

Registered number: 3005018

# M40 TRAINS LIMITED

**Annual report and financial statements**

**For the Year Ended 31 December 2018**

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## **M40 TRAINS LIMITED**

### **Company Information**

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|----------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Directors</b>           | A Furlong<br>D J Penney<br>A J Scott                                                                                                                   |
| <b>Company secretary</b>   | L Edwards                                                                                                                                              |
| <b>Registered number</b>   | 3005018                                                                                                                                                |
| <b>Registered office</b>   | 1 Admiral Way<br>Doxford International Business Park<br>Sunderland<br>Tyne and Wear<br>SR3 3XP                                                         |
| <b>Independent auditor</b> | PricewaterhouseCoopers LLP<br>Chartered Accountants and Statutory Auditors<br>Central Square South<br>Orchard Street<br>Newcastle upon Tyne<br>NE1 3AZ |

## **M40 TRAINS LIMITED**

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## **M40 TRAINS LIMITED**

### **Strategic report For the Year Ended 31 December 2018**

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

#### **PRINCIPAL ACTIVITIES**

The principal activity of the company is the operation of long term infrastructure assets relating to The Chiltern Railway franchise. The Chiltern Railway Company Limited, a wholly owned subsidiary of the company, operates passenger railway services primarily between London and Birmingham, Oxford, Aylesbury and towns along the M40 corridor.

There were no significant changes in the company's principal activities during the year.

#### **REVIEW OF BUSINESS**

The company made a profit on ordinary activities before taxation of £4.2 million (2017: £3.9 million). The increase in profitability is primarily due to a reduction in direct operating costs during 2018.

The balance sheet on page 8 shows that the company had net assets of £64.7 million at 31 December 2018 (2017: £61.3 million). The increase in net assets is entirely due to the profit generated during the year.

#### **PRINCIPAL RISKS AND UNCERTAINTIES**

M40 Trains Limited is a holding company that operates long term rail infrastructure assets with minimum risk exposure to economic conditions. The main risk applicable to the company is the non payment of rents. This is mitigated by the fact that the majority of rents receivable are receivable from a fellow group company and the company has continued financial support of the ultimate parent company, Deutsche Bahn AG.

#### **LIQUIDITY RISK**

Deutsche Bahn AG, the ultimate parent company of M40 Trains Limited, provides all of the company's funding facilities. This includes funding for project working capital, capital expenditure and any trading losses. Deutsche Bahn AG also acts as financial guarantor on all performance and liquidity bonds to the Department for Transport ("DfT"). Liquidity risk is managed within the business via regular working capital and cash flow analyses, which are reviewed at board level.

#### **KEY PERFORMANCE INDICATORS**

The Management Board of Deutsche Bahn AG 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 M40 Trains Limited. The development performance and position of the group, including this company, is discussed in the Deutsche Bahn group's Integrated Report which does not form part of this report.

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|---------------------------|
| <b>M40 TRAINS LIMITED</b> |
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**Strategic report (continued)**  
**For the Year Ended 31 December 2018**

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**FUTURE DEVELOPMENTS**

On 27th March 2019, M40 Trains Limited's ultimate parent company Deutsche Bahn AG ("DB") announced its intention to explore options to sell the company and the UK Arriva group, through either a sale of up to 100% of the shares to one or more investors or through an Initial Public Offering ("IPO").

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

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

This report was approved by the board on 30 April 2019 and signed by order of the board.



**A J Scott**  
Director

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## **M40 TRAINS LIMITED**

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### **Directors' report For the Year Ended 31 December 2018**

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

#### **RESULTS AND DIVIDENDS**

The profit for the financial year, after taxation, amounted to £3,416,000 (2017: £3,135,000).

The company did not pay a dividend during the current and previous financial year.

