Registered number: 02328559

ARRIVA LONDON NORTH LIMITED

Annual report and financial statements

For the Year Ended 31 December 2019

ARRIVA LONDON NORTH LIMITED

Company Information

Directors	P J Batty R Scowen A Jones S W Bond D Hunter
Registered number	02328559
Registered office	1 Admiral Way Doxford International Business Park Sunderland Tyne and Wear SR3 3XP
Independent auditors	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors Central Square South Orchard Street Newcastle upon Tyne NE1 3AZ

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 that of the operation of bus services.

REVIEW OF BUSINESS

The company's statement of comprehensive income on page 18 shows a profit before taxation for the year of £5.6m (2018: £12.8m). The decrease in profit before taxation was primarily due to the one-off gain on disposal of tangible assets in the prior year, with trading performance broadly consistent with the prior year.

At the balance sheet date, the company had net assets of £43.6m (2018: £76.0m). The decrease in net assets is primarily due to the net actuarial loss on the pension surplus of £24.5m and payment of dividends in the year of £10.0m.

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 the company. 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.

FUTURE DEVELOPMENTS

Going concern

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

The company, as with other London bus operators, experienced a significant reduction in passenger numbers from March 2020 onwards, following the implementation of the UK Government's measures to mitigate the public health impacts of the COVID-19 pandemic. Passenger numbers continue to remain significantly below pre-pandemic levels and it is unclear when, and to what extent, they might return close to previous levels.

Revenue risk
As the company's income is predominantly receivable from Transport for London ('TfL') by way of contractual payments for the routes it operates, the decrease in passenger numbers and journeys do not directly impact the payments receivable under its contracts. However, receipt of contractually due payments under these agreements is ultimately dependent on the financial position of TfL and the company is dependent upon these payments being made.

An initial £1.6 billion funding and financing package agreed between the UK Government and TfL, as announced on 14 May 2020 by the Department for Transport ('DfT'), remained in place until October 2020. This was followed by a second extraordinary funding and financing package worth up to £1.7 billion, announced by the DfT on 1 November 2020 covering the period up to 31 March 2021 (and subsequently extended to 18 May 2021). These packages were agreed with the intention of supporting TfL's financial position from the impact of the pandemic on fare revenues, thus ensuring vital public transport services can continue to run in London.

The support position to TfL after 18 May 2021 remains unclear, however the Secretary of State for Transport has publicly stated the DfT's intention to work with TfL to agree a longer-term settlement prior that date. A long-term settlement agreement by that date will be subject to sufficient progression being made on TfL's long-term financial sustainability plans.

Liquidity risk
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 substantially all the company's cash balances are swept into the group cash pool at the end of each business day. Whilst the company had net current liabilities of £83.9 million at the balance sheet date, this largely reflects the impact of the significant additional pension contributions made in the year. The pooled cash balance was positive at the balance sheet date and the directors expect the 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.

FUTURE DEVELOPMENTS (continued)

Outcome of directors' going concern assessment
The directors acknowledge that the uncertainty regarding immediate access to funds placed with DB, together with the uncertainty over whether the company will receive its contractually due payments from TfL, due to the lack of certainty on the level of continued government support for TfL from May 2021 onwards, indicate the existence of material uncertainties which may cast significant doubt about the company's ability to continue as a going concern.

In completing their going concern assessment, the directors have considered the terms of the TfL support packages as noted above, in addition to the public comments made by the Secretary of State for Transport outlining the purpose of these support packages and the DfT's stated commitment to supporting London's transportation network and services.

The directors have prepared the financial statements on a going concern basis as they have a reasonable expectation that the company will continue to receive its contractually due payments from TfL and have full and immediate access to its pooled cash balances with DB, and therefore remain confident of the company's ability to continue to operate and to discharge its liabilities as they fall due for the foreseeable future.

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

Future capital investment

Investment is being made in engineering to ensure the company is well equipped to deal with the increasing number of electric buses that will need to come 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.

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.

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

- Customers (including passengers and Transport for London (TfL) in respect of contracted services)
- Employees
- Suppliers
- Local communities in which the company operates

During the financial year ended 31 December 2019 the directors, having regard to the the expectations of its key stakeholders, made a principal decision to pay a dividend to its parent company. The directors considered the business implications and determined that this payment of a dividend would not impact the company's long-term success.

The Arriva group's values are working as "One Arriva", providing great customer experience, doing the right thing and thinking beyond. These values underpin the Arriva group's strategy and vision. Arriva's vision is to be the preferred mobility partner of choice by customers, and its strategy is to have the best employees to strengthen its existing strong foundation and improve its business to create a platform for growth.

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 a wholly owned subsidiary of Deutsche Bahn AG, the ultimate parent company of the Arriva group. The directors of the company aim to meet at least once in each financial year to discuss the matters that cannot be delegated under Companies Act 2006.

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 Bus 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 Bus division. The directors of the company aim to meet at least once in each financial year.

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 year, the company has and continues to engage with customers including local authorities and customer groups to ensure a positive customer and passenger experience.

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 event of any invoice dispute. The company believes that prompt payment of invoices is key to facilitating a good relationship with suppliers.

Strategic report (continued)
For the Year Ended 31 December 2019

SECTION 172 STATEMENT (continued)
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.

Further information on engagement with employees during the financial year ended 31 December 2019, including monitoring how the company is performing against the Arriva group's strategy in relation to employees, is provided in the 'Employee engagement' section of the Directors' report.

Further information on engagement with customers during the financial year ended 31 December 2019, is provided in the 'Engagement with suppliers, customers and others' section of the Directors' report.

This report was approved by the board on 23 March 2021 and signed by order of the board.

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D Hunter
Director

Directors' report
For the Year Ended 31 December 2019

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

RESULTS AND DIVIDENDS

The profit for the year, after taxation, amounted to £1,559,000 *(2018 - £10,931,000)*.

The company paid a dividend of £10,000,000 (2018: £Nil) during the current financial year.

DIRECTORS

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

P J Batty
R Scowen
H S Notay (resigned 21 August 2020)
A Jones
S W Bond
E K Minns (resigned 30 October 2020)
D Hunter (appointed 24 August 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 recognises that its employees are key to its success and it is committed to creating a working environment where everyone has the opportunity to learn, develop and contribute to the success of the company, whilst working within a common set of values.

The Arriva group conducts biennial employee surveys which are used to highlight areas of improvement, and areas of concern. The Arriva Management Board oversees initiatives to improve any areas of improvement highlighted by the surveys, as well as maintaining those areas highlighted working well. The results of the employee surveys are communicated via the group's intranet and yammer pages, in addition meetings are held by line managers with their teams in order to address areas of concern and seek employee input to find solutions.

