Registered number: 2328559

# ARRIVA LONDON NORTH LIMITED

Annual report and financial statements

For the Year Ended 31 December 2018

## Company Information

| | |
|---|---|
| **Directors** | P J Batty<br>R Scowen<br>A Jones<br>H S Notay<br>S W Bond<br>E K Minns |
| **Company secretary** | L Edwards |
| **Registered number** | 2328559 |
| **Registered office** | 1 Admiral Way<br>Doxford International Business Park<br>Sunderland<br>Tyne and Wear<br>SR3 3XP |
| **Independent auditors** | PricewaterhouseCoopers LLP<br>Chartered Accountants and Statutory Auditors<br>Central Square South<br>Orchard Street<br>Newcastle upon Tyne<br>NE1 3AZ |

## Contents

## 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 that of the operation of bus services.

### REVIEW OF BUSINESS

The company's statement of comprehensive income on page 8 shows a profit on ordinary activities before taxation for the year of £11.0m (2017: £18.6m). The reason for the decrease in profit before taxation was primarily due to an increase in direct operating costs, including increases to wages and salary costs during the year.

At the balance sheet date, the company had net assets of £74.6m (2017: £56.5m). The increase in net assets is due to the profit for the year, the actuarial gain on the company's defined benefit pension scheme, a one-off gain on disposal of tangible assets, partly offset by the reduction in the fair value of derivatives.

The directors consider the state of the company's affairs to be satisfactory.

### PRINCIPAL RISKS AND UNCERTAINTIES

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

### KEY PERFORMANCE INDICATORS

The Management Board of Deutsche Bahn AG, the company's ultimate parent company, manage the group's operations on a divisional basis. For this reason, the company's directors believe that analysis using key performance indicators for the company is not necessary or appropriate for an understanding of the development, performance or position of the business of Arriva London North Limited. The development performance and position of the group, including this company, is discussed in the Deutsche Bahn Integrated Report which does not form part of this report.

**Strategic report (continued)**
**For the Year Ended 31 December 2018**

## FUTURE DEVELOPMENTS

Following the year end, the company continued to see more challenges in 2019 with a number of competitors challenging new routes up for tender and an ever increasing focus on price, given restrained Transport for London budgets. Investment is being made in engineering to ensure the company is well equipped to deal with the increasing number of hybrid buses coming into the fleet. The company will carry on working with Transport for London to ensure performance continues to improve, environmental considerations are met and the company are the 'Operator of choice' in the London bus market.

On 27 March 2019, Arriva London North Limited's ultimate parent company Deutsche Bahn AG ("DB") announced its intention to explore options to sell the Arriva group, through either a sale of up to 100% of the shares in Arriva 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 August 2019 and signed by order of the board.

**H S Notay**
Director

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

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

**RESULTS AND DIVIDENDS**

The profit for the year, after taxation, amounted to £9,486,000 *(2017: £15,348,000)*.

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:

P J Batty
R Scowen
I R Tarran (resigned 29 June 2018)
H S Notay (appointed 2 January 2018)
P A J S Ayers (resigned 5 November 2018)
A Jones
S W Bond (appointed 1 November 2018)
E K Minns (appointed 5 November 2018)

**EMPLOYEE INVOLVEMENT**

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

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

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

**DISABLED EMPLOYEES**

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

**MATTERS COVERED IN THE STRATEGIC REPORT**

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

**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.

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

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

Company law requires the directors to prepare audited financial statements for each financial year. Under that law the directors have elected to prepare the audited financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), comprising Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101). Under company law the directors must not approve the audited financial statements unless they are satisfied that they 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 judgments 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;
- 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 to 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 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 30 August 2019 and signed on its behalf.

H S Notay
Director

**Independent auditors' report to the members of Arriva London North Limited**

## Report on the audit of the financial statements

### Opinion

In our opinion Arriva London North 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 Arriva London North 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. This description forms part of our auditors' report.

**Independent auditors' report to the members of Arriva London North Limited**

*Use of this report*

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

**Other required reporting**

**Companies Act 2006 exception reporting**

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

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

We have no exceptions to report arising from this responsibility.

