Registered number: 3005018

M40 TRAINS LIMITED

Annual report and financial statements

For the Year Ended 31 December 2019

Company Information

Directors	R A Johnson A Furlong A J Scott R G Allan
Registered number	3005018
Registered office	1 Admiral Way Doxford International Business Park Sunderland Tyne and Wear SR3 3XP
Independent auditor	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors Central Square South Orchard Street Newcastle upon Tyne NE1 3AZ

Contents

Strategic report
For the Year Ended 31 December 2019

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

PRINCIPAL ACTIVITIES

The principal activity of the company 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 before taxation of £4.0million (2018: £4.2million). The decrease in profitability is primarily due to the effect of IFRS 16 being adopted during the year. See Note1.1 and Note 19 for further details on this adoption.

The balance sheet on page 10 shows that the company had net assets of £68.0million at 31 December 2019 (2018: £64.7 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.

FUTURE DEVELOPMENTS

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

The company is a holding company providing long term infrastructure assets relating to The Chiltern Railway franchise. As a provider of long term infrastructure assets the company has been less directly impacted by the pandemic than other companies in the Arriva group.

The company voluntarily participates in a group cash pooling arrangement operated by its ultimate parent, Deutsche Bahn AG ('DB'). This is a long-standing arrangement operated by DB to manage the liquidity needs of DB group companies, and the company has been party to this arrangement for several years. Under the arrangement all the company's cash balances are swept into the group cash pool at the end of each business day. The company has a positive cash pooling balance at the balance sheet date and the directors expect the company's pooled cash balance to remain positive over the going concern assessment period.

The company is currently dependent on daily access to its funds in the cash pool for the funds required to operate and to support the going concern assertion. 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. However, the directors consider this risk to be highly improbable, as such action would contradict internal group policies and be inconsistent with past practice.

Since inception of the pooling arrangement, the company has never experienced any issue being able to draw upon its cash balances within the group cash pool to settle its liabilities as they fall due. The company also has a unilateral right to terminate its participation in the group cash pooling arrangement by giving one month's notice to DB.

The directors acknowledge that the uncertainty regarding immediate access to funds placed with DB indicates the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. 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 balances with DB and will continue to have access to adequate financial and other resources to continue to operate for the foreseeable future. In completing their going concern assessment, the directors have considered the expected impact of the Covid-19 pandemic on the company's financial position, based on severe but plausible downside scenarios, along with associated management actions to mitigate those impacts.

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

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

SECTION 172 STATEMENT (continued)

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

- Suppliers
- Deutsche Bahn AG
- Arriva plc
- Arriva Trains Holdings Limited
- The Chiltern Railway Company Limited
- Local communities in which the company is based.

During the financial year ended 31 December 2019 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.

The Arriva group's values are working as "One Arriva", providing great customer experience, doing the right thing and thinking beyond.

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

The company is part of the Arriva group and its ultimate parent company is Deutsche Bahn AG. The implementation of the strategy and policies of the company, including those relating to its relationships with key stakeholders, are managed locally by the board of the company, and oversight is provided by the Arriva UK Trains Leadership team. Any major matters of interest are then communicated to the Arriva Management Board (the "AMB"), a subcommittee of the board of Arriva plc. The membership of the AMB includes the Managing Director of the UK Trains division. The directors of the company aim to meet at least once in each financial year.

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

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

During the financial year ended 31 December 2019, initiatives for the Arriva group included supporting food banks, supporting homeless charities and partaking in appeals for local children's charities. The Arriva UK Trains division has a successful corporate partnership with the National Literacy Trust which delivers engagement opportunities for staff, children and parents across the UK trains operating network.

This report was approved by the board on 22 December 2020 and signed on behalf of the board.

R A Johnson
Director

Directors' report
For the Year Ended 31 December 2019

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

RESULTS AND DIVIDENDS

The profit for the year, after taxation, amounted to £3,257,000 (2018 - £3,416,000).

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:

R A Johnson (appointed 15 July 2019)
A Furlong
A J Scott
M E C Hewitt (appointed 1 January 2020, resigned 5 October 2020)
D J Penney (resigned 31 December 2019)
RG Allan (appointed 5 October 2020)

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Following the acquisition of Arriva by Deutsche Bahn in 2010, Deutsche Bahn AG is the principal source of funding for Arriva plc and its subsidiaries. The Arriva group's financial risks, including liquidity risks and those arising from interest rates, commodity prices and currency fluctuations are managed in accordance with the Deutsche Bahn treasury policy. For further details relating to financial risk management please refer to the Deutsche Bahn 2019 Integrated Report.

