

**Strategic report (continued)
for the year ended 31 March 2023**

Principal risks and uncertainties (continued)

Breach of concession

The company is required to comply with certain conditions as part of its concession agreement. If it fails to comply with these conditions it may be liable to penalties or the potential termination of the concession. Compliance with concession conditions are closely managed to minimise the risk of non-compliance.

Further discussion of these risks and uncertainties in the context of the group as a whole, is provided in the annual report of Arriva plc which does not form part of this report.

Financial key performance indicators

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

Section 172 statement

Section 172 of the Companies Act 2006 requires a director of a company to act in the way he or she considers, in good faith, would most likely promote the success of the company for the benefit of its members as a whole. In doing this, section 172 requires a director to have regard to (amongst other matters):

- the likely consequences of any decisions in the long-term;
- the interests of the company's employees;
- the need to foster the company's business relationships with suppliers, customers and others;
- the impact of the company's operations on the community and environment;
- the desirability of the company maintaining a reputation for high standards of business conduct; and
- the need to act fairly as between members of the company.

The directors of the company have regard to their Section 172 obligations and work to promote the success of the company, by considering the impact that their decisions may have on the company, along with the company's stakeholders. The issues and factors which have guided the directors' decisions are outlined in the 'Review of business' and the 'Principal Risks and Uncertainties' sections of this report.

The directors of the Company promote good governance, which is key to driving the success of the company. The company has its own Delegation of Authority Policy for key decision, which is aligned and sits below the Arriva group Scheme of Delegation. The Company's Delegation of Authority Policy ensures that decisions are made at the right level within the Company and that the correct governance constraints are applied.

During the last two years, the Arriva group has worked on facilitating a comprehensive review of the Arriva group, called Project Revitalise; a series of programmes aimed at building a stronger, more competitive Arriva group. The object of the project was to ensure that the purpose of the business was clearly promoted, and that the Arriva group's values, strategy and culture were all aligned, and that the Arriva group continued to meet the needs of its customers, clients and society as a whole.

As part of Project Revitalise, the Arriva group embarked on a review of its vision, mission, purpose and strategic plan, which also included a review of the organisational values. This process included using support from an external business partner, and employees from all parts of the Arriva group were engaged. The aim of the process was to build a strategic plan that would provide the Arriva group with both objectives and direction for the next three to five years. This included developing a new set of Values and Behaviours that could be used to help the company effectively execute the Arriva group's strategy.

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for the year ended 31 March 2023**

Section 172 statement (continued)

The implementation of the strategy and policies of the company, including those relating to its relationships with key stakeholders, are managed by the Management Board of the Company, which includes directors from the Arriva UK Trains Leadership team as well as the company's statutory directors. Any major matters of interest are then communicated to the Arriva Management Board (the "AMB"), a subcommittee of the board of Arriva plc. The membership of the AMB includes the Managing Director of the Arriva UK Trains division.

The directors of the company aim to meet quarterly in each financial year to discuss the matters that cannot be delegated under the Companies Act 2006. The role of the company's board of directors (the Board) is to be collectively responsible for the company's long-term sustainable success, providing strategic leadership, direction and governance within a framework of effective controls. The Board recognises that it is accountable to its stakeholders for ensuring that the company is appropriately managed and achieves its objectives in a way that is supported by the right culture and behaviours.

During the financial year ended 31 March 2023, the company has and continues to engage with Transport for London (TfL), customers and customer groups to ensure a positive customer experience. Regular dialogue with TfL is maintained through periodic meetings, which is an effective way to share customer insights and initiatives. For further details please see the 'Engagement with suppliers, customers and others' section of the Directors' report.

The company takes payment practice commitments to suppliers seriously and seeks prompt payment of invoices (in line with Arriva group's policies) and a clear process in the event of any invoice dispute. The company believes that prompt payment of invoices is key to facilitating a good relationship with suppliers.

Arriva is committed to the communities that it serves. At Arriva group, an Internal Communications and Engagement Director has oversight of strategic commitments for Corporate Social Responsibility which forms part of the wider business strategy for the group.

Within its individual business functions, Arriva encourages staff to volunteer for, and support, charities and projects in the local community. Business functions align this work in a manner that fits best with their structure and that maximises the benefit that the company can deliver to its communities.

Further information on engagement with employees during the financial year ending 31 March 2023, including monitoring how the company is performing against the Arriva group's strategy in relation to employees, is provided in the 'Employee engagement' section of the Directors' report.

Further information on engagement with customers during the financial year ending 31 March 2023 is provided in the 'Engagement with suppliers, customers and others' section of the Directors' report.

Future developments and going concern

The company, as with other railway operators, has experienced a significant reduction in passenger numbers on its network following the implementation of the UK Government's measures to mitigate the public health impacts of the COVID 19 pandemic. Since pandemic measures have now been eased in England, passenger numbers have returned closer to pre-pandemic levels in 2023.

As the company's income is predominantly receivable from TfL by way of fixed concession payments, the decrease in passenger numbers and journeys did not directly impact the payments receivable under its concession agreement. However, receipt of contractually due payments under this agreement (which runs to April 2024, with an extension granted to 03 May 2026) is ultimately dependent on the financial position of TfL.

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Future developments and going concern (continued)

A long-term TfL funding settlement has been agreed between TfL and the Department for Transport ('DfT') and was announced on 30 August 2022. This long-term funding settlement follows four previous emergency and temporary funding packages put into place since March 2020, and will remain in effect until 31 March 2024, or until TfL and the DfT agree that TfL has reached financial sustainability if sooner. Under the terms of the funding settlement, TfL will be protected from passenger revenue risk, with the DfT providing financial support to fund shortfalls between TfL's costs and revenue up to an agreed annual envelope of operational and capital expenditure. The agreement reflects the DfT's recognition that London's transport network is reliant on fare revenue and their commitment to supporting that network by mitigating the loss of fare revenue as a result of the pandemic.

The timing of completion of TfL's path to financial sustainability and whether TfL would require additional support beyond 31 March 2024 remains unclear. However, the Secretary of State for Transport publicly stated in the 30 August 2022 funding announcement that the DfT recognises that TfL has long-term financial commitments beyond the funding period. The Secretary of State for Transport also noted that TfL is not expected to fund major capital enhancements or renewals from its operating incomes and that further capital funding support from the DfT beyond 31 March 2024 may be required should TfL not be able to fund such spending from its own resources.

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

Following the year end the company continues to invest with the aim to achieving its vision "To be the industry leader for our people and our customers".

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

As set out in the ultimate parent company Deutsche Bahn AG (DB) 31 December 2022 annual report, DB plans to divest the Arriva group which could result in a change in ownership of the company within 12 months of the date of approval of these financial statements. Should a change in ownership occur, the directors are unable to assess or control all scenarios for the company's future, including the intent and ability of any future owner to provide funding to the company.

The directors therefore acknowledge that this factor represents a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. The directors have prepared the financial statements on a going concern basis as they have a reasonable expectation that the company will continue to have access to adequate financial and other resources to continue to operate for the foreseeable future. The financial statements do not contain the adjustments that would arise if the company were unable to continue as a going concern.

This report was approved by the board on 5 September 2023 and signed on its behalf.



S I Best
Director