#### **DIRECTORS**

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

A Furlong  
D J Penney  
A J Scott

#### **FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

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

#### **MATTERS COVERED IN THE STRATEGIC REPORT**

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

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## M40 TRAINS LIMITED

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### Directors' report For the Year Ended 31 December 2018

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

The directors are responsible for preparing the Strategic report, the Directors' report and the audited financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare audited financial statements for each financial year. Under that law the directors have prepared the audited financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), comprising Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101). Under company law the directors must not approve the audited financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these audited financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the audited financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the audited financial statements comply with the Companies Act 2006. The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

#### DISCLOSURE OF INFORMATION TO AUDITORS

Each of the persons who are directors at the time when this Directors' report is approved has confirmed that:

- so far as that director is aware, there is no relevant audit information of which the company's auditors are unaware, and
- that director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This report was approved by the board on 30 April 2019 and signed by order of the board.



**A J Scott**  
Director

## **M40 TRAINS LIMITED**

### **Independent auditors' report to the members of M40 Trains Limited**

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

##### **Opinion**

In our opinion M40 Trains Limited's financial statements:

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

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

##### **Basis for opinion**

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

##### *Independence*

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

##### **Material uncertainty related to going concern**

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



**Independent auditors' report to the members of M40 Trains Limited**

**Reporting on other information**

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

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

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

*Strategic Report and Directors' Report*

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

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

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

*Responsibilities of the directors for the financial statements*

As explained more fully in the Directors' Responsibilities Statement set out on page 4, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

*Auditors' responsibilities for the audit of the financial statements*

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

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

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## M40 TRAINS LIMITED

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### Independent auditors' report to the members of M40 Trains Limited

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#### *Use of this report*

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

#### **Other required reporting**

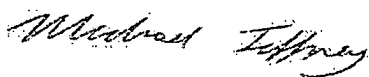
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Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

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Michael Jeffrey (Senior statutory auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Central Square South  
Orchard Street  
Newcastle upon Tyne  
NE1 3AZ

30 April 2019

# M40 TRAINS LIMITED

## Statement of comprehensive income For the Year Ended 31 December 2018

|                                                      | Note | 2018<br>£000 | 2017<br>£000 |
|------------------------------------------------------|------|--------------|--------------|
| Turnover                                             | 4    | 6,975        | 6,930        |
| Cost of sales                                        |      | (2,792)      | (3,011)      |
| <b>Gross profit</b>                                  |      | <b>4,183</b> | <b>3,919</b> |
| Administrative expenses                              |      | (22)         | (18)         |
| <b>Operating profit</b>                              | 5    | <b>4,161</b> | <b>3,901</b> |
| Interest receivable and similar income               | 7    | 78           | 3            |
| <b>Profit on ordinary activities before taxation</b> |      | <b>4,239</b> | <b>3,904</b> |
| Taxation on profit on ordinary activities            | 8    | (823)        | (769)        |
| <b>Profit for the financial year</b>                 |      | <b>3,416</b> | <b>3,135</b> |
| <b>Total comprehensive income for the year</b>       |      | <b>3,416</b> | <b>3,135</b> |

The notes on pages 11 to 24 form part of these financial statements.

**M40 TRAINS LIMITED**  
Registered number: 3005018

**Balance sheet**  
**As at 31 December 2018**

|                                                         | Note | 2018<br>£000   | 2017<br>£000   |
|---------------------------------------------------------|------|----------------|----------------|
| <b>Fixed assets</b>                                     |      |                |                |
| Tangible assets                                         | 9    | 20,446         | 21,508         |
| Investments                                             | 10   | 30,478         | 30,478         |
|                                                         |      | <u>50,924</u>  | <u>51,986</u>  |
| <b>Current assets</b>                                   |      |                |                |
| Debtors                                                 | 11   | 18,389         | 14,073         |
|                                                         |      | <u>18,389</u>  | <u>14,073</u>  |
| Creditors: Amounts falling due within one year          | 12   | (2,021)        | (2,000)        |
|                                                         |      | <u>16,368</u>  | <u>12,073</u>  |
| <b>Net current assets</b>                               |      | <u>16,368</u>  | <u>12,073</u>  |
| <b>Total assets less current liabilities</b>            |      | <u>67,292</u>  | <u>64,059</u>  |
| Creditors: Amounts falling due after more than one year | 13   | (720)          | (760)          |
|                                                         |      | <u>66,572</u>  | <u>63,299</u>  |
| <b>Provisions for liabilities</b>                       |      |                |                |
| Deferred taxation                                       | 14   | (1,864)        | (2,007)        |
|                                                         |      | <u>(1,864)</u> | <u>(2,007)</u> |
| <b>Net assets</b>                                       |      | <u>64,708</u>  | <u>61,292</u>  |
| <b>Capital and reserves</b>                             |      |                |                |
| Called up share capital                                 | 15   | 376            | 376            |
| Share premium account                                   |      | 90,000         | 90,000         |
| Capital redemption reserve                              |      | 2,176          | 2,176          |
| Profit and loss account                                 |      | (27,844)       | (31,260)       |
| <b>Total shareholders' funds</b>                        |      | <u>64,708</u>  | <u>61,292</u>  |