EMPLOYEE ENGAGEMENT

The company has no employees and therefore has nothing to report in respect of employee engagement activity during the year.

The company's subsidiary, The Chiltern Railway Company Limited, is an employing company. Details of The Chiltern Railway Company Limited's employee engagement can be found in The Chiltern Railway Company Limited's annual report and financial statements, which do not form part of this report.

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 the financial statements in accordance with applicable law and regulation.

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

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

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

DISCLOSURE OF INFORMATION TO AUDITORS

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

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware, and
- the 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 22 December 2020 and signed on its behalf.

R A Johnson
Director

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 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and financial statements (the "Annual Report"), which comprise: the balance sheet as at 31 December 2019; the statement of comprehensive income, and the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Material uncertainty related to going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 1.1 to the financial statements concerning the company's ability to continue as a going concern.

The company is dependent on the Deutsche Bahn AG ("DB") cash pooling arrangements for access to the cash necessary for the day-to-day running of the company and to support the going concern assertion. As per the terms of the company's agreement with DB, the company does not have explicit rights for immediate access to these funds on request, which 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.

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 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

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 5, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

Independent auditors' report to the members of M40 Trains Limited

Use of this report

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

Other required reporting

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.

Ian Morrison

Ian Morrison (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors

Newcastle upon Tyne

22 December 2020

Statement of comprehensive income
For the Year Ended 31 December 2019

	Note	2019 £000	*2018 £000*
Turnover	4	**5,464**	*6,975*
Cost of sales		**(1,228)**	*(2,792)*
GROSS PROFIT		**4,236**	*4,183*
Administrative expenses		**(307)**	*(22)*
OPERATING PROFIT	5	**3,929**	*4,161*
Interest receivable and similar income	7	**213**	*78*
Interest payable and similar charges	8	**(101)**	-
PROFIT BEFORE TAXATION		**4,041**	*4,239*
Taxation on profit	9	**(784)**	*(823)*
PROFIT FOR THE FINANCIAL YEAR		**3,257**	*3,416*
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**3,257**	*3,416*

The notes on pages 12 to 29 form part of these financial statements.

Balance sheet
As at 31 December 2019

	Note		2019 £000		*2018 £000*
Fixed assets					
Tangible assets	10		**20,856**		*20,446*
Investments	11		**30,478**		*30,478*
			51,334		*50,924*
Current assets					
Debtors	12	**25,484**		*18,389*	
		25,484		*18,389*	
Creditors: Amounts falling due within one year	13	**(3,617)**		*(2,021)*	
Net current assets			**21,867**		*16,368*
Total assets less current liabilities			**73,201**		*67,292*
Creditors: Amounts falling due after more than one year	14		**(3,515)**		*(720)*
			69,686		*66,572*
PROVISIONS FOR LIABILITIES					
Deferred tax	15	**(1,721)**		*(1,864)*	
Net assets			**67,965**		*64,708*
Capital and reserves					
Called up share capital	16		**376**		*376*
Share premium account			**90,000**		*90,000*
Capital redemption reserve			**2,176**		*2,176*
Profit and loss account			**(24,587)**		*(27,844)*
Total shareholders' funds			**67,965**		*64,708*

The financial statements on pages 9 to 29 were approved and authorised for issue by the board and were signed on its behalf on 22 December 2020.

R A Johnson
Director

The notes on pages 12 to 29 form part of these financial statements

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

	Called up share capital	Share premium account	Capital redemption reserve	Profit and loss account	Total shareholders' funds
	£000	£000	£000	£000	£000
At 1 January 2018	**376**	**90,000**	**2,176**	**(31,260)**	**61,292**
Comprehensive income for the year					
Profit for the financial year	-	-	-	**3,416**	**3,416**
Total comprehensive income for the year	-	-	-	**3,416**	**3,416**
At 1 January 2019	**376**	**90,000**	**2,176**	**(27,844)**	**64,708**
Comprehensive income for the year					
Profit for the financial year	-	-	-	**3,257**	**3,257**
Total comprehensive income for the year	-	-	-	**3,257**	**3,257**
At 31 December 2019	**376**	**90,000**	**2,176**	**(24,587)**	**67,965**

The notes on pages 12 to 29 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 and in accordance with the Companies Act 2006.

