1 January 2022	939	40	979
Charge for the year	11	37	48
Disposals	-	-	-
At 31 December 2022	950	77	1,027
Net book value			
At 31 December 2022	1,983	94	2,077
At 31 December 2021	1,809	84	1,893

14. INVESTMENTS

	Investments in subsidiary companies £000
COST OR VALUATION	
At 1 January 2022	**6,840**
At 31 December 2022	**6,840**
IMPAIRMENT	
At 1 January 2022	**4,840**
At 31 December 2022	**4,840**
NET BOOK VALUE	
At 31 December 2022	**2,000**
At 31 December 2021	*2,000*

SUBSIDIARY UNDERTAKINGS

The following were subsidiary undertakings of the company:

Name	Registered office	Class of shares	Holding
Premier Buses Limited	14.1	Ordinary	100%
Great North Eastern Railway Company Limited	14.1	Ordinary - indirectly held	100%

14.1 1 Admiral Way, Doxford International Business Park, Sunderland, Tyne and Wear, SR3 3XP.

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

Notes to the financial statements
For the Year Ended 31 December 2022

15. STOCKS

	2022	*2021*
	£000	*£000*
Raw materials and consumables	**457**	*571*

Inventories are stated after provisions for impairment of £24,000 (2021: £21,000).

16. DEBTORS

	2022	*2021*
	£000	*£000*
Amounts falling due after more than one year		
Amounts owed by group undertakings	**2,517**	*1,379*
Derivative financial instruments (Note 19)	**106**	*400*
	2,623	*1,779*

Amounts falling due after more than one year owed by group undertakings includes £2,517,000 (2021: £1,379,000) in respect of amounts due from a fellow subsidiary under a sub-lease, with the terms of the sub-lease being in line with the head lessee's terms for the leased property.

	2022	*2021*
	£000	*£000*
Amounts falling due within one year		
Trade debtors	**780**	*692*
Amounts owed by group undertakings	**2,380**	*2,087*
Other debtors	**2,276**	*2,407*
Group relief receivable	**-**	*991*
Prepayments and accrued income	**1,202**	*966*
Corporation tax recoverable	**54**	*-*
Derivative financial instruments (Note 19)	**611**	*377*
	7,303	*7,520*

16. DEBTORS (CONTINUED)

Trade debtors are stated after provisions for impairment of £nil (2021: £nil).

Amounts owed by group undertakings includes £907,000 (2021: £262,000) in respect of amounts due from a fellow subsidiary under a sub-lease, with the terms of the sub-lease being in line with the head lessee's terms for the leased property.

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

Included within prepayments and accrued income is £566,000 (2021: £665,000) relating to contract assets under IFRS 15.

17. CREDITORS: *Amounts falling due within one year*

	2022 £000	*2021 £000*
Lease liabilities	**649**	*588*
Deferred grants	**34**	*30*
Trade creditors	**9**	*11*
Amounts owed to group undertakings	**17,785**	*17,079*
Other taxation and social security	**971**	*878*
Other creditors	**840**	*1,216*
Accruals and deferred income	**1,677**	*1,505*
	21,965	*21,307*

Amounts owed to group undertakings includes £1,000,000 (2021: £2,250,000) of borrowings under a loan provided by the ultimate parent company. These borrowings incur interest at 2.01% and the final instalment is due for repayment on 1 February 2024.

Amounts owed to group undertakings also includes £13,340,000 (2021: £12,986,000) of balances placed in a group wide cash pooling arrangement with the ultimate parent company. The amounts placed are unsecured, incur interest up to a rate of 4.08% (2021: 0.9%) and are repayable on demand.

Accruals and deferred income includes contract liabilities under contracts with concessions, seasons, tenders and scholars of £20,000, £13,000, £6,000 and £185,000 respectively (2021: £6,000, £49,000, £41,000 and £161,000).

18. CREDITORS: Amounts falling due after more than one year

	2022 £000	*2021 £000*
Lease liabilities	**3,638**	*2,659*
Deferred grants	**164**	*119*
Amounts owed to group undertakings	**250**	*1,250*
	4,052	*4,028*

Amounts owed to group undertakings includes £250,000 (2021: £1,250,000) of borrowings under a loan provided by the ultimate parent company. These borrowings incur interest at 2.01% and the final instalment is due for repayment on 1 February 2024.

Lease liabilities above include £1,380,000 (2021: £735,000) due after more than 5 years.

The total cash outflow for leases was £395,000 (2021: £672,000).

19. 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 (2021: £nil).

The amounts recognised within the financial statements are as follows:

	2022 £000	*2021 £000*
Debtors: Amounts due after more than one year (Note 16)	**106**	*400*
Debtors: Amounts due within one year (Note 16)	**611**	*377*
	717	*777*

20. PROVISIONS FOR LIABILITIES

	Dilapidations £000	Insurance £000	Legal £000	Other £000	Total £000
At 1 January 2022	1,449	1,080	150	-	2,679
Released in the year	(25)	(238)	-	-	(263)
Additions	75	2,416	20	7	2,518
Utilised in the year	-	(1,017)	(150)	-	(1,167)
At 31 December 2022	1,499	2,241	20	7	3,767

The dilapidations provision represents the directors' best estimate of future dilapidation costs arising from existing contractual obligations.

Insurance provisions are amounts payable relating to insurance incidents, based on an assessment of the expected settlement on known claims using the experience of insurance claims handlers.

21. DEFERRED TAX ASSET

At 31 December 2022 the company had an unrecognised deferred tax asset of approximately £4,625,000 (2021: £3,865,000) comprising deductible temporary differences in relation to fixed assets, tax losses and other short term temporary differences. These gross deductible temporary differences amount to £18,500,000 (2021: £15,460,000).

It is not considered appropriate to recognise the asset at the year end due to the uncertainty around the availability of future profits.

22. CALLED UP SHARE CAPITAL

	2022 £000	*2021 £000*
Authorised		
10,000,000 *(2021: 10,000,000)* Ordinary shares of £0.10 each	1,000	*1,000*
Allotted, called up and fully paid		
7,283,079 *(2021: 7,283,079)* Ordinary shares of £0.10 each	728	*728*

23. RESERVES

Cash flow hedge reserve
Cumulative effective portion of gains and losses on derivatives that are designated and qualify as cash flow hedges. Amounts are subsequently transferred to the cost of inventory or recycled to profit or loss as appropriate.

Profit and loss account
The profit and loss reserve records the cumulative profit and loss net of distribution to shareholders.

24. CAPITAL COMMITMENTS

At 31 December the company had capital commitments as follows:

	2022	*2021*
	£000	*£000*
Property, plant and equipment	**121**	*80*
	121	*80*

25. PENSION COMMITMENTS

At 31 December 2022 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 5 April 2020, 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 6 April 2022, 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 2022. 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 £580,000 (2021: £863,000).

26. 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 AG Group are not specifically disclosed as the company has taken advantage of the exemption available for wholly-owned subsidiaries.

27. POST BALANCE SHEET EVENTS

On 19 October 2023, Deutsche Bahn AG ('DB') announced an agreement had been signed under which Arriva plc, the company's intermediate parent company, would be sold to I-Squared Capital. The transaction is expected to complete in 2024, subject to the customary closing conditions, including the approval of the DB Supervisory Board and the Federal Ministry for Digital and Transport of the Federal Republic of Germany.