Michael Jeffrey

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 August 2019

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

| | Note | 2018 £000 | *2017 £000* |
|---|---|---|---|
| Turnover | 4 | **260,432** | *259,985* |
| Cost of sales | | **(227,691)** | *(208,716)* |
| **Gross profit** | | **32,741** | *51,269* |
| Administrative expenses | | **(24,676)** | *(30,264)* |
| Other operating income | 5 | **6,756** | *469* |
| **Operating profit** | 6 | **14,821** | *21,474* |
| Interest receivable and similar income | 10 | **26** | *4* |
| Interest payable and similar charges | 11 | **(319)** | *(346)* |
| Other finance charges | 12 | **(1,708)** | *(2,500)* |
| **Profit on ordinary activities before taxation** | | **12,820** | *18,632* |
| Taxation on profit on ordinary activities | 13 | **(1,889)** | *(3,284)* |
| **Profit for the financial year** | | **10,931** | *15,348* |
| **Other comprehensive income:** | | | |
| **Items that will not be reclassified to profit or loss:** | | | |
| Actuarial gain on defined benefit schemes | 24 | **11,592** | *10,048* |
| Movements of deferred tax relating to actuarial gain on pension deficit | 21 | **(1,940)** | *(1,484)* |
| | | **9,652** | *8,564* |
| **Items that may be reclassified to profit or loss:** | | | |
| Changes in market value of cash flow hedges | 20 | **(1,218)** | *2,418* |
| Deferred tax attributable to changes in market value of cash flow hedges | 21 | **207** | *(411)* |
| | | **(1,011)** | *2,007* |
| **Total comprehensive income for the year** | | **19,572** | *25,919* |

The notes on pages 11 to 32 form part of these financial statements.

## Balance sheet
## As at 31 December 2018

| | Note | | 2018 £000 | | 2017 £000 |
|---|---|---|---|---|---|
| **Fixed assets** | | | | | |
| Intangible assets | 14 | | - | | 1,936 |
| Tangible assets | 15 | | 144,555 | | 162,345 |
| | | | 144,555 | | 164,281 |
| **Current assets** | | | | | |
| Stocks | 16 | 1,067 | | 1,147 | |
| Debtors: Amounts due more than one year | 17 | 1,781 | | 1,674 | |
| Debtors | 17 | 44,112 | | 38,209 | |
| Cash at bank and in hand | | 4 | | 16 | |
| | | 46,964 | | 41,046 | |
| Creditors: Amounts due within one year | 18 | (44,910) | | (60,290) | |
| **Net current assets / (liabilities)** | | | 2,054 | | (19,244) |
| **Total assets less current liabilities** | | | 146,609 | | 145,037 |
| Creditors: Amounts due more than one year | 19 | | (10,843) | | (14,279) |
| Pension deficit | 24 | | (59,732) | | (74,296) |
| **Net assets** | | | 76,034 | | 56,462 |
| **Capital and reserves** | | | | | |
| Called up share capital | 22 | | 8,142 | | 8,142 |
| Share premium account | | | 45,642 | | 45,642 |
| Cash flow hedge reserve | | | 33 | | 1,044 |
| Profit and loss account | | | 22,217 | | 1,634 |
| | | | 76,034 | | 56,462 |

The financial statements on pages 8 to 32 were approved and authorised for issue by the board and were signed on its behalf on 30 August 2019.

**H S Notay**
Director

The notes on pages 11 to 32 form part of these financial statements.

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

| | Called up share capital | Share premium account | Cash flow hedge reserve | Profit and loss account | Total shareholders' funds |
|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 |
| **At 1 January 2017** | 8,142 | 45,642 | (963) | (22,278) | 30,543 |
| **Comprehensive income for the year** | | | | | |
| Profit for the financial year | - | - | - | 15,348 | 15,348 |
| Actuarial gain on pension deficit | - | - | - | 10,048 | 10,048 |
| Movements of deferred tax relating to actuarial gain on pension deficit | - | - | - | (1,484) | (1,484) |
| Changes in market value of cash flow hedges | - | - | 2,418 | - | 2,418 |
| Deferred tax attributable to changes in market value of cash flow hedges | - | - | (411) | - | (411) |
| **Total comprehensive income for the year** | - | - | 2,007 | 23,912 | 25,919 |
| **At 1 January 2018** | 8,142 | 45,642 | 1,044 | 1,634 | 56,462 |
| **Comprehensive income for the year** | | | | | |
| Profit for the financial year | - | - | - | 10,931 | 10,931 |
| Actuarial gain on pension deficit | - | - | - | 11,592 | 11,592 |
| Movements of deferred tax relating to actuarial gain on pension deficit | - | - | - | (1,940) | (1,940) |
| Changes in market value of cash flow hedges | - | - | (1,218) | - | (1,218) |
| Deferred tax attributable to changes in market value of cash flow hedges | - | - | 207 | - | 207 |
| **Total comprehensive income for the year** | - | - | (1,011) | 20,583 | 19,572 |
| **At 31 December 2018** | 8,142 | 45,642 | 33 | 22,217 | 76,034 |