During the year the company adopted IFRS 16 "Leases", which has had a material impact on the company's financial statements (see Note 19). There are no other amendments to accounting standards, or IFRS IC interpretations that are effective for the year ended 31 December 2019 that have had a material impact on the company's financial statements.

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

GOING CONCERN

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

The company is a holding company providing long term infrastructure assets relating to The Chiltern Railway franchise. As a provider of long term infrastructure assets the company has been less directly impacted by the pandemic than other companies in the Arriva group.

The company voluntarily participates in a group cash pooling arrangement operated by its ultimate parent, Deutsche Bahn AG ('DB'). This is a long-standing arrangement operated by DB to manage the liquidity needs of DB group companies, and the company has been party to this arrangement for several years. Under the arrangement all the company's cash balances are swept into the group cash pool at the end of each business day. The company has a positive cash pooling balance at the balance sheet date and the directors expect the company's pooled cash balance to remain positive over the going concern assessment period.

The company is currently dependent on daily access to its funds in the cash pool for the funds required to operate and to support the going concern assertion. 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. However, the directors consider this risk to be highly improbable, as such action would contradict internal group policies and be inconsistent with past practice.

1. ACCOUNTING POLICIES (CONTINUED)

1.1 BASIS OF PREPARATION OF FINANCIAL STATEMENTS(continued)
GOING CONCERN (continued)

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 also has a unilateral right to terminate its participation in the group cash pooling arrangement by giving one month's notice to DB.

The directors acknowledge that the uncertainty regarding immediate access to funds placed with DB indicates the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. 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 balances with DB and will continue to have access to adequate financial and other resources to continue to operate for the foreseeable future. In completing their going concern assessment, the directors have considered the expected impact of the Covid-19 pandemic on the company's financial position, based on severe but plausible downside scenarios, along with associated management actions to mitigate those impacts.

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

1.2 TURNOVER

Turnover 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.

1. ACCOUNTING POLICIES (CONTINUED)

1.3 LEASES

Lessor accounting
The company classifies asset leased to its subsidiary as operating or finance leases. Leases are categorised as finance leases if it is determined that the risks and rewards of ownership of the asset has transferred to the lessee. Where leases are categorised as finance leases, the tangible asset is derecognised from the balance sheet and a finance lease receivable is recognised at the net investment value of the lease, with any balance charged to the statement of comprehensive income.

Tangible assets leased to the company's subsidiary under operating leases are not derecognised, with rental income recognised in accordance with the company's turnover policy.

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

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

Corresponding right-of-use assets are measured at the initial amount of the lease liability, adjusted for any lease payments prepaid at the commencement date, initial direct costs, lease incentives, and an estimate of costs to dismantle or remove the underlying asset. Subsequently, the right-of-use asset is depreciated on a straight-line basis over 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). Lease payments associated with these leases are recognised as an expense on a straight-line basis over the lease term.

Prior to the adoption of IFRS 16 on 1 January 2019 the company classified its lease contracts as operating or finance leases in line with IAS 17, with contracts categorised as finance leases where it was determined that the risks and rewards of ownership of the asset has transferred to the company. All other leases were categorised as operating leases.

Where leases were categorised as finance leases, an asset and corresponding liability was recognised at the lower of the present value of minimum lease payments (discounted using the interest rate implicit in the lease if available, otherwise at the incremental borrowing rate of the company) and the fair value of the asset. Any initial direct costs were added to the amount recognised as an asset. Subsequently depreciation and interest were charged on the asset and liability, respectively, and the liability was reduced by repayments of the principal amount.

Operating leases were recognised as an expense on a straight-line basis over the lease term.

1.3 LEASES (continued)

1. ACCOUNTING POLICIES (CONTINUED)

Subleases

Where the company is an intermediate lessor, 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. If the head lease is a short-term lease to which the company applies an exemption as described above, then the sub-lease is classed as an operating lease.

1.4 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.

From 1 January 2019, tangible assets include right-of-use assets under lease arrangements. Note 1.3 outlines the accounting policies for such assets.

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 basis:

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

1.5 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. ACCOUNTING POLICIES (CONTINUED)

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.

1.7 DEBTORS

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

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

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

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.

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 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 any 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;
  - 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".

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.

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.

2.1 Critical judgements in applying accounting policies

The following are the critical judgements that have been made in the process of applying the company's accounting policies, apart from those involving estimations, that have the most significant effect on the financial statements.

