Registered number: 4402048

XC TRAINS LIMITED

Annual report and financial statements

For the Year Ended 31 December 2017

XC TRAINS LIMITED

Company Information

Directors	C D D Burchell A J Cooper M E C Hewitt J L Roberts A Furlong J MacPhail D P Lowe
Company secretary	L Edwards
Registered number	4402048
Registered office	1 Admiral Way Doxford International Business Park Sunderland Tyne and Wear SR3 3XP
INDEPENDENT AUDITORS	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors Central Square South Orchard Street Newcastle upon Tyne NE1 3AZ

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Strategic report
For the Year Ended 31 December 2017

The directors present their Strategic report for the year ended 31 December 2017.

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

REVIEW OF BUSINESS
The company is the franchisee for a passenger train franchise under a new franchise agreement where the company secured the right to continue to operate the New Cross Country franchise, on a Direct Award basis, effective from 16th October 2016.

On 15 October 2016, the term of the original New Cross Country franchise operated by the company, expired. The financial statements for 2017 therefore represent the first full calendar year of operation under the terms of the new franchise agreement.

Under the new franchise agreement, signed with Secretary of State for Transport on 28th September 2016, XC Trains Limited will operate the New Cross Country franchise until 12th October 2019 with the Department for Transport (DfT) retaining an option to extend the franchise term by a further year at their discretion.

The company's statement of comprehensive income on page 8 shows a profit on ordinary activities before taxation for the year of £28.6 million (2016: £15.1 million). The increase in profit before tax reflects both an improved trading performance and funding changes relating to the change in structure of the franchise terms under the new franchise agreement, partly offset by a £8.5 million one off past service gain recognised in 2016.

Passenger revenue for 2017 was £526.9 million, an increase of 5.5% on 2016, with passenger journeys increasing by around 1.9 million to 40 million journeys. However, overall turnover fell by £109.4 million in the year primarily due to the company no longer being entitled to receive revenue support under the new franchise agreement (2016 turnover included revenue support of £136.2 million).

The impact of the withdrawal of the revenue support is offset by a greater reduction in the premium payable to the DfT under the terms of the new franchise agreement and as a result, franchise payments for 2017 reduced by £152.4 million.

Rolling stock costs increased by £17.5 million due to the additional leasing of vehicles with further increases incurred for "58th Voyager" fleet costs, additional enhancement costs, fleet maintenance indexation, fleet improvement projects and depot upgrade works.

Administration costs increased by £1.8 million due to an increase in computer costs which included investment in network security, new servers and displays in meeting rooms together with the provision of handheld devices to frontline staff.

As at the balance sheet date the company had net assets of £34.6 million (2016: £34.0 million). The increase in net assets reflects the retained profits for the year, partially offset by the dividends paid in the year to Arriva UK Trains Limited and the reduction in the fair value of derivatives.

The company's funding position will allow it to deliver its planned operational improvement initiatives and to deliver its commitments under the new franchise agreement, none of which have a capital component, therefore the company has not planned for any capital investment in 2018.

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

Strategic report (continued)
For the Year Ended 31 December 2017

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 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 the 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 groups 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 XC Trains Limited. The development, performance and position of the group, including this company, is discussed in the Deutsche Bahn group's annual report which does not form part of this report.

FUTURE DEVELOPMENTS

The company anticipates a year on year increase in passenger revenue of around 4%, driven by fare increases in January of 3.6% for regulated fares and 4.6% for unregulated fares, and by prevailing economic conditions.

The terms of the new franchise agreement include a mechanism whereby the business may be entitled to receive payment from the DfT if the UK economy, as measured by GDP, grows at a slower rate than assumed in the Direct Award financial model. There is inherent uncertainty in this mechanism, but the directors expect to receive significant receipts due to this in 2018.

The company remains confident that it will trade in line with expectations in the future.

This report was approved by the board on 17 April 2018 and signed by order of the board.

J L Roberts
Director

Directors' report
For the Year Ended 31 December 2017

The directors present their report and the audited financial statements for the year ended 31 December 2017.

RESULTS AND DIVIDENDS

The profit for the financial year, after taxation, amounted to £23,080,000 *(2016: £12,056,000).*

The company paid a dividend during the year of £20,000,000 (2016: £22,000,000).