The financial statements on pages 8 to 24 were approved and authorised for issue by the board and were signed on its behalf on 30 April 2019.

  
**A J Scott**  
Director

The notes on pages 11 to 24 form part of these financial statements

# M40 TRAINS LIMITED

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

|                                                | Called up<br>share capital<br>£000 | Share<br>premium<br>account<br>£000 | Capital<br>redemption<br>reserve<br>£000 | Profit and<br>loss account<br>£000 | Total<br>shareholders'<br>funds<br>£000 |
|------------------------------------------------|------------------------------------|-------------------------------------|------------------------------------------|------------------------------------|-----------------------------------------|
| <b>At 1 January 2017</b>                       | <b>376</b>                         | <b>90,000</b>                       | <b>2,176</b>                             | <b>(34,395)</b>                    | <b>58,157</b>                           |
| <b>Comprehensive income for the year</b>       |                                    |                                     |                                          |                                    |                                         |
| Profit for the financial year                  | -                                  | -                                   | -                                        | 3,135                              | 3,135                                   |
| <b>Total comprehensive income for the year</b> | <b>-</b>                           | <b>-</b>                            | <b>-</b>                                 | <b>3,135</b>                       | <b>3,135</b>                            |
| <b>At 1 January 2018</b>                       | <b>376</b>                         | <b>90,000</b>                       | <b>2,176</b>                             | <b>(31,260)</b>                    | <b>61,292</b>                           |
| <b>Comprehensive income for the year</b>       |                                    |                                     |                                          |                                    |                                         |
| Profit for the financial year                  | -                                  | -                                   | -                                        | 3,416                              | 3,416                                   |
| <b>Total comprehensive income for the year</b> | <b>-</b>                           | <b>-</b>                            | <b>-</b>                                 | <b>3,416</b>                       | <b>3,416</b>                            |
| <b>At 31 December 2018</b>                     | <b>376</b>                         | <b>90,000</b>                       | <b>2,176</b>                             | <b>(27,844)</b>                    | <b>64,708</b>                           |

The notes on pages 11 to 24 form part of these financial statements.

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

**1. ACCOUNTING POLICIES**

**1.1 BASIS OF PREPARATION OF FINANCIAL STATEMENTS**

The financial statements have been prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101) and the Companies Act 2006. The principal accounting policies adopted in the preparation of the financial statements are set out below and have been consistently applied to all years, unless otherwise stated. The financial statements have been prepared on the going concern basis under the historic cost convention and in accordance with the Companies Act 2006. During the year the company adopted IFRS 15 "Revenue from contracts with customers" and IFRS 9 "Financial Instruments". There were no material changes on adoption.

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

**GOING CONCERN**

On 27th March 2019, M40 Trains Limited's ultimate parent company Deutsche Bahn AG ("DB") announced its intention to explore options to sell the company and the UK Arriva group, through either a sale of up to 100% of the shares to one or more investors or through an Initial Public Offering ("IPO").

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

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

**1.2 TURNOVER**

Turnover comprises rental income from infrastructure assets receivable from its subsidiary company, net of value added tax and trade discounts. Rental income is recognised on a straight line basis over the lease term.