Lease and sub-lease terms and accounting

In determining the lease term at commencement of its lease and sub-lease arrangements with the company's subsidiary (or the remaining term on adoption of IFRS 16) management considers the terms of the arrangements and all facts and circumstances of the company's and its subsidiary's operations, including the expected duration of the Chiltern franchise contract, that create an economic incentive to exercise an extension option, or not exercise a termination option (where applicable).

In respect of sub-lease arrangements, management has assessed on adoption of IFRS 16 whether the arrangements are operating leases, requiring recognition of a right-of-use tangible asset on transition, or as finance lease receivables, requiring recognition of a receivable due from its subsidiary undertaking, identifying both types of sub-lease arrangements. See Note 1.3 for further details of the accounting policy and Notes 10 and 19 for the value of right-of-use tangible assets and the value of finance lease receivables for sub-lease arrangements that were assessed as finance leases on adoption of IFRS 16 in the year.

2.2 Critical assumptions and key sources of estimation uncertainty

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

Useful economic lives of tangible assets (including right-of-use 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 utilization or physical condition of the assets. See Note 10 for the carrying amount of the tangible assets and Note 1.4 for the useful economic lives for each class of assets.

Impairment of investments

The company reviews investments annually for any indicator of impairment, and where an indicator is identified, an estimate is made of the recoverable amount. The reviews identified no impairments of were required to investments during 2019 (2018: £nil). See Note 11 for further details and for the carrying amount of investments and Note 20 for potential risks of impairments to carrying values in the 12 months to 31 December 2020.

3. GENERAL INFORMATION

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

	2019 £000	*2018* *£000*
Depreciation of tangible assets	1,174	*1,062*
OPERATING LEASE PAYMENTS:		
- other operating leases	-	*1,730*

The company has no employees other than the directors, who did not receive any remuneration, in respect of their services, to the company (2018 : £NIL).

6. AUDITORS' REMUNERATION

The company paid the following amounts to its auditors in respect of the audit of the financial statements and for other services provided to the company:

	2019 £000	*2018* *£000*
Fees payable for the audit of the company's annual financial statements	7	*7*
	7	*7*

7. INTEREST RECEIVABLE AND SIMILAR INCOME

	2019 £000	*2018* *£000*
Group interest receivable	213	*78*
	213	*78*

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

8. INTEREST PAYABLE AND SIMILAR EXPENSES

	2019 £000	*2018 £000*
Interest on lease liabilities	101	-
	101	-

9. TAXATION ON PROFIT

	2019 £000	*2018 £000*
CORPORATION TAX		
Current tax on profits for the year	927	*966*
TOTAL CURRENT TAX CHARGE	927	*966*
DEFERRED TAX		
Origination and reversal of timing differences	(143)	*(143)*
TOTAL DEFERRED TAX CREDIT (Note 15)	(143)	*(143)*
TOTAL TAXATION CHARGE ON PROFIT	784	*823*

FACTORS AFFECTING TAX CHARGE FOR THE YEAR

The tax assessed for the year is higher than *(2018 - higher than)* the standard rate of corporation tax in the UK of 19% *(2018 - 19%)*. The differences are explained below:

	2019 £000	*2018 £000*
Profit before tax	4,041	*4,239*
Profit multiplied by standard rate of corporation tax in the UK of 19% (2018 - 19%)	768	*805*
EFFECTS OF:		
Impact of rate change on deferred tax	16	*18*
TOTAL TAX CHARGE FOR THE YEAR	784	*823*

9. TAXATION ON PROFIT (CONTINUED)

FACTORS THAT MAY AFFECT FUTURE TAX CHARGES

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

10. TANGIBLE ASSETS

	Investment property £000	Leasehold properties £000	Plant & machinery £000	Total £000
COST				
At 1 January 2019	29,994	5,054	3	35,051
Adoption of IFRS 16 (Note 19)	-	1,584	-	1,584
At 1 January 2019 (adjusted balance)	29,994	6,638	3	36,635
At 31 December 2019	29,994	6,638	3	36,635
DEPRECIATION				
At 1 January 2019	10,844	3,758	3	14,605
Charge for the year	767	407	-	1,174
At 31 December 2019	11,611	4,165	3	15,779
NET BOOK VALUE				
At 31 December 2019	18,383	2,473	-	20,856
At 31 December 2018	*19,150*	*1,296*	-	*20,446*

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

Leasehold properties includes right-of-use assets recognised in accordance with IFRS 16 with a book value as at 31 December 2019 of £1,430,000. Depreciation of £154,000 was charged to these assets in the year. No right-of-use asset additions were recognised in the year.

