4337645

ARRIVA TRAINS WALES/TRENAU ARRIVA CYMRU LIMITED

Annual report and financial statements

for the year ended 31 December 2011

Company Information

Directors	R W Holland D C J Applegarth A Furlong T S Bell I P Bullock M D Bagshaw D H Baker P North L M Milligan R W Phillips
Company secretary	E A Thorpe
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

Contents

Directors' report
for the year ended 31 December 2011

The directors present their report and the audited financial statements for the year ended 31 December 2011

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 2011 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 financial year, after taxation, amounted to £17,683,000 (2010 - £12,621,000)

The company paid a dividend of £15,000,000 during the year (2010 £11,000,000)

Directors

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

R W Holland
D C J Applegarth
A Furlong
T S Bell
I P Bullock
M D Bagshaw
D H Baker
P J Leppard (resigned 1 January 2012)
P North
L M Milligan
R W Phillips (appointed 21 November 2011)

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 2011

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 2011 the company's trade creditors outstanding represented approximately 32 days' purchases (2010 56 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 2011

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

Statement of directors' responsibilities

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 judgments 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 26 April 2012 and signed on its behalf

E A Thorpe
Company Secretary

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

We have audited the financial statements of Arriva Trains Wales/Trenau Arriva Cymru Limited for the year ended 31 December 2011 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 statement of directors' responsibilities 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 2011 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

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

27 April 2012

Profit and loss account
for the year ended 31 December 2011

	Note	2011 £000	2010 £000
TURNOVER	1,2	**272,402**	258,363
Cost of sales		**(234,831)**	(225,548)
GROSS PROFIT		**37,571**	32,815
Administrative expenses		**(17,043)**	(17,478)
OPERATING PROFIT	3	**20,528**	15,337
Interest receivable and similar income	7	**479**	572
Other finance income	20	**2,366**	1,600
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		**23,373**	17,509
Tax on profit on ordinary activities	8	**(5,690)**	(4,888)
PROFIT FOR THE FINANCIAL YEAR	17	**17,683**	12,621

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 22 form part of these financial statements

Statement of total recognised gains and losses for the year ended 31 December 2011

	Note	2011 £000	2010 £000
PROFIT FOR THE FINANCIAL YEAR		**17,683**	12,621
Deferred tax attributable to actuarial loss/rate change	20	**(113)**	1,107
Actuarial loss on pension scheme	20	**(282)**	(4,307)
TOTAL RECOGNISED GAINS AND LOSSES RELATING TO THE YEAR		**17,288**	9,421

The notes on pages 9 to 22 form part of these financial statements

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

Balance sheet
as at 31 December 2011

	Note	£000	2011 £000	£000	2010 £000
FIXED ASSETS					
Intangible assets	9		**5,600**		6,400
Tangible assets	10		**17,182**		15,876
			22,782		22,276
CURRENT ASSETS					
Stocks	11	**1,395**		1,389	
Debtors	12	**27,551**		28,125	
Cash at bank		**54,650**		54,749	
		83,596		84,263	
CREDITORS: amounts falling due within one year	13	**(67,594)**		(76,042)	
NET CURRENT ASSETS			**16,002**		8,221
TOTAL ASSETS LESS CURRENT LIABILITIES			**38,784**		30,497
CREDITORS: amounts falling due after more than one year	14		**(14,619)**		(8,340)
Pension deficit	20		**(6,928)**		(7,208)
NET ASSETS			**17,237**		14,949
CAPITAL AND RESERVES					
Called up share capital	16		**5,000**		5,000
Profit and loss account	17		**12,237**		9,949
TOTAL SHAREHOLDERS' FUNDS	18		**17,237**		14,949

The financial statements were approved and authorised for issue by the Board of directors and were signed on its behalf on 26 April 2012

R W Phillips
Director

The notes on pages 9 to 22 form part of these financial statements

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 is a wholly-owned subsidiary of Deutsche Bahn AG and the ultimate parent company has prepared a group cash flow statement Accordingly, under Financial Reporting Standard 1 (Revised 1996) 'Cash Flow Statements', the company is exempt from preparing a cash flow statement

1.3 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 profit and loss account over the period of the relevant season ticket