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

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**1. ACCOUNTING POLICIES (CONTINUED)**

**1.3 TANGIBLE ASSETS**

Tangible assets are stated at cost less accumulated depreciation.

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 all tangible assets, excluding investment property land which is not depreciated.

Depreciation is provided on the following bases:

|                                                 |                                                                                                                                                       |
|-------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------|
| Leasehold improvements &<br>investment property | over the remaining lease term or remaining<br>asset life in line with the Chiltern franchise<br>agreement as appropriate (between 16 and<br>40 years) |
| Plant & machinery                               | straight line up to 15 years                                                                                                                          |

**1.4 INVESTMENT PROPERTY**

Investment properties are measured at cost, including transaction costs. Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of investment property are recognised in the statement of comprehensive income within the period of derecognition. Investment property land is not depreciated. For all other investment property the depreciation is calculated on a straight-line basis to allocate cost, less residual value of the assets, over their estimated useful lives.

**1.5 OPERATING LEASES**

Rentals paid under operating leases are charged to the statement of comprehensive income on a straight line basis over the period of the lease. Benefits received and receivable as an incentive to sign an operating lease are recognised on a straight line basis over the period until the date the rent is expected to be adjusted to the prevailing market rate.

**1.6 INVESTMENTS**

Investments held as fixed assets are shown at cost less impairment. Investments are reviewed annually for potential impairment. Profits or losses arising from disposals of fixed asset investments are treated as part of the result from ordinary activities.

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## **M40 TRAINS LIMITED**

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

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#### **1. ACCOUNTING POLICIES (CONTINUED)**

##### **1.7 DEBTORS**

Trade and other debtors are initially measured at fair value and subsequently at amortised cost. In general, this is equivalent to the costs of purchase. Receivables for which there are substantial objective indications of an impairment are adjusted appropriately.

Trade and other debtors are considered to be impaired when there is objective evidence that the estimated future cash flows associated with the asset have been affected. Objective evidence for impairment could be observable changes in national or local economic conditions / government policies on transport.

##### **1.8 CREDITORS**

Trade and other creditors are obligations to pay for goods / services that have been acquired in the ordinary course of business and are initially stated at fair value and subsequently at amortised cost.

##### **1.9 CAPITAL GRANTS**

Capital based government grants are included within accruals and deferred income in the balance sheet and credited to the statement of comprehensive income over the estimate useful economic lives of the assets to which they relate.



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

**1. ACCOUNTING POLICIES (CONTINUED)**

**1.10 FINANCIAL REPORTING STANDARD 101 - REDUCED DISCLOSURE EXEMPTIONS**

The company has taken advantage of the following disclosure exemptions under FRS 101:

- the requirements of paragraphs 62, B64(d), B64(e), B64(g), B64(h), B64(j) to B64(m), B64(n)(ii), B64(o)(ii), B64(p), B64(q)(ii), B66 and B67 of IFRS 3 Business Combinations
- the requirements of IFRS 7 Financial Instruments: Disclosures
- the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement
- the requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers
- the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
  - paragraph 79(a)(iv) of IAS 1;
  - paragraph 73(e) of IAS 16 Property, Plant and Equipment;
  - paragraph 118(e) of IAS 38 Intangible Assets;
  - paragraphs 76 and 79(d) of IAS 40 Investment Property; and
- the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134-136 of IAS 1 Presentation of Financial Statements
- the requirements of IAS 7 Statement of Cash Flows
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- the requirements of paragraph 17 and 18A of IAS 24 Related Party Disclosures
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member
- the requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets.

The company is a qualifying entity for the purpose of FRS 101 and Note 17 gives details of the company's ultimate parent and from where its consolidated financial statements, prepared in accordance with IFRS, may be obtained.

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

The company has notified its shareholders in writing about, and they do not object to, the use of the disclosure exemptions used by the company in these financial statements, the most significant of which are summarised above.

The equivalent disclosures are included in the consolidated financial statements of the ultimate parent company, Deutsche Bahn AG, in accordance with the application guidance of FRS 100 "Application of financial reporting requirements".