11. INVESTMENTS

	Investments in subsidiary companies £000
COST OR VALUATION	
At 1 January 2019	**92,483**
At 31 December 2019	**92,483**
IMPAIRMENT	
At 1 January 2019	**62,005**
At 31 December 2019	**62,005**
NET BOOK VALUE	
At 31 December 2019	**30,478**
At 31 December 2018	*30,478*

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

Name	Registered office	Class of shares	Holding
The Chiltern Railway Company Limited	1 Admiral Way, Doxford International Business Park, Sunderland, SR3 3XP	Ordinary	100%

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

12. DEBTORS

	2019 £000	2018 £000
Amounts owed by group undertakings	25,350	17,958
Other debtors	66	70
Prepayments and accrued income	68	361
	25,484	18,389

13. CREDITORS: Amounts falling due within one year

	2019 £000	2018 £000
Trade creditors	375	382
Amounts owed to group undertakings	9	-
Corporation tax	927	966
Lease liabilities	1,653	-
Accruals and deferred income	653	673
	3,617	2,021

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

	2019 £000	2018 £000
Lease liabilities	2,835	-
Deferred capital grants	680	720
	3,515	720

15. DEFERRED TAXATION

	2019 £000	*2018 £000*
At 1 January	**1,864**	*2,007*
Credited to comprehensive income (Note 9)	**(143)**	*(143)*
At 31 December	**1,721**	*1,864*

The deferred tax liability is made up as follows:

	2019 £000	*2018 £000*
Accelerated capital allowances	**1,721**	*1,864*
	1,721	*1,864*

16. CALLED UP SHARE CAPITAL

	2019 £	*2018 £*
Authorised		
2,175,882 *(2018 - 2,175,882)* Cumulative redeemable preference shares of £1.00 each	**2,175,882**	*2,175,882*
215,009 *(2018 - 215,009)* Ordinary shares of £1.00 each	**215,009**	*215,009*
79,110 *(2018 - 79,110)* "B" Ordinary shares of £1.00 each	**79,110**	*79,110*
8,069,220 *(2018 - 8,069,220)* "C" Ordinary shares of £0.01 each	**80,692**	*80,692*
150,000 *(2018 - 150,000)* "D" Ordinary shares of £0.01 each	**1,500**	*1,500*
	2,552,193	*2,552,193*
Allotted, called up and fully paid		
215,009 *(2018 - 215,009)* Ordinary shares of £1.00 each	**215,009**	*215,009*
79,110 *(2018 - 79,110)* "B" Ordinary shares of £1.00 each	**79,110**	*79,110*
8,069,220 *(2018 - 8,069,220)* "C" Ordinary shares of £0.01 each	**80,692**	*80,692*
150,000 *(2018 - 150,000)* "D" Ordinary shares of £0.01 each	**1,500**	*1,500*
	376,311	*376,311*

16. 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 2019 there are no allotted called up and fully paid preference shares (31 December 2018: 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.

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.

18. LEASE COMMITMENTS

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

	2018 £000
Land and buildings	
Not later than 1 year	1,626
Later than 1 year but not later than 5 years	3,636
Later than 5 years	1,243
Total lease commitments prior to adoption of IFRS 16	**6,505**

19. IMPACT OF ADOPTION OF IFRS 16

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

On transition, the company recognised an additional £1,584,000 of right-of-use assets and £6,111,000 of lease liabilities. The difference represents a reduction to associated prepayments at 31 December 2018 and an adjustment for lease liabilities relating to assets sub-leased to the company's subsidiary under finance leases and recognised as finance lease receivables, as opposed to right-of-use tangible assets.

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

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

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

	£000
Operating lease commitment as at 31 December 2018	6,505
Effect from consideration of termination and extension options	285
Effect from discounting	(679)
Lease liabilities as at 1 January 2019	**6,111**
Prepaid lease expenses as at 31 December 2018	237
Adjustment for finance sub-lease arrangements not recognised as right-of-use assets	(4,764)
Right-of-use assets as at 1 January 2019	**1,584**

20. POST BALANCE SHEET EVENT

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

The company has an investment in The Chiltern Railway Company Limited which is an operator of passenger transport services however as M40 Trains Limited is this company's parent company, M40 Trains Limited has been less directly impacted by the pandemic than other companies in the Arriva group.

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