

## 1. Segmental reporting

### Primary reporting format - business segments

year ended 31 December 2008

	UK Bus £m	Mainland Europe £m	UK Trains £m	Central £m	Total operations £m
<b>Revenue</b>	<b>922.4</b>	<b>1,282.0</b>	<b>837.8</b>	<b>-</b>	<b>3,042.2</b>
EBITDA	159.8	151.4	37.6	(18.4)	330.4
Depreciation	(60.5)	(81.8)	(3.9)	(0.4)	(146.6)
<b>Operating profit*</b>	<b>99.3</b>	<b>69.6</b>	<b>33.7</b>	<b>(18.8)</b>	<b>183.8</b>
Goodwill impairment and intangible asset amortisation	-	(9.8)	(2.2)	-	(12.0)
<b>Group operating profit</b>	<b>99.3</b>	<b>59.8</b>	<b>31.5</b>	<b>(18.8)</b>	<b>171.8</b>
Share of post tax profits from associates	-	4.4	-	-	4.4
Net finance costs					(26.2)
<b>Profit on ordinary activities before taxation</b>					<b>150.0</b>
Tax on profit on ordinary activities					(38.8)
<b>Profit for the year</b>					<b>111.2</b>
Profit attributable to minority interests					(6.7)
<b>Net profit attributable to equity shareholders</b>					<b>104.5</b>

\* Before goodwill impairment and intangible asset amortisation

(a) Included above is £41.8 million of revenue and £3.9 million of operating profit, before goodwill impairment and intangible asset amortisation, relating to the acquisitions made by the Mainland Europe division during the year. There is £49.0 million of revenue and £2.1 million of operating profit relating to acquisitions made by the UK Bus division and £0.8 million of revenue and £nil operating profit relating to acquisitions made by the UK Trains division.

(b) Tax on profit on ordinary activities includes an exceptional deferred tax charge of £7.7 million relating to the abolition of Industrial Buildings Allowances in the UK.

(c) Revenue for UK Trains includes franchise agreement receipts amounting to £402.9 million.

## Primary reporting format - business segments

year ended 31 December 2007

	UK Bus £m	Mainland Europe £m	UK Trains £m	Central £m	Total operations £m
<b>Revenue</b>	<b>814.7</b>	<b>863.6</b>	<b>322.4</b>	-	<b>2,000.7</b>
EBITDA	144.2	111.0	10.7	(16.7)	249.2
Depreciation	(56.3)	(53.9)	(3.2)	(0.4)	(113.8)
<b>Operating profit*</b>	<b>87.9</b>	<b>57.1</b>	<b>7.5</b>	<b>(17.1)</b>	<b>135.4</b>
Goodwill impairment and intangible asset amortisation	-	(6.4)	(1.0)	-	(7.4)
<b>Group operating profit</b>	<b>87.9</b>	<b>50.7</b>	<b>6.5</b>	<b>(17.1)</b>	<b>128.0</b>
Share of post tax profits from associates	-	4.3	-	-	4.3
Net finance costs					(16.5)
<b>Profit on ordinary activities before taxation</b>					<b>115.8</b>
Tax on profit on ordinary activities					(25.8)
<b>Profit for the year</b>					<b>90.0</b>
Profit attributable to minority interests					(3.6)
<b>Net profit attributable to equity shareholders</b>					<b>86.4</b>

\* Before goodwill impairment and intangible asset amortisation

(a) Included above is £113.0 million of revenue and £2.7 million of operating profit, before goodwill impairment and intangible asset amortisation, relating to the acquisitions made by the Mainland Europe division during the year. There is £1.3 million of revenue and £0.1 million operating loss relating to acquisitions made by the UK Bus division.

(b) Revenue for UK Trains includes franchise agreement receipts amounting to £182.5 million.

## 1. Segmental reporting (continued)

### Primary reporting format - business segments

year ended 31 December 2008

	UK Bus £m	Mainland Europe £m	UK Trains £m	Central £m	Group £m
Segment assets	715.4	1,771.1	126.3	15.4	2,628.2
Investment in equity accounted associates	2.0	139.9	-	-	141.9
Unallocated assets:					
- Cash and cash equivalents					147.7
- Derivative financial instruments					61.8
<b>Total assets</b>	<b>717.4</b>	<b>1,911.0</b>	<b>126.3</b>	<b>15.4</b>	<b>2,979.6</b>
Segment liabilities	(265.3)	(605.0)	(173.4)	(71.8)	(1,115.5)
Unallocated liabilities:					
- Corporate borrowings					(971.1)
- Derivative financial instruments					(182.8)
- Deferred tax on derivative financial instruments					8.0
<b>Total liabilities</b>	<b>(265.3)</b>	<b>(605.0)</b>	<b>(173.4)</b>	<b>(71.8)</b>	<b>(2,261.4)</b>
<b>Net assets</b>					<b>718.2</b>
<b>Other segment items</b>					
Capital expenditure:					
- Property, plant and equipment existing businesses	87.1	164.6	11.6	0.5	263.8
- Property, plant and equipment acquisitions	22.3	47.6	0.2	-	70.1