The notes on pages 11 to 32 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, as modified by the revaluation of derivative financial assets and financial liabilities measured at fair value through cash flow hedge reserves, and in accordance with the Companies Act 2006. During the year the company adopted IFRS 15 "Revenue from contracts with customers" and IFRS 9 "Financial Instruments".

On adoption of IFRS 15, the company's mobilisation cost intangible assets were reclassified to Debtors as they represent contract assets receivable from contracts with customers. This change in presentation had no impact on the company's net assets or profit or loss.

There were no material changes on adoption of IFRS 9.

**GOING CONCERN**

On 27 March 2019, Arriva London North Limited's ultimate parent company Deutsche Bahn AG ("DB") announced its intention to explore options to sell the Arriva group, through either a sale of up to 100% of the shares in Arriva 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 consists of the gross revenue for road passenger transport together with the aggregate amounts receivable for other services supplied in the ordinary course of the business, excluding value added tax. Income is accrued where it is earned in an earlier period to that in which it is billed or received in cash.

Income is deferred where it is received in an earlier period than that to which it relates.

### 1.3 INTANGIBLE ASSETS AND AMORTISATION

Intangible assets, which relate to licences for the use of the Arriva brand name, are being amortised through the statement of comprehensive income over the licence period of 15 years.

Amortisation charges are included within administration expenses in the statement of comprehensive income.

## 1. ACCOUNTING POLICIES (CONTINUED)

### 1.4 TANGIBLE ASSETS

Tangible assets are stated at cost less depreciation.

Depreciation is provided at rates calculated to write off the cost of tangible assets, less their estimated residual value, over their expected useful lives. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if it is greater than its estimated recoverable amount.

Depreciation is provided on the following basis:

| | |
|---|---|
| Freehold property | - straight line over 4 year period |
| Plant, machinery, fixtures and motor vehicles | - 10% to 48% straight line |
| Public service vehicles | - straight line over periods up to 15 years |

Freehold land is not depreciated.

### 1.5 LEASING

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

### 1.6 STOCKS

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

### 1.7 DEBTORS

Trade and other debtors are initially measured at fair value and subsequently at amortised cost. Receivables for which there are substantial objective indications of an impairment are adjusted appropriately. Trade and other debtors are considered to be impaired when there is objective evidence that the estimated future cash flows associated with the asset have been affected. In addition, certain trade and other debtors that are not considered to be individually impaired, may be assessed for impairment on a collective basis.

Contract assets which relate to the mobilisation costs of new bus routes are included at cost, less accumulated amortisation. The costs are capitalised when incurred and amortised when the bus route is fully operational. Amortisation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset.

1. ACCOUNTING POLICIES (CONTINUED)

## 1.8 CASH

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

## 1.9 CREDITORS

Trade 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.

## 1.10 PENSIONS

During the year the intermediate parent company Arriva plc operated a contract based pension scheme which covered employees of the company. The assets of the scheme are held separately from those of the company in independently administered funds. Contributions payable under the contract based scheme are charged to comprehensive income as they arise. The company is deemed to be the principal employer of the Arriva London North and Arriva London South Pension Scheme which is recognised within the financial statements.

The amount recognised in the balance sheet in respect of the company's defined benefit pension scheme is the fair value of the scheme assets at the balance sheet date less the present value of the defined benefit obligation. The defined benefit obligation is calculated using the projected unit credit method. Formal actuarial valuations are carried out by an independent actuary on a triennial basis, with updated calculations being prepared at each balance sheet date by qualified independent actuaries. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. The cost of providing future benefits (service cost) is charged to comprehensive income as required.

The return on scheme assets and interest obligation on scheme liabilities are included in other finance charges. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are credited or charged to other comprehensive income in the period they arise.

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.

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

Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary timing differences to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

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

Deferred tax assets and liabilities are not discounted.