Information on matters impacting employees, including initiatives arising following the employee surveys are communicated to employees through briefings via line managers, e-mail bulletins and using the group's intranet and e-mail. There is also a weekly update on the Arriva group's intranet highlighting success stories. The update is also used to improve connectivity within the Arriva group and to promote working together as 'One Arriva'.

In 2019 the Arriva group launched 'GAIN' for Mental Health, which is the Arriva group's Global Arriva Inclusion Network aimed at promoting support for mental health, and encouraging employees to share their stories in order to tackle mental health concerns, and to provide support to the wider Arriva group.

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

The company has, subject to the restraints of commercial confidentiality, a policy of employee involvement and inclusion, by making information available to employees about recent and future developments and business activities of the company, including financial and economic factors that may have impacted on the company's performance.

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

In 2019 Arriva group launched the 'Emerging Leaders' programme which is aimed at identifying and developing future leaders whose next step is a senior manager role, and who demonstrate the performance, potential and aspiration required to progress to this. As part of this programme candidates are required to complete an assessment for development which will give them the opportunity to discuss their career goals and experience in more detail and receive valuable feedback on their strengths and development areas against the Arriva Leadership Model. The assessment will result in a development plan, highlighting what steps they can take to help them achieve their career goals. Following the assessment certain candidates progress to the next phase, which includes leadership workshops and projects.

Also, in 2019, the 'Lift Off for Leadership' programme was launched. This programme is for individuals who are still in the early stages of their career, who have demonstrated the potential to be a leader of the future. The programme focuses on improving readiness for broader roles. Participants join a 12-month programme of workshops and ongoing development activities, including coaching and job shadowing.

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.

ENGAGEMENT WITH SUPPLIERS, CUSTOMERS AND OTHERS

The company's long terms success is dependent on fostering strong and effective business relationships with key stakeholders. The company's key stakeholders include, but are not limited to:

- Customers (including passengers and Transport for London (TfL) in respect of contracted services)
- Employees
- Suppliers
- Local communities in which the company operates

The company is part of the Arriva plc group, and its ultimate parent company is Deutsche Bahn AG.

The implementation of strategies and policies of the company relating to its relationships with key stakeholders are managed locally by the board of the company, and oversight is provided by the Arriva UK Bus Leadership team.

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

- participation in the National Bus Passenger Survey, a yearly survey of passenger views across bus operators lead by Transport Focus.

- Arriva UK Bus carry out an annual customer satisfaction survey and uses the results from the survey to address issues and develop services and products to meet changing demand.

- Regular engagement with passenger groups, including Bus Users UK and Transport Focus, which helps to ensure that the interests and voices of customers, and their experiences, inform decision making.

- A close working relationship with industry stakeholder groups, including the Confederation of Passenger Transport which promotes collaborative working on shared industry challenges.

- Arriva UK Bus also maintains frequent communication with stakeholders in Government, including with the Department for Transport, as well as other relevant departments, authorities and public bodies.

Further information on how the directors have fostered relationships with suppliers and the local communities in which the company operates is detailed in the Section 172 statement in the Strategic report. Further information on how the company has fostered relationships with its employees during the financial year ended 31 December 2019 is provided in the Employee Engagement section of this report.

MATTERS COVERED IN THE STRATEGIC REPORT

Details of future developments are disclosed in the Strategic report.

STATEMENT OF CORPORATE GOVERNANCE ARRANGEMENTS

Information on the company's corporate governance arrangements is provided in the Corporate governance report and is incorporated into this report by cross-reference.

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, 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.

DIRECTORS' CONFIRMATIONS

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
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This report was approved by the board on 23 March 2021 and signed on its behalf.

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D Hunter
Director

Corporate governance report
For the Year Ended 31 December 2019

For the year ended 31 December 2019, the company has used the Wates Corporate Governance Principles for Large Private Companies ("Wates") which is prepared in accordance with The Companies (Miscellaneous Reporting) Regulations 2018 (the "Reporting Regulations") and the principles published by the Financial Reporting Council ("FRC") in December 2018.

The new corporate governance reporting requirements under the Reporting Regulations applies to the company for financial years starting after 1 January 2019, and in order to comply with the Reporting Regulations, the company has chosen to adopt the Wates principles as an appropriate framework for disclosure of its corporate governance arrangements.

The directors of the company have set out below how the Wates principles have been applied by the company over the financial year ended 31 December 2019.

Principle 1 - Purpose and leadership

The company forms part of the Arriva group and the company's purpose is to operate bus services in London.

The Arriva group was founded in 1938 when the Cowie family opened a second hand motorcycle shop in Sunderland. Over the next half a century the Arriva group established a large network of motor dealerships, then expanded into public transport in the early 1990s. In 2002, the Arriva group decided to focus solely on public transport and sold the group's previous core business of motor dealerships. The Arriva group is now a major pan European public transport operator, operating public transport services in fourteen countries with over 60,000 employees.

The Arriva group has been owned by Deutsche Bahn AG since August 2010.

The Arriva group now operates across Europe in predominately four areas of public transport services namely buses, trains, trams and waterbus, as well as providing demand responsive transport solutions.

The Arriva group has the following defined vision, strategy and set of values, which are adopted by the company:

- The vision is to be "Mobility partner of Choice".
- The strategic focus is:
  - "The Best Employees", great people will choose to work for Arriva, in an environment where they can succeed.
  - "Preferred by our customers", customers will choose mobility solutions that are affordable and meet their needs.
  - "A strong foundation" by growing in existing and new markets Arriva group will further strengthen its strong foundation.
  - "A bigger and better Arriva" improving existing business will create the platform to enable growth.
- The values are "One Arriva; great customer experience; doing the right thing; and thinking beyond".

The Arriva group's vision, strategy and values were updated during 2018. This was communicated to the company's workforce through the Arriva group's intranet, written communication and verbally through a variety of employee forums.

Corporate governance report (continued)
For the year ended 31 December 2019

Principle 2 - Board Composition

Induction of new senior managers into the company is overseen by the UK Bus division (of which the company is part), and then locally by the company. As part of the induction process new senior managers are encouraged to learn about the company's business and their team.

There is a variety of information available to senior managers to assist them with their leadership, including access to the Statutory Directors Handbook and Arriva's Standards of Business Conduct.

In addition, all senior managers are required to complete eLearning modules within their first three months of employment on the following subjects: Information Security & Data Protection, Competing Fairly, Financial Crime and Standards of Business Conduct.

