Registered number: 4337712

ARRIVA RAIL NORTH LIMITED

Annual report and financial statements for the Year Ended 31 March 2018

ARRIVA RAIL NORTH LIMITED

Company Information

Directors	C D D Burchell A Furlong D Brown M E C Hewitt R G Allan
Company secretary	L Edwards
Registered number	4337712
Registered office	1 Admiral Way Doxford International Business Park Sunderland Tyne and Wear SR3 3XP

Contents

Strategic report
for the year ended 31 March 2018

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

Principal activities

The principal activity of the company during the year was the operation of passenger railway services. Arriva Rail North Limited commenced operation of the Northern Rail franchise on 1 April 2016.

Review of business

The company is the franchisee for a passenger train franchise under a franchise agreement signed with the Secretary of State for Transport on 22 December 2015 for the Northern franchise. The franchise commencement date was 1 April 2016 and the franchise will operate until 31 March 2025.

The Northern franchise is one of the largest transport networks in the UK. The start of the franchise marks the beginning of the company's plans to transform rail travel in the North of England.

The company employs more than 5,000 employees and has a portfolio of 477 stations (representing 20% of the total of Britain's national rail networks). Operations range from single-track branch lines with very simple track, signalling and station infrastructure to multi-trafficked high speed and densely used parts of the network.

The company's statement of comprehensive income on page 8 shows profit before tax for the year of £12.7 million (2017: £21.0 million). The decrease year on year was driven by lower than anticipated passenger revenue growth, largely attributable to ongoing industrial action, the postponement of the planned uplift in daily services from December 2017 due to delays in Network Rail infrastructure upgrades and the impact of adverse weather conditions. Increased operational staff costs in the year, support the company's future plan to deliver an enhanced timetable as part of the business transformational change agenda.

The average Public Performance Measure (PPM) has broadly remained consistent across the year, finishing at 88.2% (2017: 91.1%).

PPM is the UK rail industry's recognised measure of operational train performance. The figure is a 12 month moving annual average and represents the percentage of timetabled passenger services arriving at their scheduled destination within five minutes of the published arrival time.

As at the balance sheet date, the company had net assets of £52.0 million (2017: £44.2 million). The movement year on year reflects the retained profit for the year, offset by a reduction in fair value of fuel derivatives.

The company's funding position will allow it to spend £40.0 million on capital expenditure in 2018/19.

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.

<u>Major Incidents</u>

As with any operator of public transportation there is the risk that the company is involved in a major incident, which could result in injuries to the public or staff. Resulting risks include damage to the company's reputation and possible claims against the company.

<u>Turnover</u>

Risks and uncertainties affecting the company are considered to relate to local and national competition and some factors which could cause a decline in the market.

Breach of franchise

The company.is required to comply with certain conditions as part of its franchise agreement. If it fails to comply with these conditions it may be liable to penalties or the potential termination of the franchise. Compliance with franchise conditions are closely managed to minimise the risk of non compliance. Further discussion of these risks and uncertainties in the context of the group as a whole, is provided in the annual report of Arriva plc which does not form part of this report.

Financial key performance indicators

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

Future developments

The company is maintaining good progress in delivering its transformational change and modernisation programme, which will see fundamental improvements to rail travel in the North of England by 2020.

Significant investment continues in fleet improvements, passenger facility upgrades and retailing enhancements, in line with the franchise committed obligations, to drive growth in customer journeys, better customer experience and revenue growth.

However, the ongoing delays to the delivery of new Network Rail infrastructure that is necessary for the company to introduce more electric services and run more trains, caused the postponement of the uplift in services that was planned for December 2017 and then re-planned for May 2018.

Recent announcements indicate that the infrastructure will not be ready for the planned uplift in services to go ahead at the third time of asking in December 2018.

The ongoing late delivery of new infrastructure has consequentially prevented the company from introducing the increased capacity and frequency required to deliver the planned growth in customer journeys and revenue. Compensation for this is being sought and potentially there are a wide range of outcomes as a result.