## 1. ACCOUNTING POLICIES (CONTINUED)

### 1.12 DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are recognised as a financial asset or a financial liability in the balance sheet at the trade date. Derivative financial instruments are initially and subsequently measured at fair value. At the point at which the contract is taken out, derivative financial instruments are classified as a hedging instrument for hedging cash flows arising from a contractual obligation or an expected transaction. Cash flow hedges are used to provide protection against fluctuations in the cash flows of financial assets or liabilities or anticipated transactions. When future cash flows are hedged, the hedging instruments are recognised with their fair value. Changes in value are initially recognised in other comprehensive income and are only recognised in the income statement at the point at which the corresponding losses or profits from the underlying hedged item have an impact on the statement of comprehensive income or the transaction expires.

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

## 1. ACCOUNTING POLICIES (CONTINUED)

### 1.13 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 requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
    - paragraph 79(a)(iv) of IAS 1;
    - paragraph 73(e) of IAS 16 Property, Plant and Equipment;
    - paragraph 118(e) of IAS 38 Intangible Assets;
- the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134-136 of IAS 1 Presentation of Financial Statements
- the requirements of IAS 7 Statement of Cash Flows
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- the requirements of paragraph 17 and 18A of IAS 24 Related Party Disclosures
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member
- the requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets.

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

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

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

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

## 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 15 for the carrying amount of the tangible assets and Note 1.4 for the useful economic lives for each class of assets.

**2.2 Stock provisioning (estimates and judgements)**

The recoverability of the cost of stock is considered and when calculating a stock provision, management consider the nature and condition of the stock as well as applying assumptions around anticipated future usage of the stock or recoverability. See Note 16 for the carrying amount of the stock.

**2.3 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 17 for the carrying amount of debtors.

**2.4 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.

**2.5 Defined benefit pension scheme (estimates and judgements)**

The company has an obligation to pay pension benefits to certain employees. The cost of these benefits and the present value of the obligation depend on a number of factors, including; life expectancy, future salary increase, inflation, future pension increases and the discount rate on corporate bonds. Management, in conjunction with group actuaries, estimate these factors in determining the net pensions obligation in the balance sheet. The assumptions reflect historical experience and current trends. See Note 24 for the disclosures of the defined benefit pension scheme.

## 3. GENERAL INFORMATION

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

The registered company number is 2328559 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. OTHER OPERATING INCOME

| | 2018 £000 | *2017 £000* |
|---|---|---|
| Other income | **733** | *469* |
| Profit on sale of tangible assets | **6,023** | - |
| | **6,756** | *469* |

## 6. OPERATING PROFIT

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

| | 2018 £000 | *2017 £000* |
|---|---|---|
| Depreciation of tangible assets | **18,368** | *16,059* |
| Amortisation on intangible assets | **414** | *682* |
| Amortisation of mobilisation costs | **359** | - |
| (Profit) / loss on disposal of tangible assets | **(6,023)** | *109* |
| Cost of stocks recognised as an expense | **34,412** | *32,330* |
| **Operating lease rentals** | | |
| - plant and machinery | **354** | *298* |
| - land and buildings | **1,633** | *1,007* |

## 7. AUDITORS' REMUNERATION

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

| | 2018 £000 | *2017 £000* |
|---|---|---|
| Fees for the audit of the company | **41** | *40* |

## 8. STAFF COSTS

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

| | 2018 £000 | *2017 £000* |
|---|---|---|
| Wages and salaries | **144,491** | *140,952* |
| Social security costs | **14,815** | *14,503* |
| Other pension costs (Note 24) | **6,213** | *4,343* |
| | **165,519** | *159,798* |

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

| | 2018 No. | *2017 No.* |
|---|---|---|
| Drivers | **3,044** | *3,321* |
| Engineering | **285** | *311* |
| Administrative | **375** | *325* |
| | **3,704** | *3,957* |

## 9. DIRECTORS' EMOLUMENTS

| | 2018 £000 | *2017 £000* |
|---|---|---|
| Directors' emoluments | **1,038** | *963* |
| Company contributions to defined contribution pension schemes | **20** | *15* |
| Company contributions to defined benefit pension schemes | **29** | *45* |
| | **1,087** | *1,023* |

During the year retirement benefits were accruing to 4 directors *(2017 - 3)* in respect of defined contribution pension schemes.

The highest paid director received remuneration of £264,000 *(2017 - £260,000)*.