DIRECTORS

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

C D D Burchell
A J Cooper
J R C Higgins (resigned 7 July 2017)
D A Watkin (resigned 26 May 2017)
M E C Hewitt (appointed 17 October 2017)
J L Roberts
A Furlong
B J T Rule (resigned 13 October 2017)
J MacPhail (appointed 31 May 2017)
D P Lowe (appointed 20 April 2017)

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.

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.

MATTERS COVERED IN THE STRATEGIC REPORT

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

Directors' report
For the Year Ended 31 December 2017

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 prepared 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 17 April 2018 and signed by order of the board.

J L Roberts
Director

Independent auditors' report to the members of XC Trains Limited

Report on the audit of the financial statements

Opinion

In our opinion, XC Trains Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and financial statements (the "Annual Report"), which comprise: the balance sheet as at 31 December 2017; 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 XC Trains Limited

Reporting on other information

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

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

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

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

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Directors' Responsibilities Statement set out on page 4, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

Independent auditors' report to the members of XC Trains 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 April 2018

Statement of comprehensive income
For the Year Ended 31 December 2017

	Note	2017 £000	2016 £000
Turnover	4	533,796	643,163
Cost of sales		(489,074)	(622,991)
Gross profit		44,722	20,172
Administrative expenses		(16,311)	(14,509)
Exceptional items	5	-	8,500
Operating profit	6	28,411	14,163
Other finance income	7	-	676
Interest receivable and similar income	11	364	386
Interest payable and similar charges	12	(129)	(138)
Profit on ordinary activities before taxation		28,646	15,087
Taxation on profit on ordinary activities	13	(5,566)	(3,031)
Profit for the financial year		23,080	12,056
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Deferred tax attributable to actuarial movement/rate change	21	-	3,720
Actuarial loss related to pension scheme	24	-	(20,044)
		-	(16,324)
Items that may be reclassified to profit or loss:			
Changes in market value of cash flow hedges (Note 22)		(3,028)	18,391
Deferred tax attributable to changes in market value of cash flow hedges	21	515	(3,231)
		(2,513)	15,160
Total comprehensive income for the financial year		20,567	10,892

The notes on pages 12 to 34 form part of these financial statements.

Balance sheet
As at 31 December 2017

	Note		2017 £000		2016 £000
Fixed assets					
Intangible assets	15		-		-
Tangible assets	16		**601**		*700*
			601		*700*
Current assets					
Stocks	17	**187**		*195*	
Debtors: amounts due after one year	18	**2,116**		*5,046*	
Debtors: amounts due within one year	18	**38,333**		*36,560*	
Cash at bank and in hand		**90,922**		*80,241*	
		131,558		*122,042*	
Creditors: amounts due within one year	19	**(97,302)**		*(88,011)*	
Net current assets			**34,256**		*34,031*
Total assets less current liabilities			**34,857**		*34,731*
Creditors: amounts due after more than one year	20		**(165)**		-
Provisions for liabilities					
Deferred taxation	21	**(96)**		*(702)*	
			(96)		*(702)*
Net assets			**34,596**		*34,029*
Capital and reserves					
Called up share capital	23		**22,500**		*22,500*
Cash flow hedge reserve			**4,030**		*6,543*
Profit and loss account			**8,066**		*4,986*
Total shareholders' funds			**34,596**		*34,029*

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 17 April 2018.

J L Roberts
Director

The notes on pages 12 to 34 form part of these financial statements.

Statement of changes in equity
For the Year Ended 31 December 2017

	Called up share capital £000	Cash flow hedge reserve £000	Profit and loss account £000	Total shareholders' funds £000
At 1 January 2017	22,500	6,543	4,986	34,029
Comprehensive income for the year				
Profit for the financial year	-	-	23,080	23,080
Changes in market value of cash flow hedges	-	(3,028)	-	(3,028)
Deferred tax attributable to changes in market value of cash flow hedges	-	515	-	515
Other comprehensive expense for the financial year	-	(2,513)	-	(2,513)
Total comprehensive (expense) / income for the financial year	-	(2,513)	23,080	20,567
Contributions by and distributions to shareholders				
Dividends paid (Note 14)	-	-	(20,000)	(20,000)
At 31 December 2017	22,500	4,030	8,066	34,596

The notes on pages 12 to 34 form part of these financial statements.

