
ARRIVA TRAINS WALES/TRENAU ARRIVA CYMRU LIMITED

**Annual report and financial statements
for the year ended 31 December 2012**

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ARRIVA TRAINS WALES/TRENAU ARRIVA CYMRU LIMITED

Company Information

Directors	A Furlong T S Bell I P Bullock M D Bagshaw D H Baker L M Milligan R W Phillips M J Tapscott S J Murphy M J Prosser
Company secretary	E A Davies
Company number	4337645
Registered office	St Mary's House 47 Penarth Road Cardiff CF10 5DJ
Independent auditors	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors 89 Sandyford Road Newcastle upon Tyne NE1 8HW

ARRIVA TRAINS WALES/TRENAU ARRIVA CYMRU LIMITED

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ARRIVA TRAINS WALES/TRENAU ARRIVA CYMRU LIMITED

**Directors' report
for the year ended 31 December 2012**

The directors present their report and the financial statements for the year ended 31 December 2012

Principal activities

The principal activity of the company during the year was the operation of passenger railway services

Business review

The directors believe that the company continues to be in an excellent position to continually develop and improve the rail services in Wales. During 2012 the company continued to secure investment in stations, fleet and services through partnerships and liaison with its stakeholders

The company's aim is to meet or exceed expectations of all stakeholders without detriment to service quality and levels. The company has a strong track record and will continue to demonstrate its determination and ability to deliver

The directors consider the state of the company's affairs to be satisfactory and there have been no material changes since the balance sheet date

Results and dividends

The profit for the year, after taxation, amounted to £13,608,000 (2011 - £17,683,000)

The company paid a dividend of £16,000,000 during the year (2011 - £15,000,000)

Directors

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

R W Holland (resigned 1 January 2013)
D C J Applegarth (resigned 1 January 2013)
A Furlong
T S Bell
I P Bullock
M D Bagshaw
D H Baker
P J Leppard (resigned 1 January 2012)
P North (resigned 31 March 2013)
L M Milligan
R W Phillips
M J Tapscott (appointed 21 May 2012)
S J Murphy (appointed 1 January 2013)
M J Prosser (appointed 2 April 2013)

Political and charitable contributions

During the year the company made charitable donations amounting to £1,459 (2011 - £2,427)

Financial risk management objectives and policies

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

**Directors' report
for the year ended 31 December 2012**

Principal risks and uncertainties

The management of the business and the execution of the company's strategy are subject to a number of risks

Major incidents

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.

Turnover

Risks and uncertainties affecting the company are considered to relate to local and national competition and 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.

Key performance indicators

The directors of Deutsche Bahn AG, the ultimate holding 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 Trains Wales/Trenau Arriva Cymru Limited. The development performance and position of the group, including this company, is discussed in the group's annual report which does not form part of this report.

Company's policy for payment of creditors

The company's policy regarding the payment of suppliers is to agree terms of payment at the start of business with each supplier to ensure that the supplier is made aware of the payment terms, and to pay in accordance with its contractual or legal obligations. At 31 December 2012 the company's trade creditors outstanding represented approximately 26 days' purchases (2011: 32 days).

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.

**Directors' report
for the year ended 31 December 2012**

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.

Directors' responsibilities statement

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

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 and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these 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 UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- 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 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. They 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.

Provision of information to auditors

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

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

This report was approved by the board on 25 April 2013 and signed on its behalf



E A Davies
Company Secretary

ARRIVA TRAINS WALES/TRENAU ARRIVA CYMRU LIMITED

Independent auditors' report to the members of Arriva Trains Wales/Trenau Arriva Cymru Limited

We have audited the annual report and financial statements of Arriva Trains Wales/Trenau Arriva Cymru Limited for the year ended 31 December 2012 which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the directors' responsibilities statement set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Directors' report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2012 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

ARRIVA TRAINS WALES/TRENAU ARRIVA CYMRU LIMITED

Independent auditors' report to the members of Arriva Trains Wales/Trenau Arriva Cymru Limited