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

**1. ACCOUNTING POLICIES (CONTINUED)**

**1.11 CURRENT AND DEFERRED TAXATION**

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

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

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

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

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

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

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

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

Deferred tax assets and liabilities are not discounted.

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

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

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Application of certain company accounting policies required management to make judgements, assumptions and estimates concerning the future as detailed below.

**2.1 Useful economic lives of tangible assets (estimates)**

The annual depreciation charge for tangible assets is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are reassessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets. See Note 9 for the carrying amount of the tangible assets and Note 1.3 for the useful economic lives for each class of assets.

**2.2 Impairment of debtors (estimates)**

The company make an estimate of the recoverable value of trade and other debtors. When assessing impairment of trade and other debtors, management considers factors including the ageing profile of debtors and historical experience. See Note 11 for the carrying amount of debtors.

**2.3 Accruals and deferred income (estimates)**

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

**3. GENERAL INFORMATION**

The company is a private limited company, incorporated and domiciled in the United Kingdom. The registered company number is 3005018 and the address of the registered office is 1 Admiral Way, Doxford International Business Park, Sunderland, 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. OPERATING PROFIT**

The operating profit is stated after charging:

|                                 | 2018<br>£000 | 2017<br>£000 |
|---------------------------------|--------------|--------------|
| Depreciation of tangible assets | 1,062        | 1,060        |
| <b>Operating lease rentals</b>  |              |              |
| - other operating leases        | 1,730        | 1,662        |
|                                 | <u>1,730</u> | <u>1,662</u> |

The company has no employees other than the directors, who did not receive any remuneration, in respect of their service, to the company (2017 : £NIL).

# M40 TRAINS LIMITED

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

### 6. AUDITORS' REMUNERATION

The company paid the following amounts to its auditors in respect of the audit of the financial statements of the company:

|                                   | 2018<br>£000 | 2017<br>£000 |
|-----------------------------------|--------------|--------------|
| Fees for the audit of the company | 7            | 6            |

### 7. INTEREST RECEIVABLE AND SIMILAR INCOME

|                           | 2018<br>£000 | 2017<br>£000 |
|---------------------------|--------------|--------------|
| Group interest receivable | 78           | 3            |
|                           | 78           | 3            |

### 8. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

|                                                               | 2018<br>£000 | 2017<br>£000 |
|---------------------------------------------------------------|--------------|--------------|
| <b>Corporation tax</b>                                        |              |              |
| Current tax on profit for the year                            | 966          | 904          |
| <b>Total current tax charge</b>                               | 966          | 904          |
| <b>Deferred tax</b>                                           |              |              |
| Origination and reversal of timing differences                | (143)        | (135)        |
| <b>Total deferred tax credit (Note 14)</b>                    | (143)        | (135)        |
| <b>Total taxation charge on profit on ordinary activities</b> | 823          | 769          |

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**M40 TRAINS LIMITED**

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

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**8. TAXATION ON PROFIT ON ORDINARY ACTIVITIES (CONTINUED)****FACTORS AFFECTING TAX CHARGE FOR THE YEAR**

The tax assessed for the year is higher than (2017 - *higher than*) the standard rate of corporation tax in the UK of 19% (2017 - 19.25%). The differences are explained below:

|                                                                                                               | 2018<br>£000 | 2017<br>£000 |
|---------------------------------------------------------------------------------------------------------------|--------------|--------------|
| Profit on ordinary activities before taxation                                                                 | 4,239        | 3,904        |
| Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2017 : 19.25%) | 805          | 752          |
| Effects of:                                                                                                   |              |              |
| Impact of rate change on deferred tax                                                                         | 18           | 17           |
| <b>Total tax charge for the year</b>                                                                          | <b>823</b>   | <b>769</b>   |