Statement of changes in equity
For the Year Ended 31 December 2016

	Called up share capital £000	Cash flow hedge reserve £000	Profit and loss account £000	Total shareholders' funds £000
At 1 January 2016	22,500	(8,617)	31,254	45,137
Comprehensive income for the year				
Profit for the financial year	-	-	12,056	12,056
Deferred tax attributable to actuarial movements/rate change	-	-	3,720	3,720
Actuarial loss related to pension scheme	-	-	(20,044)	(20,044)
Changes in market value of cash flow hedges	-	18,391	-	18,391
Deferred tax attributable to changes in market value of cash flow hedges	-	(3,231)	-	(3,231)
Other comprehensive income / (expense) for the financial year	-	15,160	(16,324)	(1,164)
Total comprehensive income / (expense) for the financial year	-	15,160	(4,268)	10,892
Contributions by and distributions to shareholders				
Dividends paid (Note 14)	-	-	(22,000)	(22,000)
At 31 December 2016	22,500	6,543	4,986	34,029

The notes on pages 12 to 34 form part of these financial statements.

1. ACCOUNTING POLICIES

1.1 BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The financial statements have been prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101) and the Companies Act 2006. The principal accounting policies adopted in the preparation of the financial statements are set out below and have been consistently applied to all years, unless otherwise stated. The financial statements have been prepared on the going concern basis under the historic cost convention, as modified by the revaluation of derivative financial assets and financial liabilities measured at fair value through cash flow hedge reserves, and in accordance with the Companies Act 2006.

1.2 TURNOVER

(a) Turnover - Passenger Rail

Turnover represents consideration received for passenger transport services with such 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 in relation to 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.

(b) Revenue support

Under the terms of the original New Cross Country franchise agreement the company was entitled to revenue support which it continued to receive until the end of the original extended franchise term on 15th October 2016. Revenue support income was recognised in the statement of comprehensive income on an accruals basis.

(c) Other income

Other income is derived from commissions, catering revenue, and other services excluding value added tax. It is recognised in the statement of comprehensive income on an accruals basis, within the period for which the entitlement to the flow of income was created and can be reliably measured.

1. ACCOUNTING POLICIES (continued)

1.3 INTANGIBLE FIXED ASSETS

Intangible assets relate to the right to operate the Cross Country 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 the life of the franchise agreement. The franchise commencement date was 11 November 2007 and the franchise ended on 15 October 2016 following a seven month extension to the original end date. Prior to this the business was invited by the Department for Transport (DfT) to submit a proposal to continue to operate the franchise for a further term on a Direct Award basis.

Following a period of clarification and negotiation, an extension to the franchise was secured. Under the new franchise agreement, signed on 28 September 2016, XC Trains Limited will continue to operate the New Cross Country franchise for a further three years until 12 October 2019 with the DfT retaining an option to extend this term for a further year at their discretion.

1.4 TANGIBLE FIXED ASSETS

Tangible fixed assets are stated at historical 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 a straight line basis to write off the cost of fixed assets, less their estimated residual value, over their expected useful lives.

Depreciation is provided on the following bases:

Plant and machinery, fixtures and fittings	2 to 8 years

1.5 OPERATING LEASES

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

1.6 STOCKS

Stocks are valued at the lower of cost, 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. ACCOUNTING POLICIES (continued)

1.7 DEBTORS

Trade and other debtors are initially measured at fair value. In general, this is equivalent to the costs of purchase. 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 polices 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.

1.8 PENSIONS

Certain employees of XC Trains Limited participate in funded defined benefit schemes, which form part of the overall Railways Pension Scheme (RPS).

The amounts 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 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 balance disclosed for the RPS represents 60 per cent of the full balance of the relevant sections of the RPS, in accordance with trustee guidelines which detail 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 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 return on scheme assets and interest obligation on scheme liabilities are included in other finance income. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are credited or charged to reserves in the period they arise.

From 16th October 2016, XC Trains Ltd began operating the franchise under a Direct Award for a three year period until 12th October 2019. As a result, the company has introduced a franchise adjustment through the statement of comprehensive income, in line with industry practice.