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

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

Bill MacLeod

Bill MacLeod (Senior Statutory Auditor)

for and on behalf of

PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

89 Sandyford Road
Newcastle upon Tyne
NE1 8HW

26 April 2013

ARRIVA TRAINS WALES/TRENAU ARRIVA CYMRU LIMITED

**Profit and loss account
for the year ended 31 December 2012**

	Note	2012 £000	2011 £000
TURNOVER	1,2	287,210	272,402
Cost of sales		<u>(254,270)</u>	<u>(234,831)</u>
GROSS PROFIT		32,940	37,571
Administrative expenses		<u>(15,799)</u>	<u>(17,043)</u>
OPERATING PROFIT	3	17,141	20,528
Interest receivable and similar income	7	526	479
Pension finance income	20	900	2,366
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		18,567	23,373
Tax on profit on ordinary activities	8	<u>(4,959)</u>	<u>(5,690)</u>
PROFIT FOR THE FINANCIAL YEAR	17	13,608	17,683

All amounts relate to continuing operations

There is no difference between the profit on ordinary activities before taxation and the profit for the financial years stated above, and their historical cost equivalents

The notes on pages 9 to 21 form part of these financial statements

ARRIVA TRAINS WALES/TRENAU ARRIVA CYMRU LIMITED

Statement of total recognised gains and losses
for the year ended 31 December 2012

		2012 £000	2011 £000
PROFIT FOR THE FINANCIAL YEAR		13,608	17,683
Deferred tax attributable to actuarial loss/rate change	20	686	(113)
Actuarial loss on pension scheme	20	(3,734)	(282)
TOTAL RECOGNISED GAINS AND LOSSES RELATING TO THE YEAR		10,560	17,288


The notes on pages 9 to 21 form part of these financial statements

ARRIVA TRAINS WALES/TRENAU ARRIVA CYMRU LIMITED
Registered number: 4337645

Balance sheet
as at 31 December 2012

	Note	£000	2012 £000	£000	2011 £000
FIXED ASSETS					
Intangible assets	9		4,800		5,600
Tangible assets	10		20,044		17,182
			24,844		22,782
CURRENT ASSETS					
Stocks	11	1,403		1,395	
Debtors	12	25,714		27,551	
Cash at bank and in hand		61,533		54,650	
		88,650		83,596	
CREDITORS: amounts falling due within one year	13	(77,450)		(67,594)	
NET CURRENT ASSETS			11,200		16,002
TOTAL ASSETS LESS CURRENT LIABILITIES			36,044		38,784
CREDITORS: amounts falling due after more than one year	14		(14,773)		(14,619)
Pension deficit	20		(9,476)		(6,928)
NET ASSETS			11,795		17,237
CAPITAL AND RESERVES					
Called up share capital	16		5,000		5,000
Profit and loss account	17		6,795		12,237
TOTAL SHAREHOLDERS' FUNDS	18		11,795		17,237

The financial statements were approved and authorised for issue by the Board of directors and were signed on its behalf on 25 April 2013


R W Phillips
 Director

The notes on pages 9 to 21 form part of these financial statements

**Notes to the financial statements
for the year ended 31 December 2012**

1. ACCOUNTING POLICIES

1.1 Basis of preparation of financial statements

These financial statements are prepared on the going concern basis, under the historical cost convention, and in accordance with the Companies Act 2006, and applicable accounting standards in the United Kingdom. The principal accounting policies, which have been applied consistently throughout the year, are set out below.

1.2 Cash flow statement

The company, being a subsidiary undertaking where 90% or more of the voting rights are controlled within the group whose consolidated financial statements are publicly available, is exempt from the requirement to draw up a cash flow statement in accordance with FRS 1.

1.3 Turnover

Turnover comprises revenue recognised by the company in respect of goods and services supplied during the year, exclusive of Value Added Tax and trade discounts.

1.4 Intangible fixed assets and amortisation

Goodwill is the difference between amounts paid on the acquisition of a business and the fair value of the identifiable assets and liabilities. It is amortised to the Profit and loss account over its estimated economic life.

1.5 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost of fixed assets, less their estimated residual value, over their expected useful lives on the following bases:

Plant and machinery, fixtures and fittings	-	1 to 25 years
Rolling stock	-	up to 35 years

1.6 Operating leases

Rentals under operating leases are charged to the Profit and loss account on a straight line basis over the lease term.

1.7 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.