year ended 31 December 2007

	UK Bus £m	Mainland Europe £m	UK Trains £m	Central £m	Group £m
Segment assets	642.1	1,163.8	114.3	17.0	1,937.2
Investment in equity accounted associates	-	63.6	-	-	63.6
Unallocated assets:					
- Cash and cash equivalents					95.7
- Derivative financial instruments					61.4
<b>Total assets</b>	<b>642.1</b>	<b>1,227.4</b>	<b>114.3</b>	<b>17.0</b>	<b>2,157.9</b>
Segment liabilities	(222.4)	(448.9)	(132.5)	(34.7)	(838.5)
Unallocated liabilities:					
- Corporate borrowings					(544.2)
- Derivative financial instruments					(23.1)
- Deferred tax on derivative financial instruments					(18.1)
<b>Total liabilities</b>	<b>(222.4)</b>	<b>(448.9)</b>	<b>(132.5)</b>	<b>(34.7)</b>	<b>(1,423.9)</b>
<b>Net assets</b>					<b>734.0</b>
<b>Other segment items</b>					
Capital expenditure:					
- Property, plant and equipment existing businesses	45.4	178.1	8.9	0.2	232.6
- Property, plant and equipment acquisitions	0.9	97.5	-	-	98.4

## Secondary reporting format - geographical segments

The group's operations are located in the UK and mainland Europe. The UK is the home country of the parent.

	Revenue		Segment assets		Capital expenditure	
	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m
UK	1,760.2	1,137.1	857.1	773.4	99.2	54.5
Mainland Europe	1,282.0	863.6	1,771.1	1,163.8	164.6	178.1
	<b>3,042.2</b>	<b>2,000.7</b>	<b>2,628.2</b>	<b>1,937.2</b>	<b>263.8</b>	<b>232.6</b>
Investments in equity accounted associates			141.9	63.6	-	-
Unallocated assets:						
- Cash and cash equivalents			147.7	95.7	-	-
- Derivative financial instruments			61.8	61.4	-	-
			<b>2,979.6</b>	<b>2,157.9</b>	<b>263.8</b>	<b>232.6</b>

## 2. Net finance costs

	2008 £m	2007 £m
Finance costs:		
- Interest payable on bank and other borrowings repayable within five years	24.9	15.6
- Interest payable on bank and other borrowings repayable after five years	1.9	0.8
Finance lease charges	7.6	5.3
Hire purchase charges	1.3	1.5
Interest payable and similar charges	<b>35.7</b>	<b>23.2</b>
Finance income:		
- Interest receivable on other financing items	(9.5)	(6.7)
Net finance costs	<b>26.2</b>	<b>16.5</b>

### 3. Profit on ordinary activities before taxation

	2008	2007
(a) Net operating expenses (analysis by function):	£m	£m
Operating costs	2,549.6	1,629.6
Administrative expenses	320.8	243.1
	<b>2,870.4</b>	<b>1,872.7</b>

	2008	2007
(b) The following items have been included in arriving at operating profit (analysis by nature):	£m	£m
Staff costs	1,256.1	977.0
Depreciation of property, plant and equipment	146.6	113.8
Amortisation of intangible assets	9.5	5.6
Impairment of goodwill	2.5	1.8
Profit on disposal of properties	(3.7)	(3.2)
Operating lease rentals payable:		
- Plant and equipment	547.4	172.7
- Property	20.3	15.9
Repairs and maintenance expenditure on property, plant and equipment	15.0	13.3

	2008	2007
During the year the group (including its overseas subsidiaries) obtained the following services from the group's auditors and network firms as detailed below:	£m	£m
Remuneration payable to the company's auditors for the auditing of the annual accounts	0.4	0.4
The auditing of accounts of subsidiaries of the company pursuant to legislation (countries and territories outside Great Britain)	0.9	0.5
Services relating to taxation	0.3	0.1
All other services	0.2	0.5
	<b>1.8</b>	<b>1.5</b>

Included in the group's audit fees and expenses paid to the auditors is £0.1 million (2007: £0.1 million) in respect of the parent company.

### 4. Employee information

	2008	2007
(a) Average number of employees by business:	Number	Number
UK Bus	19,243	18,014
UK Trains	3,797	2,373
Mainland Europe	17,312	14,662
	<b>40,352</b>	<b>35,049</b>
Central	135	134
Total operations	<b>40,487</b>	<b>35,183</b>

	2008	2007
(b) Staff costs (including executive directors):	£m	£m
Wages and salaries	1,086.0	840.0
Social security costs	122.5	92.9
Pension costs (note 20)	47.6	44.1
	<b>1,256.1</b>	<b>977.0</b>

Key management personnel are considered to be the directors and their remuneration is disclosed within the directors' remuneration report which forms part of these financial statements.