The value of the company's contributions paid to a defined benefit pension scheme in respect of the highest paid director amounted to £NIL *(2017 - £NIL)*.

During the year, payments to directors for compensation for loss of office totalled £30,000 (2017: £Nil). Excluded from the directors' emoluments above are payments made to former directors totalling £Nil (2017: £8,306).

## 10. INTEREST RECEIVABLE AND SIMILAR INCOME

| | 2018<br>£000 | 2017<br>£000 |
|---|---|---|
| Interest receivable from group undertakings | 26 | 4 |
| | 26 | 4 |

## 11. INTEREST PAYABLE AND SIMILAR EXPENSES

| | 2018<br>£000 | 2017<br>£000 |
|---|---|---|
| Interest payable to group undertakings | 319 | 346 |
| | 319 | 346 |

## 12. OTHER FINANCE CHARGES

| | 2018<br>£000 | 2017<br>£000 |
|---|---|---|
| Interest cost on defined benefit obligation (Note 24) | 7,172 | 7,547 |
| Interest income on plan assets (Note 24) | (5,464) | (5,047) |
| | 1,708 | 2,500 |

## 13. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

| | 2018 £000 | *2017 £000* |
|---|---|---|
| **Corporation tax** | | |
| Current tax on profits for the year | **(335)** | *127* |
| Adjustments in respect of prior years | **3,516** | *(1,651)* |
| **Total current tax charge / (credit)** | **3,181** | *(1,524)* |
| **Deferred tax** | | |
| Origination and reversal of timing differences | **1,652** | *3,419* |
| Adjustments in respect of prior years | **(2,944)** | *1,389* |
| **Total deferred tax (credit) / charge (Note 21)** | **(1,292)** | *4,808* |
| **Total taxation charge on profit on ordinary activities** | **1,889** | *3,284* |

### FACTORS AFFECTING TAX CHARGE FOR THE YEAR

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

| | 2018 £000 | *2017 £000* |
|---|---|---|
| Profit on ordinary activities before tax | **12,820** | *18,632* |
| Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2017 - 19.25%) | **2,436** | *3,587* |
| **Effects of:** | | |
| Non-tax deductible amortisation of intangible fixed assets | **78** | *80* |
| Expenses not deductible for tax purposes | **-** | *4* |
| Profit on sale of ineligible assets | **(1,159)** | *-* |
| Adjustments in respect of prior years | **572** | *(262)* |
| Depreciation in respect of ineligible assets | **89** | *74* |
| Impact of rate change on deferred tax | **(127)** | *(199)* |
| **Total tax charge for the year** | **1,889** | *3,284* |

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

### 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.

## 14. INTANGIBLE ASSETS

| | Licences £000 | Mobilisation costs £000 | Total £000 |
|---|---|---|---|
| **COST** | | | |
| At 1 January 2018 | 6,200 | 1,791 | 7,991 |
| Reclassification on adoption of IFRS 15 | - | (1,791) | (1,791) |
| At 31 December 2018 | 6,200 | - | 6,200 |
| **AMORTISATION** | | | |
| At 1 January 2018 | 5,786 | 269 | 6,055 |
| Charge for the year | 414 | - | 414 |
| Reclassification on adoption of IFRS 15 | - | (269) | (269) |
| At 31 December 2018 | 6,200 | - | 6,200 |
| **NET BOOK VALUE** | | | |
| At 31 December 2018 | - | - | - |
| *At 31 December 2017* | *414* | *1,522* | *1,936* |

On 1 January 2018, the company's mobilisation cost intangible assets were reclassified to Debtors as they represent contract assets receivable from contracts with customers. These assets are presented in Note 17.

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

## 15. TANGIBLE ASSETS

| | Freehold property £000 | Plant, machinery, fixtures and motor vehicles £000 | Public service vehicles £000 | Total £000 |
|---|---|---|---|---|
| **COST** | | | | |
| At 1 January 2018 | 37,040 | 15,241 | 133,155 | 185,436 |
| Additions | 1,363 | 664 | 4,495 | 6,522 |
| Disposals | (4,128) | (5,505) | (8,104) | (17,737) |
| At 31 December 2018 | 34,275 | 10,400 | 129,546 | 174,221 |
| **DEPRECIATION** | | | | |
| At 1 January 2018 | 605 | 9,240 | 13,246 | 23,091 |
| Charge for the year on owned assets | 584 | 949 | 16,835 | 18,368 |
| Disposals | (127) | (5,357) | (6,309) | (11,793) |
| At 31 December 2018 | 1,062 | 4,832 | 23,772 | 29,666 |
| **NET BOOK VALUE** | | | | |
| At 31 December 2018 | 33,213 | 5,568 | 105,774 | 144,555 |
| *At 31 December 2017* | *36,435* | *6,001* | *119,909* | *162,345* |