During 2019, the company's board (the "Board") was made up of six directors, and it also had a Company Secretary.

The Board comprised of the Managing Director of Arriva London, the Finance Director of Arriva London and four other executive directors. This size and composition of the Board is considered appropriate for the business at that time.

It is acknowledged that there is a relative lack of diversity on the Board and the company recognises that this is a challenge.

The company is committed to creating an ever more inclusive environment, and fostering a more diverse workforce, including at the most senior levels. As an example, in 2019 a programme called "GAIN for Gender" was introduced which established a Global Arriva Inclusion Network to support Arriva group's diverse workforce.

The directors have equal voting rights when making decisions. All directors of the company have access to the advice and services of the Arriva group company secretarial team and may, if they wish, take independent professional advice at the company's expense.

Across all Arriva group companies in the UK, there is an induction programme and guide for all new directors. In addition, there is an annual director's duty training session for directors who feel they require additional training or a refresh.

Principle 3 - Director Responsibilities

Accountability

The company believes that good governance is key to running a successful business, especially one which operates in several different countries. The company's governance structure is underpinned by an Arriva group Governance Manual and an Approval and Authorities guide, which are reviewed annually by the group's company secretarial team. The UK Bus Division also has its own delegated authorities within which the company and the Board operate.

The Board has a programme of at least four meetings each calendar year.

The executive directors complete annual senior manager and Standards of Business Conduct compliance training confirming that they have behaved in accordance with the Arriva group's behaviours and values.

Conflicts of interest training is included within the financial crime training module in the company's training programme, and the majority of office-based staff of the company are required to complete this module when they join the business, and thereafter annually as a refresher.

Corporate governance report (continued)
For the year ended 31 December 2019

Principle 3 - Director Responsibilities (continued)

The company maintains two compliance registers, one for competition returns and another for annual conflict of interests declarations which captures the following information:

- Contact with a competitor or public official – this form captures instances of employee contact with competitors and public officials.
- Conflicts of interest – this form captures instances of conflicts that the company's employees must declare as outlined within the Arriva group's Conflict of Interest Policy and Guidelines.
- Gift, hospitality or donation - this form captures instances of any gift, hospitality or donation that the company's employees have received, and which must be declared in accordance with the Arriva groups' Anti-Bribery Policy and Guidelines.

The company also maintains a secondary employment register which is part of the Conflicts of Interest policy.

New directors must also complete a director's appointment pack which contains a list of their statutory duties under the Companies Act 2006, and a declaration of all their current directorships, both internal and external.

During 2019, the directors and senior managers of the company received face-to-face competition law training. In addition the company has a compliance manager who is part of a wider compliance network across the Arriva group.

The company is required to complete a Quarterly Corporate Confidence Report which is returned to the Arriva group's Compliance Team for onward reporting to the divisional management teams and the Arriva Plc Management Board. This report addresses policy roll out, significant regulator related incidents (including GDPR and Network and Information Systems) and significant security incidents involving Arriva group level systems and networks and digital learning completion (e.g. mandatory e-learning tutorials).

Key financial information is collected from the Arriva group's accounting systems.

The annual statutory financial statements for the company are externally audited by PriceWaterhouseCoopers LLP on an annual basis.

Other key information is prepared by the relevant internal Arriva group function.

Principle 4 - Opportunity and Risk

The Board seeks out the best opportunities for the company, whilst mitigating the potential risks.

<u>Opportunities</u>
Key strategic opportunities, including mergers and acquisitions and tenders are highlighted in the Arriva group's annual strategy, which is developed by the New Business Development team and presented to the Arriva PLC Board each year. Opportunities to improve business unit performance are highlighted through the quarterly business unit review updates.

<u>Risk</u>
The Arriva Management Board (AMB) reviews the control framework of the Arriva group on a regular basis and reports back to the Arriva Plc Board.

The Arriva group's internal controls are based around the German accounting law regulations which set out appropriate controls and measures and help evaluate risk management, these controls are regularly reviewed by the Arriva group's internal audit function and monitored by the Arriva group's assurance function.

There are regular updates by the Arriva group's audit and group assurance teams to the Arriva plc Board on the Arriva group's control system, and their compliance to the controls framework.

Corporate governance report (continued)
For the year ended 31 December 2019

Principle 4 - Opportunity and Risk (continued)

The Arriva group's key operational risks and mitigation thereto are outlined in the Strategic report on pages 1 to 5, the company's Strategic Report includes key risks that are monitored by the company and the AMB.

The systems and controls of the company are designed to manage and mitigate the risks in line with the Arriva plc Board's risk appetite. However, it is accepted that they cannot provide a total assurance that a risk will not materialise.

Responsibilities
The company has developed an operating framework which captures the Arriva group's operating rules, processes, and delegated authorities.

Authority required for each type and value of transaction is determined by the Arriva group's delegation of authority guidelines included in the Arriva Corporate Governance Manual, to ensure that the appropriate level of diligence and oversight has been performed in understanding the obligations, risks and terms of each transaction. This enables the Arriva group to meet its strategic objectives and all transactions, including group contracts are fully reviewed and assessed in alignment with the Arriva group's strategy and risk appetite before approval is granted.

Principle 5 - Remuneration

The Arriva group's remuneration policy is currently set by the Arriva plc Board and monitored and reviewed annually by the Arriva plc board.

The Arriva group is an active equal opportunities employer and promotes an environment free from discrimination, harassment and victimisation, where everyone receives equal treatment and career development regardless of age, gender, nationality, ethnic origin, religion, marital status, sexual orientation or disability. The company's objective is to ensure that all decisions relating to employment practices (including remuneration) are objective, free from bias and based solely upon work criteria and individual merit.

The goal of the Arriva group's remuneration policy is to help attract, retain and engage the best-qualified leaders and to incentivise and reward them appropriately for delivering the company's strategy in line with the Arriva group's leadership behaviours.

The company balances short-term operational performance, with the delivery of longer-term profits and returns and recognises its social impact on employees.

The remuneration policy was created with the following principles at the core: to structure pay that is performance-driven; to set pay that reflects the Arriva group's international scope, whilst being locally competitive; and to align pay design with wider workforce arrangements to the extent possible.

How the Arriva group attracts, develops and retains employees is pivotal to its key strategic aim of 'The Best Employees'.

Corporate governance report (continued)
For the year ended 31 December 2019

Principle 6 - Stakeholders

The company's Board promotes good governance, which is key to achieving the Arriva group's strategy, as well as continuing its good relationship with all stakeholders including, customers (including passengers and local/national transport authorities in respect of contracted services), employees, suppliers and the local communities in which the company operates.