Industrial action remains a challenge and the company is continuing to maintain dialogue with the RMT union to try and reach an agreement that satisfies both parties.

This report was approved by the board on 16 July 2018 and signed by order of the board.

A Furlong

Director

Directors' report
for the year ended 31 March 2018

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

Results and Dividends

The profit for the year, after taxation, amounted to £10,701,000 (2017: £16,816,000).

The company did not pay a dividend during the year (2017: £Nil).

Directors

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

A J Chaplin (resigned 26 September 2017)

R B Cobbe (resigned 31 December 2017)

C D D Burchell

A Furlong

R H McClean (resigned 14 December 2017)

R W Phillips (resigned 31 May 2018)

D Brown (appointed 26 September 2017)

M E C Hewitt (appointed 17 October 2017)

R G Allan (appointed 31 May 2018)

Employee involvement

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

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

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

Disabled employees

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

Financial risk management

Details of financial risk management objectives and policies are shown in the annual report of the UK intermediate parent company, Arriva plc, which does not form part of this report.

Matters covered in the strategic report

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

Directors' report
for the year ended 31 March 2018

Directors' responsibilities statement in respect of the financial statements

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

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

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

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

Disclosure of information to auditors

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

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

This report was approved by the board on 16 July 2018 and signed by order of the board.

A Furlong
Director

Independent auditors' report to the members of Arriva Rail North Limited

Report on the audit of the financial statements

Opinion

In our opinion, Arriva Rail North Limited's financial statements:

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

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

Basis for opinion

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

Independence

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Independent auditors' report to the members of Arriva Rail North Limited

Reporting on other information

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

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

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

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

Strategic report and Directors' report

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

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

Independent auditors' report to the members of Arriva Rail North Limited

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Bill MacLeod

Bill MacLeod (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered accountants and statutory auditors
Newcastle upon Tyne
17 July 2018

Statement of comprehensive income for the year ended 31 March 2018

	Note	2018 £ 000	2017 £ 000
Turnover	4	**628,883**	*624,363*
Cost of sales		**(544,243)**	*(546,606)*
Gross profit		**84,640**	*77,757*
Administrative expenses		**(71,332)**	*(56,093)*
Operating profit	5	**13,308**	*21,664*
Interest receivable and similar income	9	**176**	*168*
Interest payable and similar charges	10	**(682)**	*(648)*
Other finance costs	11	**(118)**	*(169)*
Profit on ordinary activities before tax		**12,684**	*21,015*
Tax on profit on ordinary activities	12	**(1,983)**	*(4,199)*
Profit for the year		**10,701**	*16,816*
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Actuarial loss related to pension scheme	23	**(346)**	*(126)*
		(346)	*(126)*
Items that may be reclassified to profit or loss:			
Changes in market value of cash flow hedges		**(3,022)**	*20,618*
Deferred tax attributable to changes in market value of cash flow hedges	21	**514**	*(3,500)*
		(2,508)	*17,118*
Total other comprehensive (expense) / income for the year		**(2,854)**	*16,992*
Total comprehensive income for the year		**7,847**	*33,808*

The notes on pages 13 to 35 form part of these financial statements.

Balance sheet as at 31 March 2018

	Note		2018 £ 000		2017 £ 000
Fixed assets					
Intangible assets	13		**13,488**		*14,981*
Tangible assets	14		**41,645**		*15,421*
Investments	15		-		–
			55,133		*30,402*
Current assets					
Stocks	16	**4,808**		*4,075*	
Debtors: amount due after one year	17	**15,656**		*18,703*	
Debtors: amounts due within one year	17	**59,671**		*50,705*	
Cash at bank		**39,012**		*50,566*	
		119,147		*124,049*	
Creditors: amounts due within one year	18	**(102,248)**		*(98,459)*	
Net current assets			**16,899**		*25,590*
Total assets less current liabilities			**72,032**		*55,992*
Creditors: amounts due more than one year	19		**(10,000)**		*(871)*
			62,032		*55,121*
Provisions for liabilities					
Deferred taxation	21	**(3,569)**		*(3,617)*	
			(3,569)		*(3,617)*
Pension deficit	23		**(6,423)**		*(7,311)*
Net assets			**52,040**		*44,193*