Franchise payments relate to amounts receivable from the Welsh Assembly Government and 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 profit and loss account on an accruals basis

1.4 Intangible fixed assets and amortisation

Intangible assets relate to the right to operate the Arriva Trains Wales 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 15 years, that being the life of the franchise agreement

1.5 Tangible fixed assets and depreciation

Tangible fixed assets are stated at historic purchase 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 Depreciation is provided on a straight-line basis 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. ACCOUNTING POLICIES (continued)

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

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. ACCOUNTING POLICIES (continued)

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

2. TURNOVER

An analysis of turnover by class of business is as follows

	2011 £000	2010 £000
Passenger income	104,778	95,515
Franchise payments	141,022	136,901
Other income	26,602	25,947
	272,402	258,363

All turnover arose and related to activities within the United Kingdom

The turnover was derived from the company's principal activity and includes £18,467,000 of Rail Passenger Partnership Funding (2010 £16,474,000)

3. OPERATING PROFIT

The operating profit is stated after charging

	2011 £000	2010 £000
Amortisation - intangible fixed assets	800	800
Depreciation of tangible fixed assets		
- owned by the company	3,226	3,039
Operating lease rentals		
- track access charges payable	48,740	47,884
- land and buildings	12,142	12,335

During the year the company incurred rolling stock charges amounting to £38,654,000 (2010 £36,650,000) and had fixed asset grant amortisation of £1,462,000 (2010 £1,186,000)

Notes to the financial statements
for the year ended 31 December 2011

4. AUDITORS' REMUNERATION

	2011 £000	2010 £000
Fees payable to the company's auditor for the audit of the company's financial statements	8	9
Fees payable to the company's auditor and its associates in respect of All other services	8	121

5. STAFF COSTS

Staff costs, including directors' remuneration, were as follows

	2011 £000	2010 £000
Wages and salaries	71,735	68,313
Social security costs	5,719	4,808
Other pension costs	5,613	5,120
	83,067	78,241

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

	2011 Number	2010 Number
Drivers	612	619
Engineering	212	210
Administration	284	284
Operations	890	896
	1,998	2,009

6. DIRECTORS' EMOLUMENTS

	2011 £000	2010 £000
Aggregate emoluments	926	816
Company pension contributions to defined benefit pension schemes	100	86

During the year retirement benefits were accruing to 8 directors (2010 - 7) in respect of defined benefit pension schemes

The highest paid director received remuneration of £293,000 (2010 £201,000) of which £24,000 (2010 £19,000) 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 £75,986 (2010 £62,466)

Notes to the financial statements for the year ended 31 December 2011

7. INTEREST RECEIVABLE AND SIMILAR INCOME

	2011 £000	2010 £000
Bank interest receivable	479	572

8. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2011 £000	2010 £000
Analysis of tax in the year		
Current tax		
UK corporation tax charge on profit for the year	5,897	4,896
Adjustments in respect of prior years	(193)	(41)
Total current tax	5,704	4,855
Deferred tax		
Origination and reversal of timing differences	333	12
Adjustments in respect of prior years	(347)	21
Total deferred tax (see note 15)	(14)	33
Total tax on profit on ordinary activities	5,690	4,888

Factors affecting tax charge for the year

The tax assessed for the year is lower than (2010 - lower than) the standard rate of corporation tax in the UK of 26 5% (2010 - 28%) The differences are explained below

	2011 £000	2010 £000
Profit on ordinary activities before taxation	23,373	17,509
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 26 5% (2010 - 28%)	6,194	4,903
Effects of:		
Capital allowances for year (in excess of)/less than depreciation	(53)	248
Adjustments in respect of prior years	(193)	(41)
Other short term timing differences	(244)	(254)
Other	-	(1)
Current tax charge for the year (see note above)	5,704	4,855

Notes to the financial statements for the year ended 31 December 2011

8. TAX ON PROFIT ON ORDINARY ACTIVITIES (continued)

Factors that may affect future tax charges

On 21 March 2012 the Chancellor announced that the UK Corporation Tax rate applicable from 1 April 2012 would be 24% (as opposed to 25% which was substantively enacted on 5 July 2011) and that the previously announced reductions of 1% per annum would result in the UK Corporation Tax rate reducing to 22% (as opposed to 23%) with effect from 1 April 2014