## 16. STOCKS

| | 2018 £000 | *2017 £000* |
|---|---|---|
| Raw materials and consumables | 1,067 | *1,147* |

## 17. DEBTORS

| | 2018 £000 | 2017 £000 |
|---|---|---|
| **Amounts due more than one year** | | |
| Mobilisation costs | 805 | - |
| Derivative financial instruments (Note 20) | 976 | 1,674 |

| | 2018 £000 | 2017 £000 |
|---|---|---|
| **Amounts due within one year** | | |
| Trade debtors | 492 | 1,433 |
| Amounts owed by group undertakings | 15,992 | 8,526 |
| Mobilisation costs | 358 | - |
| Other debtors | 594 | 545 |
| Prepayments and accrued income | 15,198 | 16,204 |
| Corporation tax recoverable | 335 | - |
| Deferred tax asset (Note 21) | 10,361 | 10,766 |
| Derivative financial instruments (Note 20) | 782 | 735 |
| | 44,112 | 38,209 |

## 18. CREDITORS: Amounts due within one year

| | 2018 £000 | 2017 £000 |
|---|---|---|
| Amounts owed to group undertakings | 8,433 | 23,394 |
| Corporation tax | - | 127 |
| Other taxation and social security | 6,203 | 6,143 |
| Other creditors | 5,253 | 4,858 |
| Accruals and deferred income | 24,146 | 24,896 |
| Derivative financial instruments (Note 20) | 875 | 872 |
| | 44,910 | 60,290 |

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

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

| | 2018 £000 | *2017 £000* |
|---|---|---|
| Amounts owed to group undertakings | **10,000** | *14,000* |
| Derivative financial instruments (Note 20) | **843** | *279* |
| | **10,843** | *14,279* |

## 20. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

The effectiveness of the hedge is assessed prospectively using linear regression. The retrospective effectiveness measurement is carried out as of every balance sheet date by means of linear regression. The ineffectiveness is also calculated using the dollar-offset method. Under this method, the changes in the market values of the underlying are compared with the changes in the market value of the hedging instrument. The resultant quotient determines the inefficiency.

The inefficiencies of cash flow hedges of the energy price derivatives recognised in the statement of comprehensive income are £Nil (2017: £Nil).

The amounts recognised within the financial statements are as follows:

| | 2018 £000 | *2017 £000* |
|---|---|---|
| Debtors : Amounts due within one year (Note 17) | **782** | *735* |
| Debtors : Amounts due more than one year (Note 17) | **976** | *1,674* |
| Creditors : Amounts due within one year (Note 18) | **(875)** | *(872)* |
| Creditors : Amounts due more than one year (Note 19) | **(843)** | *(279)* |
| | **40** | *1,258* |

## 21. DEFERRED TAX ASSET

| | 2018 £000 | *2017 £000* |
|---|---|---|
| At 1 January | **10,766** | *17,469* |
| Credited / (charged) to comprehensive income (Note 13) | **1,328** | *(4,808)* |
| Charged to other comprehensive income | **(1,733)** | *(1,895)* |
| **At 31 December** | **10,361** | *10,766* |

The deferred tax asset is made up as follows:

| | 2018 £000 | *2017 £000* |
|---|---|---|
| Differences between capital allowances and accounting depreciation | **209** | *(1,684)* |
| Other short term timing differences | **5** | *34* |
| Pension deficit | **10,154** | *12,630* |
| Derivative financial instruments | **(7)** | *(214)* |
| | **10,361** | *10,766* |

## 22. CALLED UP SHARE CAPITAL

| | 2018 | 2017 |
|---|---|---|
| | £000 | £000 |
| 21,000,000 *(2017 - 21,000,000)* Ordinary shares of £1.00 each | **21,000** | *21,000* |
| **Allotted, called up and fully paid** | | |
| 8,141,500 *(2017 - 8,141,500)* Ordinary shares of £1.00 each | **8,142** | *8,142* |

## 23. CAPITAL COMMITMENTS

At 31 December 2018 the company had capital commitments as follows:

| | 2018 | 2017 |
|---|---|---|
| | £000 | £000 |
| Capital commitments | - | *5,358* |
| | - | *5,358* |

The above commitments represent commitment expenditure as at 31 December 2017 on property refurbishments.