Balance sheet (continued)
as at 31 March 2018

Capital and reserves	**Note**	**2018**	*2017*
		£ 000	*£ 000*
Called up share capital	22	-	–
Share premium account		**10,000**	*10,000*
Cash flow hedge reserve		**15,009**	*17,517*
Profit and loss account		**27,031**	*16,676*
Total shareholders' funds		**52,040**	*44,193*

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 16 July 2018.

A Furlong
Director

The notes on pages 13 to 35 form part of these financial statements

Statement of changes in equity for the year ended 31 March 2018

	Called up share capital	Share premium account	Cash flow hedge reserve	Profit and loss account	Total shareholders' funds
	£ 000	£ 000	£ 000	£ 000	£ 000
At 1 April 2017	-	10,000	17,517	16,676	44,193
Comprehensive income for the year					
Profit for the financial year	-	-	-	10,701	10,701
Changes in market value of cash flow hedges	-	-	(3,022)	-	(3,022)
Deferred tax attributable to changes in market value of cash flow hedges	-	-	514	-	514
Actuarial loss related to pension scheme	-	-	-	(346)	(346)
Total other comprehensive expense for the year	-	-	(2,508)	(346)	(2,854)
At 31 March 2018	-	10,000	15,009	27,031	52,040

The notes on pages 13 to 35 form part of these financial statements.

Statement of changes in equity for the year ended 31 March 2017

	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 April 2016	-	10,000	399	(14)	10,385
Comprehensive income for the year					
Profit for the financial year	-	-	-	16,816	16,816
Changes in market value of cash flow hedges	-	-	20,618	-	20,618
Deferred tax attributable to changes in market value of cash flow hedges	-	-	(3,500)	-	(3,500)
Actuarial loss related to pension scheme	-	-	-	(126)	(126)
Total other comprehensive income for the year	-	-	17,118	(126)	16,992
At 31 March 2017	-	10,000	17,517	16,676	44,193

The notes on pages 13 to 35 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 the cash flow hedge reserve, and in accordance with the Companies Act 2006.

1.2 Turnover

Passenger income represents amounts agreed as attributable to the company by the income allocation systems of Rail Settlement Plan Limited mainly in respect of passenger receipts. Income is attributed based principally on models of certain aspects of passengers' travel patterns and to a lesser extent from allocations agreed for specific revenue flows. The attributed share of season ticket income is deferred within creditors and released to the statement of comprehensive income over the period of the relevant season ticket.

Franchise payments relate to amounts receivable from the Department for Transport. 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.

Other income is derived from commissions, rental income, train maintenance and sub-leasing, and other services excluding value added tax. It is recognised in the statement of comprehensive income on an accruals basis.

1.3 Investments

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

1.4 Intangible fixed assets

Intangible assets relate to the right to operate the Northern Rail Franchise and are valued at cost less accumulated amortisation. The assets are capitalised at cost at the start of the franchise and are amortised on a straight-line basis over 9 years, that being the life of the franchise agreement. Amortisation charges are included within administration costs in the statement of comprehensive income.

Development and mobilisation costs in relation to securing a new franchise are capitalised once 'preferred bidder' status is achieved. Upon commencement of the franchise, the amortisation is charged to the statement of comprehensive income over the expected 9 year term of the franchise, on a straight line basis.

1. Accounting policies (continued)

1.5 Debtors

Trade and other debtors are initially measured at fair value. Receivables for which there are substantial objective indications of an impairment are adjusted appropriately.