External impacts
The company is committed to social responsibility and environmental sustainability. It achieves this by working with the local community and promoting working together.

Within its individual business functions, the company encourages staff to volunteer for charities and projects in the local community, this includes supporting local schools with career advice, as well as various types of fund raising and other community projects. Business functions align this work in a manner that fits with their structure and that maximises the benefit that the company can be deliver to its communities.

During the financial year ending 31 December 2019, initiatives for the Arriva group across the UK, including supporting food banks, selection box's and Easter egg appeals for local children's charities. Initiatives for Arriva UK Bus included supporting the Royal British Legion, MIND and local food banks across our network.

The Arriva Community Fund Project supported a variety of different local charities, including sensory equipment to help special needs children develop communication skills and 'Toy Drive' to purchase toys to be handed out to disadvantaged children at Christmas. Additionally, we sponsored several local sports teams promoting health and wellbeing.

Stakeholders
The company's Board promotes stakeholder engagement, as well as transparency with all stakeholders. The implementation of strategies and policies of the company relating to its relationships with key stakeholders are managed locally by the board of the company, and oversight is provided by the Arriva UK Bus Leadership team.

In 2019 a programme called "GAIN for Mental Health" was introduced, which is the Global Arriva Inclusion Network to help promote support for mental health, and to encourage employees to share their stories in order to tackle mental health issues and to provide support to other employees.

The Arriva group conducts biennial employee surveys which are used to highlight areas of improvement, and areas of concern. The results of the employee surveys are communicated via the Arriva group's intranet and yammer pages, in addition meetings are held by line managers with their teams in order to address areas of concern and seek employee input to find solutions.

There is also a weekly update on the Arriva group's intranet highlighting success stories. The update is also used to improve connectivity within the Arriva group and to promote working together as One Arriva.

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 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 to the financial statements concerning the company's ability to continue as a going concern. In addition, the company is dependent upon its contractually due payments from Transport for London (TfL). The company is reliant on the continued funding from TfL and any reduction in the funding from TfL may result in the company not being able to operate at its current level. 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 to the financial statements, 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 include the adjustments that would result if the company was unable to continue as a going concern.

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.

Independent auditors' report to the members of Arriva London North Limited (continued)

Reporting on other information (continued)

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

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

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.

Use of this report

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

Independent auditors' report to the members of Arriva London North Limited (continued)

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.

Ian Morrison

Ian Morrison (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Newcastle upon Tyne
23rd March 2021

Statement of comprehensive income
For the Year Ended 31 December 2019

	Note	2019 £000	Restated 2018 £000
Turnover	4	**259,905**	*260,432*
Cost of sales		**(230,095)**	*(227,691)*
GROSS PROFIT		**29,810**	*32,741*
Administrative expenses		**(29,702)**	*(29,463)*
Other operating income	5	**7,316**	*11,543*
OPERATING PROFIT	6	**7,424**	*14,821*
Interest receivable and similar income	10	**79**	*26*
Interest payable and similar charges	11	**(431)**	*(319)*
Other finance charges	12	**(1,510)**	*(1,708)*
Profit before taxation		**5,562**	*12,820*
Tax on profit	13	**(4,003)**	*(1,889)*
PROFIT FOR THE FINANCIAL YEAR		**1,559**	*10,931*
OTHER COMPREHENSIVE INCOME:			
Items that will not be reclassified to profit or loss:			
Actuarial (loss)/gain on defined benefit schemes	24	**(33,712)**	*11,592*
Movements of deferred tax relating to actuarial gain on pension deficit	22	**9,205**	*(1,940)*
		(24,507)	*9,652*
Items that may be reclassified to profit or loss:			
Changes in market value of cash flow hedges	21	**589**	*(1,218)*
Deferred tax attributable to changes in market value of cash flow hedges	22	**(95)**	*207*
		494	*(1,011)*
TOTAL COMPREHENSIVE (EXPENSE) / INCOME FOR THE YEAR		**(22,454)**	*19,572*

The notes on pages 21 to 50 form part of these financial statements.

Balance sheet
As at 31 December 2019

	Note		2019 £000		2018 £000
FIXED ASSETS					
Intangible assets	15		-		-
Tangible assets	16		145,532		144,555
			145,532		144,555
CURRENT ASSETS					
Stocks	17	1,236		1,067	
Pension surplus	24	80,266		-	
Debtors: Amounts falling due more than one year	18	907		1,781	
Debtors: Amounts falling due within one year	18	47,816		44,112	
Cash at bank and in hand		5		4	
		130,230		46,964	
Creditors: Amounts falling due within one year	19	(214,132)		(44,910)	
NET CURRENT (LIABILITIES)/ASSETS			(83,902)		2,054
TOTAL ASSETS LESS CURRENT LIABILITIES			61,630		146,609
Creditors: Amounts falling due more than one year	20		(18,050)		(10,843)
			43,580		135,766
Pension deficit	24		-		(59,732)
NET ASSETS			43,580		76,034
CAPITAL AND RESERVES					
Called up share capital	23		8,142		8,142
Share premium account			45,642		45,642
Cash flow hedge reserve			527		33
Profit and loss account			(10,731)		22,217
TOTAL SHAREHOLDERS' FUNDS			43,580		76,034

The financial statements on pages 18 to 50 were approved and authorised for issue by the board and were signed on its behalf on 23 March 2021.

D Hunter
Director

The notes on pages 21 to 50 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	Cash flow hedge reserve	Profit and loss account	Total shareholders' funds
	£000	£000	£000	£000	£000
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 (expense) / income for the year	-	-	(1,011)	9,652	8,641
At 1 January 2019	8,142	45,642	33	22,217	76,034
Comprehensive income / (expense) for the year					
Profit for the financial year	-	-	-	1,559	1,559
Actuarial loss on pension surplus	-	-	-	(33,712)	(33,712)
Movements of deferred tax relating to actuarial gain on pension surplus	-	-	-	9,205	9,205
Changes in market value of cash flow hedges	-	-	589	-	589
Deferred tax attributable to changes in market value of cash flow hedges	-	-	(95)	-	(95)
Total comprehensive income / (expense) for the year	-	-	494	(24,507)	(24,013)
Dividends paid (Note 14)	-	-	-	(10,000)	(10,000)
At 31 December 2019	8,142	45,642	527	(10,731)	43,580

The notes on pages 21 to 50 form part of these financial statements.

1. ACCOUNTING POLICIES

1.1 BASIS OF PREPARATION OF FINANCIAL STATEMENTS

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

The financial statements have been prepared on the going concern basis under the historic cost convention, as modified by the revaluation of derivative financial assets and financial liabilities measured at fair value through cash flow hedge reserves, and in accordance with the Companies Act 2006.