1. ACCOUNTING POLICIES (continued)

1.9 DIVIDENDS

Dividends are recognised in the company's financial statements in the period in which the dividends are paid to the shareholder.

1.10 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.

1.11 DERIVATIVES AND HEDGING ACTIVITIES

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 with 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 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)

1.13 FINANCIAL REPORTING STANDARD 101 - REDUCED DISCLOSURE EXEMPTIONS

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

- the requirements of IFRS 7 Financial Instruments: Disclosures
- the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement
  - paragraph 79(a)(iv) of IAS 1;
  - paragraph 73(e) of IAS 16 Property, Plant and Equipment;
  - paragraph 118(e) of IAS 38 Intangible Assets;
- the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134-136 of IAS 1 Presentation of Financial Statements
- the requirements of IAS 7 Statement of Cash Flows
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- the requirements of paragraph 17 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 company is a qualifying entity for the purpose of FRS 101 and Note 26 gives details of the company's ultimate parent and from where its consolidated financial statements, prepared in accordance with IFRS, may be obtained.

FRS 101 sets out a reduced disclosure framework for a "qualifying entity" as defined in the standard which permits a qualifying entity to apply the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRS 5"), 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".

Notes to the financial statements
For the Year Ended 31 December 2017

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.

1.15 EXCEPTIONAL ITEMS

Exceptional items are transactions that fall within the ordinary activities of the company but are presented separately due to their size or incidence.

2. JUDGEMENTS IN APPLYING ACCOUNTING POLICIES AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.
Application of certain company accounting policies required management to make judgements, assumptions and estimates concerning the future as detailed below.

2.1 Useful economic lives of tangible 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 re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets. See Note 16 for the carrying amount of the tangible fixed assets and Note 1.4 for the useful economic lives for each class of assets.

2.2 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 17 for the carrying amount of the stock.

2.3 Impairment of debtors

The company make an estimate of the recoverable value of trade and other debtors. When assessing impairment of trade and other debtors, management considers factors including the credit rating of the receivable, the ageing profile of debtors and historical experience. See Note 18 for the carrying amount of debtors.

2.4 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, salary increase, asset valuations and the discount rate on corporate bonds. Management estimate these factors in determining the net pensions obligation in the balance sheet. The assumptions reflect historical experience and current trends. See Note 24 for the disclosures of the defined benefit pension scheme.

2.5 Accruals and deferred income

The company recognise accrued expenses within the financial statements. They are calculated at the cost the company expect to be paid in future periods, based on reliable evidence available at the time the financial statements are prepared.
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.

2.6 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.

3. GENERAL INFORMATION

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

The registered company number is 4402048 and the address of the registered office is 1 Admiral Way, Doxford International Business Park, Sunderland, SR3 3XP.

4. TURNOVER

An analysis of turnover by class of business is as follows:

	2017 £000	2016 £000
Passenger income	526,858	499,341
Revenue support	-	136,211
Other income	6,938	7,611
	533,796	643,163

All turnover arose within the United Kingdom.

5. EXCEPTIONAL ITEMS

	2017 £000	2016 £000
Past service gain (Note 24)	-	8,500
	-	8,500

During 2016, industry wide benefit changes were agreed to take account of the fact that the RPS would no longer be contracted out from April 2016. The introduction of a pensionable pay cap has resulted in a past service gain being recognised in 2016 of £8.5m.

6. OPERATING PROFIT

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

	2017 £000	*2016 £000*
Depreciation of tangible fixed assets - owned	**409**	*1,116*
Capital grants released during the year	**(351)**	*-*
Amortisation of intangible fixed assets	**-**	*913*
Operating lease rentals		
- rolling stock/track access/maintenance	**207,956**	*186,325*
- land and buildings	**1,775**	*654*

7. OTHER FINANCE INCOME

	2017 £000	*2016 £000*
Interest income on plan assets	**5,732**	*6,339*
Interest on liabilities	**(9,228)**	*(8,922)*
Interest on rail franchise adjustment	**3,496**	*3,259*
	-	*676*

8. AUDITORS' REMUNERATION

The company paid the following amounts to its auditors in respect of the audit of the financial statements and for other services provided to the company:

	2017 £000	*2016 £000*
Fees payable to the company's auditors for the audit of the company's financial statements	**38**	*68*
Other fees payable	**16**	*8*

9. STAFF COSTS

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

	2017 £000	*2016 £000*
Wages and salaries	**81,710**	*80,072*
Social security costs	**9,205**	*8,208*
Other pension costs (Note 24)	**6,797**	*10,639*
	97,712	*98,919*

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

	2017 Number	*2016 Number*
Drivers, train crew and operations	**1,721**	*1,683*
Administration	**90**	*88*
	1,811	*1,771*

10. DIRECTORS' EMOLUMENTS

	2017 £000	*2016 £000*
Aggregate emoluments	**901**	*982*
Company pension contributions to defined benefit pension schemes	**49**	*57*
	950	*1,039*

During the year retirement benefits were accruing to 6 directors *(2016 - 6)* in respect of defined benefits pension schemes.

The highest paid director received remuneration of £305,000 *(2016 - £295,000).*

The value of the company's contributions paid to a defined benefit pension scheme in respect of the highest paid director amounted to £NIL *(2016 - £NIL).*

During the year, compensation for loss of office was paid to former directors totalling £63,776 (2016: £Nil).

Notes to the financial statements
For the Year Ended 31 December 2017

11. INTEREST RECEIVABLE AND SIMILAR INCOME

	2017 £000	*2016 £000*
Bank interest receivable	**364**	*386*
	364	*386*

12. INTEREST PAYABLE AND SIMILAR CHARGES

	2017 £000	*2016 £000*
Other interest payable and similar charges	**129**	*138*
	129	*138*

13. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

	2017 £000	*2016 £000*
Corporation tax		
Current tax on profits for the financial year	**5,407**	*1,911*
Adjustments in respect of prior years	**250**	*(27)*
Total current tax	**5,657**	*1,884*
Deferred tax		
Origination and reversal of timing differences	**95**	*1,146*
Adjustments in respect of prior years	**(186)**	*1*
Total deferred tax (Note 21)	**(91)**	*1,147*
Total taxation on profit on ordinary activities	**5,566**	*3,031*

13. TAXATION ON PROFIT ON ORDINARY ACTIVITIES (continued)

Factors affecting tax charge for the year

The tax assessed for the year is higher than *(2016 - higher than)* the standard rate of corporation tax in the UK of 19.25% *(2016 - 20%)*. The differences are explained below:

	2017 £000	*2016* *£000*
Profit on ordinary activities before taxation	**28,646**	*15,087*
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.25% (2016 : 20%)	**5,514**	*3,017*
Effects of:		
Adjustments in respect of prior years	**64**	*(26)*
Impact of rate change on deferred tax	**(12)**	*40*
Total tax charge for the year	**5,566**	*3,031*

Factors that may affect future tax charges

On 8 July 2015, the Chancellor announced that the main rate of UK Corporation Tax would reduce from 20% to 19% from 1 April 2017. This change was enacted on 26 October 2015.

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

14. DIVIDENDS

	2017 £000	*2016* *£000*
Dividends paid on ordinary shares	**20,000**	*22,000*
	20,000	*22,000*

15. INTANGIBLE ASSETS

	Intangibles £000
Cost	
At 1 January 2017	**11,959**
At 31 December 2017	**11,959**
Accumulated amortisation	
At 1 January 2017	**11,959**
At 31 December 2017	**11,959**
Net book value	
At 31 December 2017 and 31 December 2016	**-**

Intangibles relate to the right to operate the Cross Country rail franchise.