Trade and other debtors are considered to be impaired when there is objective evidence that the estimated future cash flows associated with the asset have been affected. In addition, certain trade and other debtors that are not considered to be individually impaired, may be assessed for impairment on a collective basis. Objective evidence for impairment could be observable changes in national or local economic conditions / government policies on transport.

Loans and other non derivative financial assets, with fixed or determinable payments that are not quoted in an active market, are included within current assets, except for maturities greater than 12 months after the end of the reporting period. Those loans and other debtors which are deemed payable more than 12 months after the balance sheet date, are classed as long-term debtors.

1.6 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. *Accounting policies (continued)*

1.7 Financial reporting standard 101 - reduced disclosure exemptions

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

- 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
- 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 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 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 25 gives details of the company's ultimate parent and from where its consolidated financial statements, prepared in accordance with IFRS, may be obtained.

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

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

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

1.8 Tangible fixed assets

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

Depreciation

Depreciation is provided on the following basis:

Plant and machinery - 3 to 25 years

1. Accounting policies (continued)

1.9 Operating leases

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

1.10 Stocks

Stocks are valued at the lower of cost, on a weighted average basis, and net realisable value after making due allowance for obsolete and slow-moving stocks. Cost includes all direct costs and an appropriate proportion of fixed and variable overheads. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

1.11 Derivative financial instruments

Derivative financial instruments are recognised as a financial asset or a financial liability in the balance sheet, at the point at which the contract is concluded. 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 at their fair value. Changes in value are initially recognised in shareholders' equity with no impact on the statement of comprehensive income, and are only recognised in the statement of comprehensive income at the point at which the corresponding losses or profits from the underlying hedged item have an impact on the statement of comprehensive income or the transaction expires.

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

1.12 Creditors

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

1. Accounting policies (continued)

1.13 Pensions

Certain employees of Arriva Rail North Limited participate in a funded defined benefit sections, which form part of the overall Railways Pension Scheme ('RPS').

The deficit recognised in the balance sheet in respect of the defined benefit pension scheme is the present value of the defined benefit obligation at the balance sheet date less the fair value of the plan assets. The deficit disclosed for the RPS represents 60 per cent of the full deficit of the relevant sections of the RPS, in accordance with trustee guidelines which detail how the scheme surpluses and shortfalls are shared between the employer and scheme members. Only the net deficit or net surplus that the company is obligated to fund or recover over the life of the franchise is recognised. The balance sheet franchise adjustment reflects the amount of the deficit that the company does not expect to fund over the life of the franchise. The net deficit, after adjusting for member share and the franchise adjustment, represents the present value of the obligation of the company as at that date.

The defined benefit obligation is calculated using the projected unit credit method. Formal actuarial valuations are carried out 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 and that have terms to maturity approximating to the terms of the related pension liability.

The cost of providing future benefits (service cost) is charged to the statement of comprehensive income as required. The statement of comprehensive income includes a franchise adjustment to current period costs with the net service cost (post franchise adjustment) reflecting the increase in present value of the defined benefit obligation relating to the entity resulting from employee service in the current period. The return on scheme assets and interest obligation on scheme liabilities comprise a pension finance adjustment which is included in other finance income/charges. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are credited or charged to other comprehensive income in the period they arise.

1. Accounting policies (continued)

1.14 Current and deferred taxation

The tax charge in the statement of comprehensive income represents the sum of the tax currently payable and the deferred tax charge 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 taxation payable is based on the taxable profit for the year. Taxable profit can differ from profit 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 for current taxation is calculated using rates prevailing during the year.

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

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

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

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

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

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

Deferred tax assets and liabilities are not discounted.

2. General information

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

The registered company number is 4337712 and the address of the registered office is 1 Admiral Way, Doxford International Business Park, Sunderland, SR3 3XP.

3. 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.

3.1 Useful economic lives of tangible fixed assets

The annual depreciation charge for tangible fixed 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 14 for the carrying amount of the tangible fixed assets and Note 1.8 for the useful economic lives for each class of assets.