**FACTORS THAT MAY AFFECT FUTURE TAX CHARGES**

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

# M40 TRAINS LIMITED

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

### 9. TANGIBLE ASSETS

|                                 | Investment<br>property<br>£000 | Leasehold<br>improvements<br>£000 | Plant &<br>machinery<br>£000 | Total<br>£000 |
|---------------------------------|--------------------------------|-----------------------------------|------------------------------|---------------|
| <b>Cost</b>                     |                                |                                   |                              |               |
| At 1 January 2018               | 29,994                         | 5,054                             | 3                            | 35,051        |
| <b>At 31 December 2018</b>      | <b>29,994</b>                  | <b>5,054</b>                      | <b>3</b>                     | <b>35,051</b> |
| <b>Accumulated depreciation</b> |                                |                                   |                              |               |
| At 1 January 2018               | 10,036                         | 3,505                             | 2                            | 13,543        |
| Charge for the year             | 808                            | 253                               | 1                            | 1,062         |
| <b>At 31 December 2018</b>      | <b>10,844</b>                  | <b>3,758</b>                      | <b>3</b>                     | <b>14,605</b> |
| <b>Net book value</b>           |                                |                                   |                              |               |
| <b>At 31 December 2018</b>      | <b>19,150</b>                  | <b>1,296</b>                      | <b>-</b>                     | <b>20,446</b> |
| <i>At 31 December 2017</i>      | <i>19,958</i>                  | <i>1,549</i>                      | <i>1</i>                     | <i>21,508</i> |

The directors believe that there is no material differences between the fair value and carrying value of the investment property.

# M40 TRAINS LIMITED

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

### 10. INVESTMENTS

|                               | Investments<br>in<br>subsidiary<br>companies<br>£000 |
|-------------------------------|------------------------------------------------------|
| <b>Cost or valuation</b>      |                                                      |
| At 1 January 2018             | 92,483                                               |
| At 31 December 2018           | <u>92,483</u>                                        |
| <b>Accumulated impairment</b> |                                                      |
| At 1 January 2018             | 62,005                                               |
| At 31 December 2018           | <u>62,005</u>                                        |
| <b>Net book value</b>         |                                                      |
| At 31 December 2018           | <u>30,478</u>                                        |
| At 31 December 2017           | <u>30,478</u>                                        |

The company held the following investment as at the balance sheet date:

| Name                                 | Address of<br>registered<br>office                                                        | Class of<br>shares | Holding | Principal activity         |
|--------------------------------------|-------------------------------------------------------------------------------------------|--------------------|---------|----------------------------|
| The Chiltern Railway Company Limited | 1 Admiral<br>Way, Doxford<br>International<br>Business<br>Park,<br>Sunderland,<br>SR3 3XP | Ordinary           | 100 %   | Passenger railway services |

The directors believe that the carrying value of the investment is supported by its underlying assets.

# M40 TRAINS LIMITED

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

### 11. DEBTORS

|                                    | 2018<br>£000  | 2017<br>£000  |
|------------------------------------|---------------|---------------|
| Amounts owed by group undertakings | 17,958        | 13,598        |
| Other debtors                      | 70            | 84            |
| Prepayments and accrued income     | 361           | 391           |
|                                    | <u>18,389</u> | <u>14,073</u> |

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

|                                    | 2018<br>£000 | 2017<br>£000 |
|------------------------------------|--------------|--------------|
| Trade creditors                    | 382          | 432          |
| Amounts owed to group undertakings | -            | 17           |
| Corporation tax                    | 966          | 904          |
| Accruals and deferred income       | 673          | 647          |
|                                    | <u>2,021</u> | <u>2,000</u> |

### 13. CREDITORS: Amounts falling due after more than one year

|                              | 2018<br>£000 | 2017<br>£000 |
|------------------------------|--------------|--------------|
| Accruals and deferred income | 720          | 760          |
|                              | <u>720</u>   | <u>760</u>   |



# M40 TRAINS LIMITED

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

### 14. DEFERRED TAXATION

|                                           | 2018<br>£000 | 2017<br>£000 |
|-------------------------------------------|--------------|--------------|
| At 1 January                              | 2,007        | 2,142        |
| Credited to comprehensive income (Note 8) | (143)        | (135)        |
| <b>At 31 December</b>                     | <b>1,864</b> | <b>2,007</b> |