**Notes to the financial statements
for the year ended 31 December 2012**

1. ACCOUNTING POLICIES (continued)

1.8 Deferred taxation

Full provision is made for deferred tax assets and liabilities arising from all timing differences between the recognition of gains and losses in the financial statements and recognition in the tax computation

A net deferred tax asset is recognised only if it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

Deferred tax assets and liabilities are calculated at the tax rates expected to be effective at the time the timing differences are expected to reverse

Deferred tax assets and liabilities are not discounted

1.9 Pensions

Certain employees of Arriva Trains Wales/Trenau Arriva Cymru Limited participate in funded defined benefit schemes, which form part of the overall Railways Pension Scheme ('RPS') Employees also participate in a defined contribution scheme operated by the intermediate parent company, Arriva Plc

The liability 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, together with adjustments for unrecognised past service costs The deficit disclosed for the RPS represents 60 per cent of the full liability 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 expects to fund or recover over the life of the franchise is recognised

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 profit and loss account as required The return on scheme assets and interest obligation on scheme liabilities comprise a pension finance adjustment which is included in interest Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are credited or charged to reserves in the period they arise

Contributions payable under defined contribution schemes are charged to the profit and loss account as they arise

1.10 Capital grants

Capital grants are credited to deferred income on the balance sheet and released to the profit and loss account over the estimated useful economic lives of the related assets

1.11 Dividends

Dividend distributions to the company's shareholders are recognised in the company's financial statements in the period in which the dividends are paid

ARRIVA TRAINS WALES/TRENAU ARRIVA CYMRU LIMITED

Notes to the financial statements
for the year ended 31 December 2012

2. **TURNOVER**

An analysis of turnover by class of business is as follows

	2012 £000	2011 £000
Passenger income	114,945	104,778
Franchise payments	147,522	141,022
Other income	24,743	26,602
	<u>287,210</u>	<u>272,402</u>

All turnover arose and related to activities within the United Kingdom

The turnover was derived from the company's principal activity and includes £22,263,000 of Rail Passenger Partnership Funding (2011 £18,467,000)

3. **OPERATING PROFIT**

The operating profit is stated after charging

	2012 £000	2011 £000
Amortisation - intangible fixed assets	800	800
Depreciation of tangible fixed assets		
- owned by the company	3,244	3,226
Operating lease rentals		
- track access charges payable	52,863	48,740
- land and buildings	14,437	12,142
	<u></u>	<u></u>

During the year the company incurred rolling stock charges amounting to £40,176,000 (2011 £38,654,000) and had fixed asset grant amortisation of £1,724,000 (2011 £1,462,000) The company also made a loss on disposal of fixed assets of £305,000 (2011 - £Nil)

4. **AUDITORS' REMUNERATION**

	2012 £000	2011 £000
Fees payable to the company's auditor for the audit of the company's financial statements	8	8

ARRIVA TRAINS WALES/TRENAU ARRIVA CYMRU LIMITED

**Notes to the financial statements
for the year ended 31 December 2012**

5. STAFF COSTS

Staff costs, including directors' remuneration, were as follows

	2012 £000	2011 £000
Wages and salaries	76,404	71,735
Social security costs	5,996	5,719
Other pension costs	7,166	5,613
	<u>89,566</u>	<u>83,067</u>

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

	2012 Number	2011 Number
Drivers	603	612
Engineering	216	212
Administration	292	284
Operations	891	890
	<u>2,002</u>	<u>1,998</u>

6. DIRECTORS' EMOLUMENTS

	2012 £000	2011 £000
Aggregate emoluments	<u>905</u>	<u>926</u>
Company pension contributions to defined benefit pension schemes	<u>72</u>	<u>100</u>

During the year retirement benefits were accruing to 7 directors (2011 - 8) in respect of defined contribution pension schemes

The highest paid director received remuneration of £299,000 (2011 - £293,000) of which £5,000 (2011 - £24,000) was in respect of defined benefit pension scheme contributions. Benefits are accruing under a defined benefit pension scheme and, at the year end, the accrued pension relating to the highest paid director amounted to £Nil (2011 - £75,986)