3.2 Impairment of debtors

The company makes an estimate of the recoverable value of the trade and other debtors. When assessing impairment of trade and other debtors, management considers factors including the ageing profile of debtors and historical experience. See Note 17 for the carrying amount of debtors.

3.3 Stock provisioning

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

3.4 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, including; life expectancy, future salary increase, inflation, future pension increases and the discount rate on corporate bonds.

Management estimate these factors in determining the net pension obligation in the balance sheet. The assumptions reflect historical experience and current trends. See Note 23 for the disclosures of the defined benefit pension scheme.

3.5 Accruals and deferred income

The company recognises accrued expenses within the financial statements. They are calculated at the cost the company expects to pay in future periods, based on reliable evidence available at the time the financial statements are prepared.

Deferred income is provided for where income has been received in an earlier period to which it relates. The company make estimations as to which period the income relates, based on either the terms of the franchise agreements or terms of service connected to the income being deferred.

3.6 Duration of the franchise agreement

In preparing the financial statements, management assess the length of the franchise agreement remaining and consider the appropriate basis of preparation using an assessment of current arrangements at the time the financial statements are prepared.

4. Turnover

	2018 £ 000	2017 £ 000
Passenger income	298,452	298,240
Franchise payments	284,736	284,311
Other income	45,695	41,812
	628,883	624,363

All turnover arose within the United Kingdom.

5. Operating profit

The operating profit is stated after charging:

	2018 £ 000	2017 £ 000
Depreciation of tangible fixed assets	5,510	3,040
Amortisation of intangible assets	2,228	2,037
Cost of stocks recognised as an expense	43,999	27,613
Operating lease payments		
- plant and machinery	54,735	52,348
- track access charges payable	25,868	26,731
- land and buildings	8,726	9,182

During the year the company incurred rolling stock charges amounting to £69,115,000 (2017: £57,154,000).

6. Auditors' remuneration

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

	2018 £ 000	2017 £ 000
Fees for the audit of the company	180	145
	180	145

7. Staff costs

	2018 £ 000	2017 £ 000
Staff costs, including directors' remuneration, were as follows:		
Wages and salaries	233,443	*217,373*
Social security costs	23,770	*22,346*
Other pension costs	15,771	*15,064*
	272,984	*254,783*

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

	2018 No.	2017 No.
Drivers, train crew and operations	4,402	*4,173*
Engineering & maintenance	1,068	*1,031*
Admin & other	293	*284*
	5,763	*5,488*

8. Directors' remuneration

	2018 £ 000	2017 £ 000
Directors' emoluments	408	*424*
Company contributions to defined benefit pension schemes	39	*36*
	447	*460*

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

The highest paid director received remuneration of £172,000 (2017 - £212,000).

The value of the company's contributions paid to a defined benefit pension scheme in respect of the highest paid director amounted to £14,000 *(2017 - £22,000).*

9. Interest receivable and similar income

	2018 £ 000	2017 £ 000
Bank interest receivable	176	148
Gain on foreign currency transactions	-	20
	176	168

10. Interest payable and similar charges

	2018 £ 000	2017 £ 000
Bank interest payable	18	98
Other interest payable and similar charges	664	550
	682	648

11. Other finance costs

	2018 £ 000	2017 £ 000
Net interest on defined pension deficit (Note 23)	118	169
	118	169

12. Tax on profit on ordinary activities

	2018 £ 000	*2017* *£ 000*
Corporation tax		
Current tax on profit for the year	1,683	*4,169*
Adjustment in respect of prior year	(166)	-
Total current tax	1,517	*4,169*
Deferred tax		
Origination and reversal of timing differences	509	*30*
Adjustment in respect of prior year	(43)	-
Total deferred tax (Note 21)	466	*30*
Taxation on profit on ordinary activities	1,983	*4,199*