During the year the company adopted IFRS 16 "Leases", which has had a material impact on the company's financial statements (see Note 27). 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.

GOING CONCERN

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

The company, as with other London bus operators, experienced a significant reduction in passenger numbers from March 2020 onwards, following the implementation of the UK Government's measures to mitigate the public health impacts of the COVID-19 pandemic. Passenger numbers continue to remain significantly below pre-pandemic levels and it is unclear when, and to what extent, they might return close to previous levels.

Revenue risk
As the company's income is predominantly receivable from Transport for London ('TfL') by way of contractual payments for the routes it operates, the decrease in passenger numbers and journeys do not directly impact the payments receivable under its contracts. However, receipt of contractually due payments under these agreements is ultimately dependent on the financial position of TfL and the company is dependent upon these payments being made.

An initial £1.6 billion funding and financing package agreed between the UK Government and TfL, as announced on 14 May 2020 by the Department for Transport ('DfT'), remained in place until October 2020. This was followed by a second extraordinary funding and financing package worth up to £1.7 billion, announced by the DfT on 1 November 2020 covering the period up to 31 March 2021 (and subsequently extended to 18 May 2021). These packages were agreed with the intention of supporting TfL's financial position from the impact of the pandemic on fare revenues, thus ensuring vital public transport services can continue to run in London.

The support position to TfL after 18 May 2021 remains unclear, however the Secretary of State for Transport has publicly stated the DfT's intention to work with TfL to agree a longer-term settlement prior that date. A long-term settlement agreement by that date will be subject to sufficient progression being made on TfL's long-term financial sustainability plans.

1. ACCOUNTING POLICIES (CONTINUED)

GOING CONCERN (continued)

Liquidity risk

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 substantially all the company's cash balances are swept into the group cash pool at the end of each business day. Whilst the company had net current liabilities of £83.9 million at the balance sheet date, this largely reflects the impact of the significant additional pension contributions made in the year. The pooled cash balance was positive at the balance sheet date and the directors expect the 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.

Outcome of directors' going concern assessment

The directors acknowledge that the uncertainty regarding immediate access to funds placed with DB, together with the uncertainty over whether the company will receive its contractually due payments from TfL, due to the lack of certainty on the level of continued government support for TfL from May 2021 onwards, indicate the existence of material uncertainties which may cast significant doubt about the company's ability to continue as a going concern.

In completing their going concern assessment, the directors have considered the terms of the TfL support packages as noted above, in addition to the public comments made by the Secretary of State for Transport outlining the purpose of these support packages and the DfT's stated commitment to supporting London's transportation network and services.

The directors have prepared the financial statements on a going concern basis as they have a reasonable expectation that the company will continue to receive its contractually due payments from TfL and have full and immediate access to its pooled cash balances with DB, and therefore remain confident of the company's ability to continue to operate and to discharge its liabilities as they fall due for the foreseeable future.

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

1. ACCOUNTING POLICIES (CONTINUED)

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 related to licences for the use of the Arriva brand name, were being amortised through the statement of comprehensive income over the licence period of 15 years.

Amortisation charges were 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. 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 1.8 outlines the accounting policies for such assets.

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 the shorter of 50 years or term of the lease
Right-of-use assets	- period of the lease
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 STOCKS

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

1.6 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.

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)

1.7 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.

1.8 LEASES

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

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

Corresponding right-of-use assets are measured at the initial amount of the lease liability, adjusted for any lease payments prepaid at the commencement date, initial direct costs, lease incentives, and an estimate of costs to dismantle or remove the underlying asset. Subsequently, the right-of-use asset is depreciated on a straight-line basis over the lease term. Where an impairment indicator is identified the right-of-use asset is adjusted by any associated impairment losses. The right-of-use asset is also adjusted for any remeasurements of the lease liability.

The company has elected to apply the exemption included within IFRS 16 for short-term leases (lease terms of less than 12 months from the commencement date), and low value leases (asset values less than €5,000). The lease payments associated with these leases are recognised as an expense on a straight-line basis over the lease term.

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 had transferred to the company. All of the company's leases were previously categorised as operating leases under IAS 17, with the associated costs recognised as an expense on a straight-line basis over the lease term.

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 and are measured subsequently at amortised cost using the effective interest method.

1. ACCOUNTING POLICIES (CONTINUED)

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, a defined benefit 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.

1.11 GOVERNMENT GRANTS

Government grants related to income comprise research and development grants and other government grants which are not related to assets. They are presented in the balance sheet as deferred income and released as other operating income in the statement of comprehensive income in the periods necessary to match them with the related costs which they are intended to compensate.

Government grants are recognised in other operating income only when there is reasonable assurance that the company will comply with the conditions attaching to them and that the grants will be received or will not need to be repaid.

1. ACCOUNTING POLICIES (CONTINUED)

1.12 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)

1.13 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 applied in deriving their present value.

1. ACCOUNTING POLICIES (CONTINUED)

1.14 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 amounts payable after 5 years required by company law is presented separately for lease liabilities and other liabilities, and in total
- the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
  - paragraph 79(a)(iv) of IAS 1;
  - paragraph 73(e) of IAS 16 Property, Plant and Equipment;
  - paragraph 118(e) of IAS 38 Intangible Assets;
- the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134-136 of IAS 1 Presentation of Financial Statements
- the requirements of IAS 7 Statement of Cash Flows
- the requirements of 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 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.

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.

The judgments made in applying the company's accounting policies that had the most significant effect on the financial statements also involved estimations, and are outlined below.

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

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

Defined benefit pension scheme

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, with those most likely to lead to a material change in the obligation 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 sensitivity analysis of potential impacts to the defined benefit pension obligation recorded at the balance sheet date for changes to assumptions for those factors.

Included within scheme assets is a partnership interest held by the scheme in a group company, Arriva ABC Scottish Limited Partnership (SLP), which was created as part of an asset backed contribution (ABC) arrangement during the year. The ABC is backed by loan notes issued by another group company, Arriva International Limited.

Further details on the ABC, including the distribution mechanism for the SLP's partners is provided in Note 24.