9. INTANGIBLE ASSETS

	Intangibles £000
Cost	
At 1 January 2011 and 31 December 2011	**12,000**
Accumulated amortisation	
At 1 January 2011	**5,600**
Charge for the year	**800**
At 31 December 2011	**6,400**
Net book value	
At 31 December 2011	**5,600**
At 31 December 2010	6,400

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

Notes to the financial statements
for the year ended 31 December 2011

10. TANGIBLE FIXED ASSETS

	Plant and machinery, fixtures and fittings £000	Rolling stock £000	Total £000
Cost			
At 1 January 2011	29,660	2,743	32,403
Additions	959	3,573	4,532
At 31 December 2011	30,619	6,316	36,935
Accumulated depreciation			
At 1 January 2011	15,801	726	16,527
Charge for the year	2,704	522	3,226
At 31 December 2011	18,505	1,248	19,753
Net book value			
At 31 December 2011	12,114	5,068	17,182
At 31 December 2010	13,859	2,017	15,876

11. STOCKS

	2011 £000	2010 £000
Raw materials and consumables	1,395	1,389

12. DEBTORS

	2011 £000	2010 £000
Trade debtors	15,111	13,584
Amounts owed by group undertakings	448	99
Other debtors	2,127	2,227
Prepayments and accrued income	9,425	12,033
Deferred tax asset (see note 15)	440	182
	27,551	28,125

13. CREDITORS:
Amounts falling due within one year

	2011 £000	2010 £000
Trade creditors	13,367	23,067
Amounts owed to group undertakings	678	4,166
Corporation tax	5,897	4,896
Social security and other taxes	2,895	2,483
Other creditors	4,554	4,014
Accruals and deferred income	40,203	37,416
	67,594	76,042

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

	2011 £000	2010 £000
Other creditors	41	-
Accruals and deferred income	14,578	8,340
	14,619	8,340

15. DEFERRED TAX ASSET

	2011 £000	2010 £000
At 1 January 2011	182	(22)
Profit and loss account movement during the year	258	204
At 31 December 2011	440	182

15. DEFERRED TAX ASSET (continued)

The deferred tax asset is made up as follows

	2011 £000	2010 £000
Capital allowances less than depreciation	275	(22)
Short term timing differences	165	204
	440	182

The movement in deferred tax balance, including deferred tax balance on pension liability,during the year was	2011 £000	2010 £000
Accelerated capital allowances	275	(22)
Other timing differences	165	204
Deferred tax asset excluding that relating to pension liabilty	440	182
Deferred tax relating to pension liability	2,309	2,666
Total deferred tax asset	2,749	2,848

The movement in the deferred tax balance during the year was	Total £000
At 1 January 2011	2,848
Deferred tax credited to the profit and loss account (see note 8)	14
Deferred tax charged to the statement of total recognised gains and losses	(113)
At 31 December 2011	2,749

16. CALLED UP SHARE CAPITAL

	2011 £000	2010 £000
Authorised, allotted and fully paid		
5,000,000 Ordinary shares of £1 each (2010 5,000,000)	5,000	5,000

17. RESERVES

	Profit and loss account £000
At 1 January 2011	9,949
Profit for the financial year	17,683
Dividends	(15,000)
Deferred tax attributable to actuarial loss/rate change	(113)
Actuarial loss on pension scheme	(282)
At 31 December 2011	12,237

18. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2011 £000	2010 £000
Opening shareholders' funds	14,949	16,528
Profit for the financial year	17,683	12,621
Dividends (Note 19)	(15,000)	(11,000)
Actuarial loss on pension scheme (net of deferred tax)	(395)	(3,200)
Closing shareholders' funds	17,237	14,949

19. DIVIDENDS

	2011 £000	2010 £000
Dividends paid on equity capital	15,000	11,000

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 decreased from £42,162,000 at 31 December 2010 to £20,044,200 at 31 December 2011

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 2011 The scheme's assets are stated at their market value at 31 December 2011

20. PENSION COMMITMENTS (continued)

The following financial assumptions have been made.