Factors affecting tax charge for the year

The tax assessed for the year is lower than *(2017 - lower than)* the standard rate of corporation tax in the UK of 19.0% (2017: 20.0%). The differences are explained below:

	2018 £ 000	*2017* *£ 000*
Profit on ordinary activities before tax	12,684	*21,015*
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.0% (2017: 20.0%)	2,410	*4,203*
Expenses not deductible for tax purposes	76	*116*
Depreciation in respect of ineligible assets	-	*100*
Impact of rate change on deferred tax	(60)	*(5)*
Pension adjustments	(234)	*(215)*
Adjustment in respect of prior year	(209)	-
Total tax charge for the year	**1,983**	*4,199*

12. Tax on profit on ordinary activities (continued)

Factors that may affect future tax charges

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

13. Intangible assets

	Mobilisation costs £ 000	Right to operate franchise £ 000	Total £ 000
Cost			
At 1 April 2017	**8,758**	**8,260**	**17,018**
Additions	**841**	**-**	**841**
Disposals	**(168)**	**-**	**(168)**
At 31 March 2018	**9,431**	**8,260**	**17,691**
Accumulated amortisation			
At 1 April 2017	**1,119**	**918**	**2,037**
Charge for the year	**1,306**	**922**	**2,228**
Disposals	**(62)**	**-**	**(62)**
At 31 March 2018	**2,363**	**1,840**	**4,203**
Net book value			
At 31 March 2018	**7,068**	**6,420**	**13,488**
At 31 March 2017	*7,639*	*7,342*	*14,981*

Intangible assets represent the costs incurred for the right to operate the Northern Rail Franchise and mobilisation costs.

14. Tangible fixed assets

	Plant and machinery £ 000
Cost	
At 1 April 2017	**18,461**
Additions	**31,734**
At 31 March 2018	**50,195**
Accumulated depreciation	
At 1 April 2017	**3,040**
Charge for the year	**5,510**
At 31 March 2018	**8,550**
Net book value	
At 31 March 2018	**41,645**
At 31 March 2017	*15,421*

15. Fixed asset investments

The company holds an investment of 25.1% of the ordinary share capital in West Yorkshire Ticketing Company Limited which is incorporated in the UK and is owned by a number of operators. The Company coordinates and manages the ticketing scheme by selling and promoting transport tickets on behalf of the West Yorkshire Combined Authority.

16. Stocks

	2018 £ 000	*2017 £ 000*
Raw materials and consumables	4,808	*4,075*
	4,808	*4,075*

17. Debtors

	2018 £ 000	*2017 £ 000*
Amounts due after one year		
Derivative financial instruments (Note 20)	15,656	*18,703*
	15,656	*18,703*

	2018 £ 000	*2017 £ 000*
Amounts due within one year		
Trade debtors	15,579	*16,728*
Amounts owed by group undertakings	950	*960*
Other debtors	9,681	*15,101*
Prepayments and accrued income	31,035	*15,515*
Derivative financial instruments (Note 20)	2,426	*2,401*
	59,671	*50,705*

18. Creditors: amounts due within one year

	2018 £ 000	*2017 £ 000*
Trade creditors	2,512	*18,397*
Amounts owed to group undertakings	7,140	*4,306*
Corporation tax	1,683	*4,166*
Taxation and social security	5,681	*5,600*
Other creditors	3,736	*11,539*
Accruals and deferred income	81,496	*54,451*
	102,248	*98,459*

19. Creditors: amounts due more than one year

	2018 £ 000	*2017 £ 000*
Other creditors	-	*871*
Amounts owed to group undertakings	10,000	-
	10,000	*871*

20. Derivative financial instruments

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

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

The effectiveness of the hedge is assessed prospectively using linear regression. The retrospective effectiveness measurement is carried out as of every balance sheet date by means of linear regression.