16. TANGIBLE ASSETS

	Plant and machinery, fixtures and fittings £000
Cost	
At 1 January 2017	**18,987**
Additions	**310**
Disposals	**(18,287)**
At 31 December 2017	**1,010**
Accumulated depreciation	
At 1 January 2017	**18,287**
Charge for the year	**409**
Disposals	**(18,287)**
At 31 December 2017	**409**
Net book value	
At 31 December 2017	**601**
At 31 December 2016	*700*

17. STOCKS

	2017 £000	2016 £000
Finished goods and goods for resale	**187**	*195*
	187	*195*

18. DEBTORS

	2017 £000	2016 £000
Amounts due after one year		
Derivative financial instruments (Note 22)	**2,116**	*5,046*
	2,116	*5,046*

	2017 £000	2016 £000
Amounts due within one year		
Trade debtors	**13,436**	*20,147*
Amounts owed by group undertakings	**297**	*387*
Other debtors	**8,733**	*6,996*
Prepayments and accrued income	**13,128**	*6,193*
Derivative financial instruments (Note 22)	**2,739**	*2,837*
	38,333	*36,560*

19. CREDITORS: Amounts due within one year

	2017 £000	*2016 £000*
Trade creditors	**43,185**	*45,954*
Amounts owed to group undertakings	**6,757**	*4,125*
Corporation tax	**5,407**	*1,911*
Taxation and social security	**2,553**	*1,821*
Other creditors	**4,031**	*3,754*
Accruals and deferred income	**35,369**	*30,446*
	97,302	*88,011*

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

	2017 £000	*2016 £000*
Accruals and deferred income	**165**	-
	165	-

21. DEFERRED TAXATION

	2017 £000	*2016 £000*
At 1 January	**702**	*44*
(Credited) / charged to comprehensive income (Note 13)	**(91)**	*1,147*
Credited to other comprehensive income	**(515)**	*(489)*
At 31 December	**96**	*702*

The provision for deferred taxation is made up as follows:

	2017 £000	*2016 £000*
Accounting depreciation in excess of capital allowances	**(653)**	*(600)*
Short term timing differences	**(76)**	*(38)*
Derivative financial instruments	**825**	*1,340*
	96	*702*

22. DERIVATIVE FINANCIAL INSTRUMENTS

The cash flow hedges are valued on a market 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 hedged 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 (2016 : £Nil).

The amounts recognised within the financial statements are as follows:

	2017 £000	2016 £000
Energy price hedging		
Debtors : amounts due after one year	2,116	5,046
Debtors : amounts due within one year	2,739	2,837
	4,855	7,883

23. CALLED UP SHARE CAPITAL

	2017 £000	2016 £000
Authorised		
25,000,000 Ordinary shares of £1 each (2016: 25,000,000)	25,000	25,000
Allotted, called up and fully paid		
22,500,002 Ordinary shares of £1 each (2016: 22,500,002)	22,500	22,500

24. PENSION COMMITMENTS

Certain employees of XC Trains 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. This is accounted for by way of a franchise adjustment, which increased from £128,259,000 at 31 December 2016 to £135,229,000 at 31 December 2017.

From 16th October 2016, XC Trains Ltd began operating the franchise under a Direct Award for a 3 year period until 12th October 2019. As a result, the company recognises a franchise adjustment through the statement of comprehensive income, in line with industry practice.

The calculations used to assess the IAS 19 'Employee 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 2017. The scheme's assets are stated at their market value at 31 December 2017.

The following financial assumptions have been used:

	2017	2016
	%	%
Rate of increase in salaries	3.6	3.6
Rate of increase in pensions in payment	2.3	2.3
Rate of increase in deferred pensions	2.3	2.3
Discount rate	2.6	2.8
Inflation assumption	3.3	3.3

24. PENSION COMMITMENTS (continued)

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

		2017 Years	2016 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

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:

	2017 Value £000	2016 Value £000
Equities	342,323	297,997
Bonds	-	-
Other	38,077	40,417
Total market value of assets	380,400	338,414
Present value of scheme liabilities	(605,781)	(552,179)
Deficit in the scheme	(225,381)	(213,765)
Deficit relating to scheme members	90,152	85,506
Rail franchise adjustment	135,229	128,259
Net pension balance	-	-

The balance 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.