2. JUDGMENTS IN APPLYING ACCOUNTING POLICIES (CONTINUED)

The value of the SLP interest at the balance sheet date has been calculated by independent actuaries. The following are considered the key valuation assumptions for the asset:

- The average assumed returns on the scheme's assets has been assessed using a 'market-consistent' approach, assuming returns each year are in line with the risk-free rate (i.e. the gilt yield).
- The volatility of returns on assets and volatility of interest rates (which affect whether scheme funding levels triggering changes to distributions will occur), have been modelled using market-based forward-looking data as at 31 December 2019.
- The cash flows due to the SLP have been weighted based on a probability of a default event in each future year for Arriva International Limited, which has been derived from the credit-default swap data of Deutsche Bahn AG (the ultimate parent of the company and of Arriva International Limited). This assumes a recovery rate in the event of a default of 40%.
- The projected future cash flows, allowing for the possibility of default and hitting funding level triggers, have been discounted to present value using a risk-free rate (gilt yield) plus a premium of to reflect the illiquidity of the loan notes. At 31 December 2019 this illiquidity premium was 1%.

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 02328559 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

	2019 £000	*Restated 2018 £000*
Other income	**398**	*733*
Profit on sale of tangible assets	**-**	*6,023*
Government grants receivable	**1,670**	*-*
Management charge income	**5,248**	*4,787*
	7,316	*11,543*

In the company's 2018 financial statements, £4,787,000 of management charge income was included in administration expenses. This has been restated within other operating income.

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

6. OPERATING PROFIT

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

	2019 £000	*2018 £000*
Depreciation of tangible fixed assets	**20,949**	*18,368*
Amortisation of intangible assets	**-**	*414*
Amortisation of mobilisation costs	**358**	*359*
Loss / (profit) on disposal of tangible assets	**106**	*(6,023)*
Cost of stocks recognised as an expense	**33,776**	*34,412*
LEASE EXPENSES*		
Expenses related to short-term leases	**454**	*-*
Other lease expenses	**-**	*1,987*

* There are no comparative expenses related to short-term leases accounted in accordance with IFRS 16. Other lease expenses in the year ended 31 December 2018 represent the total lease expense recognised in accordance with IAS 17. See Note 27 for the impact of adoption of IFRS 16.

7. AUDITORS' REMUNERATION

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

	2019 £000	*2018 £000*
Fees for the audit of the company	**79**	*41*

8. STAFF COSTS

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

	2019 £000	*2018 £000*
Wages and salaries	**206,707**	*204,005*
Social security costs	**21,158**	*20,758*
Other pension costs	**9,970**	*9,034*
	237,835	*233,797*

From the total staff costs of £237,835,000 (2018: £233,797,000), Arriva London North Limited has recharged £69,516,000 (2018: £68,278,000), to a fellow group subsidiary Arriva London South Limited, as 1,443 (2018: 1,457) employees are considered to be employees of Arriva London North Limited but work for Arriva London South Limited.

Contributions to the Arriva London North and Arriva London South Pension Scheme are also made by other participating employers. The contributions paid by other participating employers during the year totalled £1,183,000 (2018: £1,377,000) and are credited to other pension costs.

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

	2019 No.	*2018 No.*
Drivers	**4,464**	*4,391*
Engineering	**343**	*373*
Administrative	**358**	*397*
	5,165	*5,161*

9. DIRECTORS' EMOLUMENTS

	2019 £000	*2018 £000*
Directors' emoluments	**896**	*1,038*
Company contributions to defined contribution pension schemes	**33**	*20*
Company contributions to defined benefit pension schemes	**20**	*29*
	949	*1,087*

During the year retirement benefits were accruing to 1 director *(2018 - 4)* in respect of defined benefit pension schemes.

The highest paid director received remuneration of £299,000 *(2018 - £264,000)*.

The value of the company's contributions paid to a defined benefit pension scheme in respect of the highest paid director amounted to £NIL *(2018 - £NIL)*.

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

10. INTEREST RECEIVABLE AND SIMILAR INCOME

	2019 £000	2018 £000
Interest receivable from group undertakings	79	26
	79	26

11. INTEREST PAYABLE AND SIMILAR EXPENSES

	2019 £000	2018 £000
Interest payable to group undertakings	197	319
Interest on lease liabilities	234	-
	431	319

12. OTHER FINANCE CHARGES

	2019 £000	2018 £000
Interest cost on defined benefit obligation (Note 24)	7,070	7,172
Interest income on plan assets (Note 24)	(5,560)	(5,464)
	1,510	1,708

13. TAX ON PROFIT

	2019 £000	*2018* *£000*
CORPORATION TAX		
Current tax on profits for the year	**(5,182)**	*(335)*
Adjustments in respect of prior years	**17**	*3,516*
TOTAL CURRENT TAX (CREDIT) / CHARGE	**(5,165)**	*3,181*
DEFERRED TAX		
Origination and reversal of timing differences	**9,139**	*1,652*
Adjustments in respect of prior years	**29**	*(2,944)*
TOTAL DEFERRED TAX CHARGE / (CREDIT) (NOTE 22)	**9,168**	*(1,292)*
TAX ON PROFIT	**4,003**	*1,889*

FACTORS AFFECTING TAX CHARGE FOR THE YEAR

The tax assessed for the year is higher than *(2018 - lower 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	**5,562**	*12,820*
Profit multiplied by standard rate of corporation tax in the UK of 19% (2018 - 19%)	**1,057**	*2,436*
EFFECTS OF:		
Non-tax deductible amortisation of intangible fixed assets	**-**	*78*
Expenses not allowable for tax purposes	**3**	*-*
Profit on sale of ineligible assets	**-**	*(1,159)*
Adjustments in respect of prior years	**46**	*572*
Depreciation in respect of ineligible assets	**89**	*89*
Impact of rate change on deferred tax	**2,808**	*(127)*
TOTAL TAX CHARGE FOR THE YEAR	**4,003**	*1,889*

13. TAX 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.

14. DIVIDENDS

	2019	*2018*
	£000	*£000*
Dividends paid on ordinary shares	**10,000**	-
	10,000	-

15. INTANGIBLE ASSETS

	Licences
	£000
COST	
At 1 January 2019	**6,200**
At 31 December 2019	**6,200**
AMORTISATION	
At 1 January 2019	**6,200**
At 31 December 2019	**6,200**
NET BOOK VALUE	
At 31 December 2019	**-**
At 31 December 2018	-