7. INTEREST RECEIVABLE AND SIMILAR INCOME

	2012 £000	2011 £000
Bank interest receivable	<u>526</u>	<u>479</u>

ARRIVA TRAINS WALES/TRENAU ARRIVA CYMRU LIMITED

**Notes to the financial statements
for the year ended 31 December 2012**

8. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2012 £000	2011 £000
Analysis of tax in the year		
Current tax		
UK corporation tax charge on profit for the year	4,445	5,897
Adjustments in respect of prior years	236	(193)
Total current tax	4,681	5,704
Deferred tax		
Origination and reversal of timing differences	132	333
Adjustments in respect of prior years	146	(347)
Total deferred tax (see note 15)	278	(14)
Total tax on profit on ordinary activities	4,959	5,690

Factors affecting tax charge for the year

The tax assessed for the year is higher than (2011 - lower than) the standard rate of corporation tax in the UK of 24.5% (2011 - 26.5%) The differences are explained below

	2012 £000	2011 £000
Profit on ordinary activities before tax	18,567	23,373
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 24.5% (2011 - 26.5%)	4,549	6,194
Effects of:		
Capital allowances for year less than/(in excess of) depreciation	59	(53)
Adjustments in respect of prior years	236	(193)
Other short term timing differences	(163)	(244)
Current tax charge for the year (see note above)	4,681	5,704

Factors that may affect future tax charges

During 2012 the Chancellor announced that the UK Corporation Tax rate applicable from 1 April 2013 would be 23%, and that the UK Corporation Tax rate applicable from 1 April 2014 would be 21%

On 20 March 2013 the Chancellor made a further announcement that the UK Corporation Tax rate applicable from 1 April 2015 would be 20%

ARRIVA TRAINS WALES/TRENAU ARRIVA CYMRU LIMITED

**Notes to the financial statements
for the year ended 31 December 2012**

9. INTANGIBLE ASSETS

	Intangibles £000
Cost	
At 1 January 2012 and 31 December 2012	<u>12,000</u>
Accumulated amortisation	
At 1 January 2012	6,400
Charge for the year	800
At 31 December 2012	<u>7,200</u>
Net book value	
At 31 December 2012	<u>4,800</u>
At 31 December 2011	<u>5,600</u>

Intangible assets relate to the right to operate the Arriva Trains Wales Franchise

10. TANGIBLE FIXED ASSETS

	Plant and machinery, fixtures and fittings £000	Rolling stock £000	Total £000
Cost			
At 1 January 2012	30,619	6,316	36,935
Additions	2,060	4,351	6,411
Disposals	(2,348)	-	(2,348)
At 31 December 2012	<u>30,331</u>	<u>10,667</u>	<u>40,998</u>
Accumulated depreciation			
At 1 January 2012	18,505	1,248	19,753
Charge for the year	2,178	1,066	3,244
On disposals	(2,043)	-	(2,043)
At 31 December 2012	<u>18,640</u>	<u>2,314</u>	<u>20,954</u>
Net book value			
At 31 December 2012	<u>11,691</u>	<u>8,353</u>	<u>20,044</u>
At 31 December 2011	<u>12,114</u>	<u>5,068</u>	<u>17,182</u>

ARRIVA TRAINS WALES/TRENAU ARRIVA CYMRU LIMITED

**Notes to the financial statements
for the year ended 31 December 2012**

11. STOCKS

	2012	2011
	£000	£000
Raw materials and consumables	1,403	1,395

12. DEBTORS

	2012	2011
	£000	£000
Trade debtors	14,993	15,111
Amounts owed by group undertakings	128	448
Other debtors	2,000	2,127
Prepayments and accrued income	8,267	9,425
Deferred tax asset (see note 15)	326	440
	25,714	27,551

13. CREDITORS:

Amounts falling due within one year

	2012	2011
	£000	£000
Trade creditors	12,258	13,367
Amounts owed to group undertakings	745	678
Corporation tax	4,445	5,897
Other taxation and social security	3,079	2,895
Other creditors	4,949	4,554
Accruals and deferred income	51,972	40,203
	77,448	67,594

14. CREDITORS:

Amounts falling due after more than one year

	2012	2011
	£000	£000
Other creditors	34	41
Accruals and deferred income	14,739	14,578
	14,773	14,619

ARRIVA TRAINS WALES/TRENAU ARRIVA CYMRU LIMITED

**Notes to the financial statements
for the year ended 31 December 2012**

15. DEFERRED TAX ASSET

	2012 £000	2011 £000
At 1 January	440	182
Profit and loss account movement during the year	(114)	258
At 31 December	326	440