## 24. PENSION COMMITMENTS

The company is deemed to be the principal employer of the Arriva London North and Arriva London South Pension Scheme which is recognised within the financial statements. Contributions to the scheme are based upon actuarial advice following the most recent of a regular series of valuations of the fund by independent actuaries. The scheme is financed through separate Trustee administered funds managed by independent professional fund managers on behalf of the Trustees.
At 31 December 2018 the UK intermediate parent company, Arriva plc, operated a contract based pension scheme providing benefits to certain employees within Arriva London North Limited. The schemes are the Arriva Passenger Services Pension Plan (APSPP) and the Arriva Passenger Services National Pension Scheme (APSNPS) and are financed through separate Trustee administered funds managed by independent professional fund managers on behalf of the Trustees.

**Arriva Passenger Services Pension Plan (APSPP)**
Contributions to the defined benefit scheme, the Arriva Passenger Services Pension Plan, are based upon actuarial advice following the most recent actuarial valuation of the funds. The latest actuarial valuations were performed as at 5 April 2017, using the Projected Unit Method.

**Arriva Passenger Services National Pension Scheme (APSNPS)**
Contributions to the Arriva Passenger Services National Pension Scheme are based upon actuarial advice following the most recent actuarial valuation of the fund. The latest actuarial valuation was performed as at 6 April 2016, using the Projected Unit Method.

The pension cost charge for the year represents contributions payable by the company to both schemes and amounted to £456,000 (2017: £427,000).

**IAS 19 'Employee Benefits' (revised 2011)**
The calculations used to assess the IAS 19 'Employee Benefits' (revised 2011) of the retirement benefit scheme are based on the most recent actuarial valuations, updated to 31 December 2018 by qualified independent actuaries, Willis Towers Watson Plc. The schemes assets are stated at their market value at 31 December 2018.
**Contract based pension scheme**
The company participates in a contract based scheme operated by Arriva plc. The pension charge for the year represents contributions payable by the company to the scheme and amounted to £2,119,000 (2018: £1,547,000).

The amounts recognised in the balance sheet are as follows:

| | 2018 £000 | *2017 £000* |
|---|---|---|
| Present value of funded obligations | **(257,689)** | *(279,739)* |
| Fair value of scheme assets | **197,957** | *205,443* |
| **Pension deficit** | **(59,732)** | *(74,296)* |
| Experience adjustments on scheme liabilities | **26,028** | *6,429* |
| Demographic assumptions on scheme liabilities | **(10,228)** | *2,717* |
| Financial assumptions on scheme liabilities | **10,139** | *(10,702)* |
| | **25,939** | *(1,556)* |

**24. PENSION COMMITMENTS (continued)**

The amounts recognised in the statement of comprehensive income are as follows:

| | 2018 £000 | 2017 £000 |
|---|---|---|
| Current service cost | (2,902) | (2,953) |
| Interest cost on defined benefit obligation (Note 12) | (7,172) | (7,547) |
| Interest income on plan assets (Note 12) | 5,464 | 5,047 |
| Guaranteed Minimum Pension adjustment | (2,804) | - |
| Past service credit | 2,000 | - |
| Pension administration charges | (906) | (770) |
| | (6,320) | (6,223) |

On 26 October 2018, the High Court of Justice of England and Wales issued a judgement in a claim by Lloyds Banking Group Pension Trustees Limited as claimant to Lloyds Bank plc and others as defendants regarding the rights of female members of certain pension schemes to equality of treatment in relation to pension benefits. The judgement concluded that the claimant is under a duty to amend the schemes in order to equalise benefits for men and women in relation to Guaranteed Minimum Pension (GMP) benefits. The estimated increase in IAS 19 liabilities as a result of the High Court judgement has been recorded as a past service cost of £2,804,000.

A Pension Increase Exchange liability management exercise was introduced during 2018, giving members the option to exchange future pension increases for lump sum payments on retirement which resulted in a credit of £2,000,000 for the year ending 31 December 2018.