16. TANGIBLE ASSETS

	Freehold property £000	Leasehold Property £000	Plant, machinery, fixtures and motor vehicles £000	Public service vehicles £000	Total £000
COST					
At 1 January 2019	**34,275**	**-**	**10,400**	**129,546**	**174,221**
Adoption of IFRS 16 (Note 27)	**-**	**8,913**	**351**	**1,639**	**10,903**
At 1 January 2019 (adjusted balance)	**34,275**	**8,913**	**10,751**	**131,185**	**185,124**
Additions	**834**	**623**	**1,587**	**9,412**	**12,456**
Disposals	**-**	**-**	**(320)**	**(12,479)**	**(12,799)**
At 31 December 2019	**35,109**	**9,536**	**12,018**	**128,118**	**184,781**
ACCUMULATED DEPRECIATION					
At 1 January 2019	**1,062**	**-**	**4,832**	**23,772**	**29,666**
Charge for the year	**663**	**889**	**1,166**	**18,231**	**20,949**
Disposals	**-**	**-**	**(261)**	**(11,105)**	**(11,366)**
At 31 December 2019	**1,725**	**889**	**5,737**	**30,898**	**39,249**
NET BOOK VALUE					
At 31 December 2019	**33,384**	**8,647**	**6,281**	**97,220**	**145,532**
At 31 December 2018	*33,213*	*-*	*5,568*	*105,774*	*144,555*

16. TANGIBLE ASSETS (continued)

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

	Leasehold property £000	Plant, machinery, fixtures and motor vehicles £000	Public service vehicles £000	Total £000
Right-of-use assets				
Cost				
Adoption of IFRS 16 (Note 27)	8,913	351	1,639	10,903
Additions	623	139	4,042	4,804
At 31 December 2019	9,536	490	5,681	15,707
Accumulated depreciation				
At 1 January 2019	-	-	-	-
Charge for the year	889	180	779	1,848
At 31 December 2019	889	180	779	1,848
Net book value				
At 31 December 2019	8,647	310	4,902	13,859

17. STOCKS

	2019 £000	*2018 £000*
Raw materials and consumables	**1,236**	*1,067*
	1,236	*1,067*

18. DEBTORS

	2019 £000	*2018 £000*
Amounts falling due more than one year		
Mobilisation costs	**447**	*805*
Other debtors	**70**	*-*
Derivative financial instruments (Note 21)	**390**	*976*
	907	*1,781*

	2019 £000	*2018 £000*
Amounts falling due within one year		
Trade debtors	**148**	*492*
Amounts owed by group undertakings	**13,829**	*15,992*
Mobilisation costs	**358**	*358*
Other debtors	**546**	*594*
Prepayments and accrued income	**16,298**	*15,198*
Corporation tax recoverable	**5,182**	*335*
Deferred tax asset (Note 22)	**10,303**	*10,361*
Derivative financial instruments (Note 21)	**1,152**	*782*
	47,816	*44,112*

All amounts owed by group undertakings were unsecured, interest free and repayable on demand.

Included within prepayments and accrued income is £12,441,000 (2018: £13,858,000) relating to contract assets under IFRS 15.

19. CREDITORS: Amounts falling due within one year

	2019 £000	2018 £000
Lease liabilities	2,355	-
Amounts owed to group undertakings	177,980	8,433
Other taxation and social security	6,400	6,203
Other creditors	5,464	5,253
Accruals and deferred income	21,483	24,146
Derivative financial instruments (Note 21)	450	875
	214,132	44,910

Amounts owed to group undertakings includes £4,000,000 (2018: £4,000,000) of borrowings under facilities provided by the ultimate parent company. These borrowings incur interest at 1.69%.

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

Accruals and deferred income includes deferred revenues under both contracts with TfL and newspaper contracts of £3,390,000 and £526,000 respectively (2018: £2,882,000 and £345,000). All of the deferred revenues at 1 January 2019 were recognised in revenue in the year to 31 December 2019.

20. CREDITORS: Amounts due more than one year

	2019 £000	2018 £000
Lease liabilities	11,587	-
Amounts owed to group undertakings	6,000	10,000
Derivative financial instruments (Note 21)	463	843
	18,050	10,843

Lease liabilities above include £4,850,000 (2018: £nil) due after more than 5 years.

Amounts owed to group undertakings includes £6,000,000 (2018: £10,000,000) of borrowings under facilities provided by the ultimate parent company. These borrowings incur interest at 1.69%.

21. DERIVATIVE FINANCIAL INSTRUMENTS

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

The receipts/payments from energy derivatives are recognised in the 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 (2018: £Nil).

The amounts recognised within the financial statements are as follows:

	2019 **£000**	*2018* *£000*
Debtors : Amounts due within one year (Note 18)	**1,152**	*782*
Debtors : Amounts due more than one year (Note 18)	**390**	*976*
Creditors : Amounts due within one year (Note 19)	**(450)**	*(875)*
Creditors : Amounts due more than one year (Note 20)	**(463)**	*(843)*
	629	*40*

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

22. DEFERRED TAX ASSET

	2019 £000	2018 £000
At 1 January	**10,361**	*10,766*
(Charged) / credited to profit for the financial year (Note 13)	**(9,168)**	*1,328*
Charged to other comprehensive income	**9,110**	*(1,733)*
At 31 December	**10,303**	*10,361*

The deferred tax asset is made up as follows:

	2019 £000	2018 £000
Differences between capital allowances and accounting depreciation	**(296)**	*209*
Other short term timing differences	**24,347**	*5*
Pension (surplus) / deficit	**(13,645)**	*10,154*
Derivative financial instruments	**(103)**	*(7)*
	10,303	*10,361*

23. CALLED UP SHARE CAPITAL

	2019 £000	2018 £000
Authorised		
21,000,000 *(2018 - 21,000,000)* Ordinary shares of £1.00 each	**21,000**	*21,000*
Allotted, called up and fully paid		
8,141,501 *(2018 - 8,141,501)* Ordinary shares of £1.00 each	**8,142**	*8,142*

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 2019 the UK intermediate parent company, Arriva plc, is the principal employer schemes 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.

APSPP and APSNPS
Contributions to the defined benefit scheme, the APSPP, 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.

Contributions to the APSNPS 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 £1,489,000 (2018: £456,000).

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 2019 by qualified independent actuaries, Willis Towers Watson Plc. The schemes assets are stated at their market value at 31 December 2019.

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 £2,973,000 (2018: £2,119,000).

The amounts recognised in the balance sheet are as follows:

	2019 £000	*2018* *£000*
Present value of funded obligations	**(289,388)**	*(257,689)*
Fair value of scheme assets	**369,654**	*197,957*
Pension surplus / (deficit)	**80,266**	*(59,732)*
Experience adjustments on scheme liabilities	**(3,119)**	*26,028*
Demographic assumptions on scheme liabilities	**6,345**	*(10,228)*
Financial assumptions on scheme liabilities	**(31,337)**	*10,139*

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

24. PENSION COMMITMENTS *(continued)*

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

	2019 £000	2018 £000
Current service cost	(2,987)	(2,902)
Interest cost on defined benefit obligation (Note 12)	(7,070)	(7,172)
Interest income on plan assets (Note 12)	5,560	5,464
Guaranteed Minimum Pension adjustment	-	(2,804)
Past service credit	-	2,000
Pension administration charges	(937)	(906)
	(5,434)	(6,320)

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 was recorded as a past service cost of £2,804,000 in the year ended 31 December 2018.