The deferred tax asset is made up as follows

	2012 £000	2011 £000
Accounting depreciation in excess of capital allowances	156	275
Short term timing differences	170	165
	326	440

	2012 £000	2011 £000
The movement in deferred tax balance, including deferred tax balance on pension liability, during the year was		
Accounting depreciation in excess of capital allowances	156	275
Other timing differences	170	165
Deferred tax asset excluding that relating to pension liability	326	440
Deferred tax relating to pension liability	2,831	2,309
Total deferred tax asset	3,157	2,749

The movement in the deferred tax balance during the year was		£000
At 1 January 2012		2,749
Deferred tax charged to the profit and loss account (see note 8)		(278)
Deferred tax credited to the statement of total recognised gains and losses		686
At 31 December 2012		3,157

16. CALLED UP SHARE CAPITAL

	2012 £000	2011 £000
Authorised, allotted and fully paid		
5,000,000 Ordinary shares of £1 each (2011 5,000,000)	5,000	5,000

ARRIVA TRAINS WALES/TRENAU ARRIVA CYMRU LIMITED

**Notes to the financial statements
for the year ended 31 December 2012**

17. RESERVES

	Profit and loss account £000
At 1 January 2012	12,237
Profit for the financial year	13,608
Dividends	(16,000)
Deferred tax attributable to actuarial loss/rate change	686
Actuarial loss on pension scheme	(3,734)
	6,797
At 31 December 2012	6,797

18. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2012 £000	2011 £000
Opening shareholders' funds	17,237	14,949
Profit for the financial year	13,608	17,683
Dividends (Note 19)	(16,000)	(15,000)
Actuarial loss on pension scheme (net of deferred tax)	(3,048)	(395)
	11,797	17,237
Closing shareholders' funds	11,797	17,237

19. DIVIDENDS

	2012 £000	2011 £000
Dividends paid on equity capital	16,000	15,000
	16,000	15,000

20. PENSION COMMITMENTS

Certain employees of Arriva Trains Wales/Trenau Arriva Cymru 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 FRS 17 'Retirement benefits' as the company has no rights or obligations in respect of the scheme following the expiry of the franchise. This is accounted for by way of a franchise adjustment, which increased from £20,044,200 at 31 December 2011 to £37,413,600 at 31 December 2012.

The calculations used to assess the FRS 17 'Retirement benefits' liabilities of the company's sections of the RPS are based on the most recent actuarial valuations, updated by qualified independent actuaries to 31 December 2012. The scheme's assets are stated at their market value at 31 December 2012.

ARRIVA TRAINS WALES/TRENAU ARRIVA CYMRU LIMITED

**Notes to the financial statements
for the year ended 31 December 2012**

20. PENSION COMMITMENTS (continued)

The following financial assumptions have been made

	2012	2011	2010	2009
	%	%	%	%
Rate of increase in salaries	3.5	4.0	4.5	4.5
Rate of increase in pensions in payments	2.1	2.0	3.1	3.1
Rate of increase in deferred pensions	2.1	2.0	3.5	3.5
Discount rate	4.4	5.0	5.3	5.7
Inflation assumption	2.8	3.0	3.5	3.5

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

		2012	2011
		Years	Years
Member age 65 (current life expectancy)	- male	17	17
	- female	19	19
Member age 45 (life expectancy at age 65)	- male	18	18
	- female	20	20

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

	2012		2011		2010	
	Long-term rate of return expected	Value	Long-term rate of return expected	Value	Long-term rate of return expected	Value
	%	£000	%	£000	%	£000
Equities	6.70	164,424	6.80	152,748	8.00	148,160
Bonds	4.50	9,135	4.60	8,125	5.10	7,800
Other	5.90	9,134	4.25	1,625	6.60	-
Total market value of assets		<u>182,693</u>		<u>162,498</u>		<u>155,960</u>
Present value of scheme liabilities		<u>(265,561)</u>		<u>(211,300)</u>		<u>(242,687)</u>
Deficit in the scheme		<u>(82,868)</u>		<u>(48,802)</u>		<u>(86,727)</u>
Deficit relating to scheme members		33,147		19,521		34,691
Rail franchise adjustment		<u>37,414</u>		<u>20,044</u>		<u>42,162</u>
Related deferred tax asset		<u>(12,307)</u>		<u>(9,237)</u>		<u>(9,874)</u>
		<u>2,831</u>		<u>2,309</u>		<u>2,666</u>
Net pension deficit		<u><u>(9,476)</u></u>		<u><u>(6,928)</u></u>		<u><u>(7,208)</u></u>