The ineffectiveness is also calculated using the dollar-offset method. Under this method, the changes in the market values of the underlying item are compared with the changes in the market value of the hedging instrument. The resultant quotient determines the inefficiency.

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

The amounts recognised within the financial statements are as follows:

	2018 **£ 000**	*2017* *£ 000*
Debtors: Amounts due within one year	2,426	*2,401*
Debtors: Amounts due more than one year	15,656	*18,703*
	18,082	*21,104*

21. Deferred taxation liability

	2018 £ 000	*2017* *£ 000*
At the beginning of the year	**3,617**	*87*
(Credited)/charged to other comprehensive income	**(514)**	*3,500*
Charged to comprehensive income (Note 12)	**466**	*30*
At 31 March	**3,569**	*3,617*

The provision for deferred taxation is made up as follows:	2018 £ 000	*2017* *£ 000*
Accelerated capital allowances	**495**	*30*
Derivative financial instruments	**3,074**	*3,587*
	3,569	*3,617*

22. Called up share capital

	2018 £ 000	*2017* *£ 000*
Authorised, allotted, called up and fully paid	-	-
2 (2017: 2) Ordinary shares of £1 each	-	-

23. Pension commitments

Certain employees of Arriva Rail North Limited participate in funded defined benefit sections, which form part of the overall Railways Pension Scheme ('RPS').

The directors believe that separate consideration should be given to the RPS under IAS 19 'Employee benefits' (revised 2011) as the company has no rights or obligations in respect of the scheme following the expiry of the franchise.

The calculations used to assess the IAS 19 'Employee benefits' (revised 2011) liabilities of the company's sections of the RPS are based on the most recent actuarial valuations, updated by qualified independent actuaries to 31 March 2018.

The scheme's assets are stated at their market value at 31 March 2018.

The following financial assumptions have been made:

	2018	*2017*
	%	*%*
Rate of increase in salaries	3.5	*3.6*
Rate of increase in pensions in payment	2.2	*2.3*
Rate of increase in deferred pensions	2.2	*2.3*
Discount rate	2.5	*2.7*
Inflation assumption	3.2	*3.3*

The weighted average life expectancy for mortality tables to determine benefit obligations:

		2018	*2017*
		Years	*Years*
Member age 65 (current life expectancy)	Male	19	*20*
	Female	21	*22*
Member age 45 (life expectancy at age 65)	Male	21	*22*
	Female	23	*24*

23. Pension commitments (continued)

The fair value of the assets in the RPS sections and the expected rate of return, the present value of the related liabilities and the resulting deficit are:

	2018 £ 000	2017 £000
Equities	771,050	748,045
Other	148,924	130,563
Total market value of assets	919,974	878,608
Present value of scheme liabilities	(1,459,747)	(1,364,772)
Deficit in the scheme	(539,773)	(486,164)
Deficit relating to scheme members	215,909	194,466
Rail franchise adjustment	317,441	284,387
Net pension deficit	(6,423)	(7,311)

The deficit disclosed for the RPS represents 60 per cent of the full deficit of the relevant sections of the RPS, in accordance with trustee guidelines which detail how the scheme surpluses and shortfalls are shared between the employer and scheme members and is stated after the recognition of a franchise adjustment as detailed above.

Analysis of amounts (charged) / credited to operating profit:

	2018 £ 000	2017 £ 000
Current service cost	(36,231)	(28,859)
Pension administration costs	(3,609)	(2,091)
Rail franchise adjustment	24,633	15,886
Total operating charge	(15,207)	(15,064)

23. Pension commitments (continued)

Analysis of amounts (charged) / credited to other finance income:

	2018 £ 000	2017 £ 000
Interest income on plan assets	14,388	15,013
Interest on liabilities	(21,986)	(21,773)
Interest on rail franchise adjustment	7,480	6,591
Other finance costs	(118)	(169)

Analysis of the amount recognised in other comprehensive income:

	2018 £ 000	2017 £ 000
Difference between expected and actual return on assets	9,445	61,773
Effect of changing the actuarial assumptions	(35,364)	(148,555)
Rail franchise adjustment	25,573	86,656
Actuarial loss	(346)	(126)

An analysis of the movements in the present value of defined benefit obligations for the year ended 31 March is as follows:

	2018 £ 000	2017 £ 000
At beginning of the year	(1,364,772)	-
Increase in obligation on commencement of franchise*	-	(1,074,900)
Current service cost	(36,231)	(28,859)
Interest cost*	(36,644)	(36,288)
Benefits paid	19,917	15,156
Member contributions paid	(11,017)	(10,464)
Actuarial loss*	(31,000)	(229,417)
At 31 March	(1,459,747)	(1,364,772)

23. Pension commitments (continued)

An analysis of the movements in the fair value of scheme assets for the year ended 31 March is as follows:

	2018	*2017*
	£ 000	*£ 000*
At beginning of the year	**878,608**	-
Increase in assets on commencement of franchise*	-	*742,500*
Interest income on plan assets*	**23,980**	*25,022*
Employer contributions	**16,559**	*16,309*
Members contributions	**11,017**	*10,464*
Benefits paid	**(19,917)**	*(15,156)*
Return on plan assets (excluding interest)*	**15,742**	*102,954*
Administration expenses*	**(6,015)**	*(3,485)*
At 31 March	**919,974**	*878,608*

The actual gain on plan assets* was £39,722,000 (2017: £127,976,000).

* Before RPS shared cost adjustment

The movement in the present value of defined benefit obligations and in the fair value of the scheme assets do not take into account the shared cost nature of the RPS. The statement of comprehensive income and the statement of other comprehensive income include 60 per cent of the relevant RPS amounts.

23. Pension commitments (continued)

Cumulative actuarial gains and losses recognised in equity:

	2018 £ 000	2017 £ 000
At the beginning of the year	(126)	-
Actuarial loss recognised in the year	(346)	(126)
At 31 March	**(472)**	(126)

History of experience gains and losses:

	2018	2017
Experience adjustments on scheme assets:		
- Amounts (£000)	9,445	61,773
- Percentage of scheme assets (%)	1.7	11.7
Experience adjustments on scheme liabilities:		
- Amounts (£000)	(50,273)	(86,924)
- Percentage of scheme liabilities (%)	(5.7)	(10.6)

The company expects to contribute £17.3 million to its defined benefit pension scheme in 2018/2019.

The sensitivity analysis for the defined benefit obligation balance is as follows:

	2018 £ 000	2017 £ 000
Calculated with +1% discount rate	288,354	257,484
Calculated with -1% discount rate	(363,263)	(320,813)
Calculated with +1% inflation rate	(325,858)	(318,737)
Calculated with -1% inflation rate	268,751	260,663
Calculated with +0.5% compensation increase	(35,731)	(55,653)
Calculated with +0.5% pension increase rate	(97,845)	(84,501)
Calculated with increased expectation of life of 1 year	(49,631)	(36,849)

At 31 March 2018, the weighted average duration/maturity of the defined benefit obligation was 23 years.

24. Commitments under operating leases

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

	2018 **£ 000**	*2017* *£ 000*
Not later than 1 year	**70,522**	*84,633*
Later than 1 year and not later than 5 years	**365,324**	*431,950*
Later than 5 years	**182,376**	*343,516*
Total	**618,222**	*860,099*

25. Ultimate parent undertaking and controlling party

The immediate parent company is Arriva UK Trains Limited.

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

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

Information on Arriva Rail North Limited can be obtained from their registered address 1 Admiral Way, Doxford International Business Park, Sunderland, Tyne and Wear, SR3 3XP.

Transactions with other companies in the Deutsche Bahn Group are not specifically disclosed as the company has taken advantage of the exemption available under paragraph 17 of IAS 24 'Related party disclosures' for wholly-owned subsidiaries.