The deferred tax liability is made up as follows:

|                                | 2018<br>£000 | 2017<br>£000 |
|--------------------------------|--------------|--------------|
| Accelerated capital allowances | 1,864        | 2,007        |
|                                | <b>1,864</b> | <b>2,007</b> |

### 15. CALLED UP SHARE CAPITAL

|                                                                                | 2018<br>£        | 2017<br>£        |
|--------------------------------------------------------------------------------|------------------|------------------|
| <b>Authorised</b>                                                              |                  |                  |
| 2,175,882 Cumulative redeemable preference shares of £1 each (2017: 2,175,882) | 2,175,882        | 2,175,882        |
| 215,009 Ordinary shares of £1 each (2017: 215,009)                             | 215,009          | 215,009          |
| 79,110 "B" Ordinary shares of £1 each (2017: 79,110)                           | 79,110           | 79,110           |
| 8,069,220 "C" Ordinary shares of £0.01 each (2017: 8,069,220)                  | 80,692           | 80,692           |
| 150,000 "D" Ordinary shares of £0.01 each (2017: 150,000)                      | 1,500            | 1,500            |
|                                                                                | <b>2,552,193</b> | <b>2,552,193</b> |
| <b>Allotted, called up and fully paid</b>                                      |                  |                  |
| 215,009 Ordinary shares of £1 each (2017: 215,009)                             | 215,009          | 215,009          |
| 79,110 "B" Ordinary shares of £1 each (2017: 79,110)                           | 79,110           | 79,110           |
| 8,069,220 "C" Ordinary shares of £0.01 each (2017: 8,069,220)                  | 80,692           | 80,692           |
| 150,000 "D" Ordinary shares of £0.01 each (2017: 150,000)                      | 1,500            | 1,500            |
|                                                                                | <b>376,311</b>   | <b>376,311</b>   |

## M40 TRAINS LIMITED

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

#### 15. CALLED UP SHARE CAPITAL (CONTINUED)

##### Preference shares

Under the company's article of association the redeemable preference shares carry an entitlement to a dividend at the rate of 12p per share per annum.

Holders of preference shares have one vote for every share held but only on a resolution for the winding-up of the company or on a resolution affecting the rights attached to the shares. Preference shareholders have the right on a winding-up to receive, in priority to any other class of shares, the sum of £1.25 per share together with any arrears of dividend.

As at 31 of December 2018 there are no allotted called up and fully paid preference shares (31 December 2017: none).

##### 'B' Ordinary and 'C' Ordinary shares

'B' Ordinary shares and 'C' Ordinary shares are equity shares. They rank pari passu and carry an entitlement to a dividend in proportion to the total voting rights attached to each share on the date the dividend is declared.

##### 'D' Ordinary shares

'D' Ordinary shares are equity shares. Holders of these shares are not entitled to receive any dividends nor otherwise participate in the profits of the company. There are no voting rights attached to 'D' Ordinary shares.

#### 16. OPERATING LEASE COMMITMENTS

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

|                                              | 2018<br>£000 | 2017<br>£000 |
|----------------------------------------------|--------------|--------------|
| <b>Land and buildings</b>                    |              |              |
| Not later than 1 year                        | 1,626        | 1,657        |
| Later than 1 year but not later than 5 years | 3,636        | 5,139        |
| Later than 5 years                           | 1,243        | -            |
| <b>Total operating lease commitments</b>     | <b>6,505</b> | <b>6,796</b> |

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**M40 TRAINS LIMITED**

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

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**17. ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY**

The immediate parent company is Arriva Trains 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 M40 Trains Limited. Copies of these financial statements can be obtained from Potsdamer Platz 2, 10785 Berlin.

Deutsche Bahn AG is the largest and smallest group to consolidate the financial statements of M40 Trains Limited.

Information on M40 Trains Limited can be found at their registered address 1 Admiral Way, Doxford International Business Park, Sunderland, Tyne and Wear, SR3 3XP.

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