The deficit disclosed for the RPS represents 60 per cent of the full liability 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

The directors' assessment of the expected returns is based on historical return trends, the forward looking views of financial markets (suggested by the yields available) and the views of investment organisations

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**Notes to the financial statements
for the year ended 31 December 2012**

20. PENSION COMMITMENTS (continued)

Analysis of the amount charged to operating profit

	2012	2011
	£000	£000
Current service cost	(7,166)	(7,797)
Past service cost	-	-
Total operating charge	(7,166)	(7,797)

Analysis of the amount charged to other finance income

	2012	2011
	£000	£000
Expected return on assets in the scheme	6,500	7,440
Interest on liabilities	(6,600)	(7,274)
Interest on rail franchise adjustment	1,000	2,200
Other finance income	900	2,366

Analysis of the amount recognised in the statement of total recognised gains and losses

	2012	2011
	£000	£000
Difference between expected and actual return on assets	1,297	(7,326)
Effect of changing the financial assumptions	(21,401)	31,362
Rail franchise adjustment	16,370	(24,318)
Actuarial loss	(3,734)	(282)

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

	2012	2011
	£000	£000
At 1 January	(211,300)	(242,687)
Current service cost	(7,166)	(7,797)
Members contributions paid	(4,169)	(4,798)
Interest cost*	(11,000)	(12,123)
Benefits paid	3,900	4,800
Actuarial (loss)/gain	(35,826)	51,305
At 31 December	(265,561)	(211,300)

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

	2012	2011
	£000	£000
At 1 January	162,498	155,960
Expected return on plan assets*	10,833	12,400
Total contributions	11,100	11,148
Benefits paid	(3,900)	(4,800)
Actuarial gain/(loss)	2,162	(12,210)
At 31 December	182,693	162,498

The actual gain on plan assets* was £12,995,000 (2011 gain of £190,000)

* Before RPS shared cost adjustment

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**Notes to the financial statements
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20. PENSION COMMITMENTS (continued)

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 profit and loss account and the statement of recognised gains and losses include 60 per cent of the relevant RPS amounts.

Cumulative actuarial gains and losses recognised in equity

	2012	2011
	£000	£000
At 1 January	413	695
Actuarial loss recognised in the year	(3,734)	(282)
At 1 December	(3,321)	413

History of experience gains and losses

	2012	2011	2010
Experience adjustments on scheme assets			
- Amounts (£000)	1,297	(7,326)	3,036
- Percentage of scheme assets (%)	1.2	7.5	3.2
Experience adjustments on scheme liabilities			
- Amounts (£000)	5,880	7,612	(720)
- Percentage of scheme liabilities (%)	2.2	6.0	0.5

The company expects to make contributions of approximately £7.1 million to the defined benefit scheme during the next financial year.

21. OPERATING LEASE COMMITMENTS

The company had annual commitments under non-cancellable operating leases as follows:

	Land and buildings		Other	
	2012	2011	2012	2011
	£000	£000	£000	£000
Expiry date:				
Within 1 year	7	7	-	-
After more than 5 years	13,191	12,827	108,353	92,110

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**Notes to the financial statements
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22. ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY

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 Trains Wales/Trenau Arriva Cymru Limited. Copies of these accounts can be obtained from Potsdamer Platz 2, 10785 Berlin.

Deutsche Bahn AG is the largest group to consolidate the financial statements and DB Mobility Logistics AG is the smallest.

Information on Arriva Trains Wales/Trenau Arriva Cymru Limited can be found at their registered address St Mary's House, 47 Penarth Road, Cardiff, CF10 5DJ.

Transactions and balances with other companies in the Deutsche Bahn Group are not specifically disclosed as the company has taken advantage of the exemption available under FRS 8 'Related party disclosures' for wholly-owned subsidiaries.