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 in the year ended 31 December 2018.

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

	2019 £000	2018 £000
At 1 January	257,689	279,739
Benefits paid	(7,969)	(8,623)
Current service cost	2,987	2,902
Interest cost on defined benefit obligation	7,070	7,172
Members contributions paid	1,500	1,634
Actuarial loss / (gain)	28,111	(25,939)
Guaranteed Minimum Pension adjustment	-	2,804
Past service credit	-	(2,000)
At 31 December	289,388	257,689

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

24. PENSION COMMITMENTS (continued)

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

	2019 £000	*2018 £000*
At 1 January	**197,957**	*205,443*
Benefits paid	**(7,969)**	*(8,623)*
Interest income on plan assets	**5,560**	*5,464*
Return on plan assets (excluding interest)	**(5,601)**	*(14,383)*
Employer contributions	**178,207**	*8,422*
Members contributions	**1,500**	*1,634*
At 31 December	**369,654**	*197,957*

The actual loss on plan assets was £41,000 (2018: loss £8,919,000).

As part of the proposed divestment of Arriva, DB sought to be released from the guarantees made to certain of the Arriva group's pension schemes (including the Arriva London North and Arriva London South Pension Scheme). There were a number of criteria to be met for the trustees of the schemes to agree to the guarantees being lifted. The key criteria was that each scheme had assets equal to 105% of the liabilities measured on a "Section 179" basis.

The method of achieving the necessary level of funding in the Arriva London North and Arriva London South Pension Scheme was for the Arriva group to both pay a special pension contribution and to enter into an Asset Backed Contribution or ABC arrangement involving a newly formed Scottish Limited Partnership – Arriva ABC Scottish Limited Partnership (the "SLP"). The combination of the additional funding and the improvement in security that these arrangements provided to that scheme enabled the scheme's trustees to agree to the release of the guarantee. The increase in pension contributions year on year reflects the impact of the above arrangements.

The ABC arrangement involves loan notes issued by another group company, Arriva International Limited, to the SLP. The SLP partners are entitled to an annual distribution of income from the loan notes, for a period of up to 20 years. The total value of distributions are fixed at £13.1 million per year, however the share of distributions attributable to each SLP partner is variable.

The value of SLP distributions receivable by the scheme is dependent on the results of quarterly scheme funding level checks on a Technical Provisions basis. If the scheme has a funding level of more than 100% at two consecutive funding checks, distributions to the scheme will be suspended, with cash flows redirected to the other partners. In the event of a suspension of distributions to the scheme, these will only resume when the funding level is less than 100% at a subsequent quarterly funding level check.

The cumulative amount of actuarial gains and losses recognised in other comprehensive income was £121,223,000 loss (2018: £87,511,000 loss).

The company expects to contribute £8.8 million to its defined benefit pension scheme in 2020.

24. PENSION COMMITMENTS (continued)

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

	2019	2018
	%	%
Rate of increase in salaries	1.0	1.0
Rate of increase in pensions in payment	2.9	3.1
Rate of increase in deferred pensions	2.1	2.3
Discount rate	2.0	2.8
Inflation assumption	3.1	3.3

The average life expectancy for members aged 65 are male: 20 years and female: 22 years (year ended 31 December 2018 - male: 20 years and female: 22 years).

The average life expectancy at 65 for members aged 45 are male: 22 years and female: 23 years (year ended 31 December 2018 - male: 22 years and female: 24 years).

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

	2019	2018
Equities	18.8%	77.7%
Bonds	63.0%	22.0%
ABC asset	17.9%	0.0%
Others	0.3%	0.3%

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

	2019	2018
	£000	£000
Calculated with +1% discount rate	44,705	45,421
Calculated with -1% discount rate	(53,440)	(55,734)
Calculated with +1% inflation rate	(29,634)	(42,667)
Calculated with -1% inflation rate	27,130	36,935
Calculated with +0.5% compensation increase	-	-
Calculated with +0.5% pension increase rate	(23,022)	(20,510)
Calculated with increased expectation of life of 1 year	(11,576)	(6,185)

At 31 December 2019 the weighted average remaining duration/maturity of the defined benefit obligation was 20 years.

25. COMMITMENTS UNDER OPERATING LEASES

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

	2019 £000	*2018 £000*
Land and Buildings		
Not later than 1 year	-	*822*
Later than 1 year and not later than 5 years	-	*3,278*
Later than 5 years	-	*6,154*
Total land and buildings commitments	-	*10,254*

	2019 £000	*2018 £000*
Other leases		
Not later than 1 year	-	*764*
Later than 1 year and not later than 5 years	-	*1,294*
Total other lease commitments	-	*2,058*

26. ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY

The immediate parent company is Arriva UK Bus Holdings Limited.

The ultimate parent company and ultimate controlling party is Deutsche Bahn AG, a company registered in Germany, which has prepared group financial statements incorporating the results of the company. Copies of these financial statements can be obtained from Potsdamer Platz 2, 10785 Berlin.

Deutsche Bahn AG is the largest and smallest group to consolidate the financial statements of the company.

Transactions with other companies in the Deutsche Bahn 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.

27. 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 £10,903,000 of right-of-use assets and £10,789,000 of lease liabilities. The difference represents a reduction due to associated prepayments at 31 December 2018.

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	12,312
Recognition exemptions:	
- Short term leases	(7)
Change in lease commitments on transition	(13)
Effect from discounting	(1,503)
Lease liabilities as at 1 January 2019	10,789
Prepaid lease expenses as at 31 December 2018	114
Right-of-use assets as at 1 January 2019	10,903

28. POST BALANCE SHEET EVENTS

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.

As the company's income is predominantly receivable from Transport for London ('TfL') by way of contractual payments for the routes it operates, the decrease in passenger numbers and journeys do not directly impact the payments receivable under its contracts. However, receipt of contractually due payments under these agreements is ultimately dependent on the financial position of TfL.

The support position to TfL after 18 May 2021 remains unclear, however the Secretary of State for Transport has publicly stated the DfT's intention to work with TfL to agree a longer-term settlement prior that date. A long-term settlement agreement by that date will be subject to sufficient progression being made on TfL's long-term financial sustainability plans.

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