24. PENSION COMMITMENTS (continued)

Analysis of the amount (charged) / credited to operating profit:

	2017	*2016*
	£000	*£000*
Current service cost	**(14,270)**	*(11,060)*
Pension administration costs	**(536)**	*(464)*
Franchise adjustment	**8,009**	*870*
Past service gain (Note 5)	**-**	*8,500*
Total operating charge	**(6,797)**	*(2,154)*

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

	2017	*2016*
	£000	*£000*
Interest income on plan assets	**5,732**	*6,339*
Interest on liabilities	**(9,228)**	*(8,922)*
Interest on rail franchise adjustment	**3,496**	*3,259*
Other finance income	**-**	*676*

Analysis of the amount recognised in other comprehensive income:

	2017	*2016*
	£000	*£000*
Difference between expected and actual return on assets	**17,881**	*24,410*
Effect of changing the actuarial assumptions	**(21,355)**	*(81,360)*
Rail franchise adjustment	**3,474**	*36,906*
Actuarial loss	**-**	*(20,044)*

24. PENSION COMMITMENTS (continued)

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

	2017 £000	*2016 £000*
At start of year	**(552,179)**	*(404,764)*
Current service cost	**(14,270)**	*(10,190)*
Members contributions paid	**(3,951)**	*(4,697)*
Interest cost*	**(15,380)**	*(14,870)*
Benefits paid	**7,223**	*5,788*
Past service gain (Note 5)	**-**	*8,500*
Franchise adjustment	**8,009**	*-*
Actuarial loss*	**(35,233)**	*(131,946)*
At end of year	**(605,781)**	*(552,179)*

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

	2017 £000	*2016 £000*
At start of year	**338,414**	*281,949*
Interest income on plan assets*	**9,553**	*10,565*
Employer contributions paid	**6,797**	*7,117*
Member contributions paid	**3,951**	*4,697*
Benefits paid	**(7,223)**	*(5,788)*
Return on plan assets (excluding interest)*	**29,801**	*40,647*
Administration expenses*	**(893)**	*(773)*
At end of year	**380,400**	*338,414*

The actual gain on plan assets* was £39,354,000 (2016 : £51,212,000).

*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 other comprehensive income include 60 per cent of the relevant RPS amounts.

24. PENSION COMMITMENTS (continued)

Cumulative actuarial gains and losses recognised in equity:

	2017	*2016*
	£000	*£000*
At start of year	**2,977**	*23,021*
Actuarial loss recognised in the year	**-**	*(20,044)*
At end of year	**2,977**	*2,977*

History of experience gains and losses:

	2017	2016
Experience adjustments on scheme assets:		
- Amounts (£000)	17,881	24,388
- Percentage of scheme assets (%)	7.8	12.0
Experience adjustments on scheme liabilities:		
- Amounts (£000)	(15,041)	(48,108)
- Percentage of scheme liabilities (%)	4.1	14.5

The company expects to contribute £7.1 million to its defined benefit pension scheme in 2018. Contributions are paid to the scheme at rates determined in conjunction with the actuaries and trustees as part of the actuarial valuation process.

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

	2017	2016
	£000	£000
Calculated with +1% discount rate	107,862	107,862
Calculated with -1% discount rate	(135,506)	(135,506)
Calculated with +1% inflation rate	(133,634)	(133,634)
Calculated with -1% inflation rate	108,540	108,540
Calculated with +0.5% compensation increase	(27,547)	(27,547)
Calculated with +0.5% pension increase rate	(37,512)	(37,512)
Calculated with increased expectation of life of 1 year	(14,927)	(14,927)

At 31 December 2017, the weighted average duration/maturity of the defined benefit obligation was 23 years.

25. OPERATING LEASE COMMITMENTS

At 31 December 2017 the company had future minimum lease payments under non-cancellable operating leases as follows:

	2017 £000	*2016 £000*
Land and Buildings		
Less than 1 year	**951**	*1,248*
Later than 1 year and not later than 5 years	**776**	*2,107*
Total land and buildings commitments	**1,727**	*3,355*
Other		
Not later than 1 year	**99,708**	*80,841*
Later than 1 year not later than 5 years	**83,424**	*183,393*
Total other commitments	**183,132**	*264,234*

Track Access Charges
The company has contracts with Network Rail for access to the railway infrastructure. These contracts are in place until the end of the franchise.

Maintenance on train stock
The company has contracts in place until the end of the franchise to perform maintenance works at agreed intervals.

26. 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 financial statements incorporating the results of XC Trains Limited. Copies of these financial statements can be obtained from Potsdamer Platz 2, 10785 Berlin.

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

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 IAS 24 'Related Party disclosures' for wholly-owned subsidiaries.