	2011	2010	2009	2008
	%	%	%	%
Rate of increase in salaries	**4.0**	4 5	4 5	3 8
Rate of increase in pensions in payments	**2.0**	3 1	3 1	2 7
Rate of increase in deferred pensions	**2.0**	3 5	3 5	2 8
Discount rate	**5.0**	5 3	5 7	6 6
Inflation assumption	**3.0**	3 5	3 5	2 8

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

		2011	2010
		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

	2011		2010		2009	
	Long-term rate of return expected	Value	Long-term rate of return expected	Value	Long-term rate of return expected	
	%	£000	%	£000	%	£000
Equities	**6.80**	**152,748**	8 00	148,160	8 25	111,900
Bonds	**4.60**	**8,125**	5 10	7,800	5 90	13,600
Other	**4.25**	**1,625**	6 60	-	6 50	10,900
Total market value of assets		**162,498**		155,960		136,400
Present value of scheme liabilities		**(211,300)**		(242,687)		(196,115)
Deficit in the scheme		**(48,802)**		(86,727)		(59,715)
Deficit relating to scheme members		**19,521**		34,691		23,900
Rail franchise adjustment		**20,044**		42,162		29,340
		(9,237)		(9,874)		(6,475)
Related deferred tax asset		**2,309**		2,666		1,813
Net pension deficit		**(6,928)**		(7,208)		(4,662)

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

20. PENSION COMMITMENTS (continued)

Analysis of the amount charged to operating profit	2011	2010
	£000	£000
Current service cost	(7,797)	(6,766)
Past service cost	-	-
Total operating charge	(7,797)	(6,766)

Analysis of the amount charged to other finance income	2011	2010
	£000	£000
Expected return on assets in the scheme	7,440	6,720
Interest on liabilities	(7,274)	(7,020)
Interest on rail franchise adjustment	2,200	1,900
Other finance income	2,366	1,600

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

	2011	2010
	£000	£000
Difference between expected and actual return on assets	(7,326)	3,036
Effect of changing the financial assumptions	31,362	(18,265)
Rail franchise adjustment	(24,318)	10,922
Actuarial loss	(282)	(4,307)

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

	2011	2010
	£000	£000
At 1 January	(242,687)	(196,115)
Current service cost	(7,797)	(6,766)
Members contributions paid	(4,798)	(3,227)
Interest cost*	(12,123)	(11,700)
Benefits paid	4,800	6,000
Actuarial gain/(loss)*	51,305	(30,879)
At 31 December	(211,300)	(242,687)

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

	2011	2010
	£000	£000
At 1 January	155,960	136,400
Expected return on plan assets*	12,400	11,200
Total contributions	11,148	9,300
Benefits paid	(4,800)	(6,000)
Actuarial (loss)/gain*	(12,210)	5,060
At 31 December	162,498	155,960

The actual gain on plan assets* was £190,000 (2010 gain of £16,260,000)

* Before RPS shared cost adjustment

Notes to the financial statements
for the year ended 31 December 2011

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

	2011	2010
	£000	£000
At 1 January	**695**	3,612
Actuarial loss recognised in the year	**(282)**	(4,307)
At 31 December	**413**	(695)

History of experience gains and losses

	2011	2010	2009
Experience adjustments on scheme assets			
- Amounts (£000)	**(7,326)**	3,036	5,580
- Percentage of scheme assets (%)	**7.5**	3 2	6 8
Experience adjustments on scheme liabilities			
- Amounts (£000)	**7,612**	(720)	(240)
- Percentage of scheme liabilities (%)	**6.0**	0 5	0 2

The company expects to make contributions of approximately £6 8 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**
	2011	2010	**2011**	2010
	£000	£000	**£000**	£000
Expiry date:				
Within 1 year	**7**	7	**-**	-
After more than 5 years	**12,827**	11,450	**92,110**	86,295

22 DERIVATIVES

The company had fuel hedges in place throughout the year and the fair value of these as at 31 December 2011, which has not been recognised in these financial statements, was £NIL (2010 asset £2,028,000)

Notes to the financial statements
for the year ended 31 December 2011

23. 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