Changes in the present value of the defined benefit obligation are as follows:

| | 2018 £000 | 2017 £000 |
|---|---|---|
| At 1 January | 279,739 | 273,682 |
| Benefits paid | (8,623) | (7,779) |
| Current service cost | 2,902 | 2,953 |
| Interest cost on defined benefit obligation | 7,172 | 7,547 |
| Members contributions paid | 1,634 | 1,780 |
| Actuarial (gain) / loss | (25,939) | 1,556 |
| Guaranteed Minimum Pension adjustment | 2,804 | - |
| Past service credit | (2,000) | - |
| **At 31 December** | 257,689 | 279,739 |

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

**24. PENSION COMMITMENTS (continued)**

Changes in the fair value of scheme assets are as follows:

| | **2018** **£000** | *2017* *£000* |
|---|---|---|
| At 1 January | **205,443** | *179,367* |
| Benefits paid | **(8,623)** | *(7,779)* |
| Interest income on plan assets | **5,464** | *5,047* |
| Return on plan assets (excluding interest) | **(14,383)** | *11,604* |
| Employer contributions | **8,422** | *15,424* |
| Members contributions | **1,634** | *1,780* |
| **At 31 December** | **197,957** | *205,443* |

The actual loss on plan assets was £8,919,000 (2017: gain £16,651,000).

The cumulative amount of actuarial gains and losses recognised in other comprehensive income was £87,511,000 loss (2017: £99,067,000 loss).

The company expects to contribute £3.0 million to its defined benefit pension scheme in 2019.

Principal actuarial assumptions at the balance sheet date (expressed as weighted averages):

| | **2018** % | 2017 % |
|---|---|---|
| Rate of increase in salaries | 1.0 | 1.0 |
| Rate of increase in pensions in payment | 3.1 | 3.1 |
| Rate of increase in deferred pensions | 2.3 | 2.3 |
| Discount rate | 2.8 | 2.6 |
| Inflation assumption | 3.3 | 3.3 |

The average life expectancy for members aged 65 are male: 20 years and female: 22 years (year ended 31 December 2017 - male: 20 years and female: 22 years).

The average life expectancy at 65 for members aged 45 are male: 22 years and female: 24 years (year ended 31 December 2017 - male: 21 years and female: 23 years).

The major categories of scheme assets as a percentage of total scheme assets are as follows:

| | **2018** | 2017 |
|---|---|---|
| Equities | 77.7% | 80.1% |
| Bonds | 22.0% | 19.8% |
| Others | 0.3% | 0.1% |

**24. PENSION COMMITMENTS (continued)**

The sensitivity analysis for the (increase) / decrease in the defined benefit obligation balance is as follows:

| | **2018** **£000** | 2017 £000 |
|---|---|---|
| Calculated with +1% discount rate | 45,421 | 49,394 |
| Calculated with -1% discount rate | (55,734) | (60,634) |
| Calculated with +1% inflation rate | (42,667) | (46,805) |
| Calculated with -1% inflation rate | 36,935 | 40,460 |
| Calculated with +0.5% compensation increase | - | - |
| Calculated with +0.5% pension increase rate | (20,510) | (22,321) |
| Calculated with increased expectation of life of 1 year | (6,185) | (9,511) |

At 31 December 2018 the weighted average remaining duration/maturity of the defined benefit obligation was 20 years.

**25. COMMITMENTS UNDER OPERATING LEASES**

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

| | **2018** **£000** | *2017* *£000* |
|---|---|---|
| ***Land and Buildings*** | | |
| Not later than 1 year | **822** | *678* |
| Later than 1 year and not later than 5 years | **3,278** | *2,427* |
| Later than 5 years | **6,154** | *5,295* |
| **Total land and building lease commitments** | **10,254** | *8,400* |
| **Other leases** | | |
| Not later than 1 year | **764** | *1,915* |
| Later than 1 year and not later than 5 years | **1,294** | *2,025* |
| **Total other lease commitments** | **2,058** | *3,940* |

## 26. ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY

The immediate parent company is Arriva UK Bus Holdings Limited.

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

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

Deutsche Bahn AG is the largest and smallest group to consolidate the financial statements of Arriva London North Limited. Information on Arriva London North Limited can be obtained from their registered address 1 Admiral Way, Doxford International Business Park, Sunderland, Tyne and Wear, SR3 3XP.

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