## 5. Taxation

	2008 £m	2007 £m
<b>Analysis of charge in the year</b>		
Current tax	12.2	26.0
Deferred tax	18.9	(0.2)
Exceptional deferred tax charge	7.7	-
<b>Taxation</b>	<b>38.8</b>	<b>25.8</b>

The exceptional deferred tax charge is due to the abolition of Industrial Buildings Allowances in the UK.

	2008 £m	2007 £m
<b>Tax on items (credited)/charged to equity</b>		
Current tax credit on exchange movements offset in reserves	(16.2)	(2.7)
Deferred tax (credit)/charge on cross currency swaps	(3.2)	0.7
Deferred tax (credit)/charge on cash flow hedges	(22.9)	18.3
Deferred tax (credit)/charge on actuarial (losses)/gains on defined benefit schemes	(14.6)	28.9
Deferred tax credit on other items	(0.5)	-
Current tax credit on share option schemes	-	(0.5)
<b>Total tax on items (credited)/charged to equity</b>	<b>(57.4)</b>	<b>44.7</b>

The tax for the year is lower (2007: lower) than the standard rate of corporation tax in the UK of 28.5 per cent (2007: 30 per cent).

The differences are explained below:

	2008 £m	2007 £m
Profit on ordinary activities before taxation	150.0	115.8
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 28.5 per cent (2007: 30 per cent)	42.8	34.7
Effects of:		
- Adjustments to tax in respect of prior years	(12.4)	(7.5)
- Income not subject to tax	(0.8)	(0.7)
- Expenses not deductible for tax purposes	3.8	2.4
- Utilisation of previously unrecognised tax losses	(7.4)	(1.3)
- Tax losses arising where no deferred tax asset has been recognised	2.0	0.1
- Different tax rates of subsidiaries operating in other jurisdictions	4.3	3.6
- Results from associated undertakings	(1.2)	(1.3)
- Abolition of Industrial Buildings Allowances in the UK	7.7	-
- Remeasurement of deferred tax - change in UK tax rate	-	(3.0)
- Remeasurement of deferred tax - change in German tax rate	-	(1.2)
<b>Total taxation</b>	<b>38.8</b>	<b>25.8</b>

## 6. Dividends

	2008 £m	2007 £m
Final dividend paid for the year ended 31 December 2007 of 17.06 pence (2007: final dividend paid for the year ended 31 December 2006 of 15.51 pence) per share	33.9	30.8
Interim dividend paid for the year ended 31 December 2008 of 6.15 pence (2007: interim dividend paid for the year ended 31 December 2007 of 5.59 pence) per share	12.2	11.1
<b>Amounts recognised as distributions to equity holders in the year</b>	<b>46.1</b>	<b>41.9</b>

The directors are proposing a final dividend in respect of the financial year ending 31 December 2008 of 17.91 pence per share which will absorb an estimated £35.6 million of shareholders' funds taking the total dividend for the year to 24.06 pence.

It will be paid on 1 May 2009 to shareholders who are on the Register of Members on 27 March 2009.

## 7. Earnings per share

	2008			2007		
	Per share p	Earnings £m	Shares m	Per share p	Earnings £m	Shares m
<b>(a) Basic and diluted earnings per share</b>						
Profit attributable to ordinary shareholders		104.5			86.4	
Weighted average number of shares			198.6			198.4
<b>Basic earnings per share</b>	<b>52.6</b>	<b>104.5</b>	<b>198.6</b>	<b>43.5</b>	<b>86.4</b>	<b>198.4</b>
Performance-based share option schemes:						
- Additional shares for earnings contingency			1.8			0.9
- Number of shares that would have been issued at fair value			(0.7)			(0.2)
<b>Diluted earnings per share</b>	<b>52.3</b>	<b>104.5</b>	<b>199.7</b>	<b>43.4</b>	<b>86.4</b>	<b>199.1</b>
<b>(b) Basic earnings per share before goodwill impairment, intangible asset amortisation and exceptional items</b>				<b>2008</b>	<b>2007</b>	
				<b>p</b>	<b>p</b>	
Basic earnings per share				52.6	43.5	
Earnings per share relating to:						
- Goodwill impairment and intangible asset amortisation				5.0	3.0	
- Exceptional deferred tax				3.9	-	
<b>Basic earnings per share before goodwill impairment, intangible asset amortisation and exceptional items</b>				<b>61.5</b>	<b>46.5</b>	

## 8. Goodwill

	2008 £m	2007 £m
<b>Cost</b>		
At 1 January	381.3	336.0
Additions (note 27b)	100.0	24.1
Hindsight adjustment (note 27c)	0.8	2.2
Currency translation adjustments	90.5	19.0
<b>At 31 December</b>	<b>572.6</b>	<b>381.3</b>
<b>Impairment</b>		
At 1 January	53.1	49.6
Impairment in the year	2.5	1.8
Currency translation adjustments	7.1	1.7
<b>At 31 December</b>	<b>62.7</b>	<b>53.1</b>
<b>Net book amount at 31 December</b>	<b>509.9</b>	<b>328.2</b>

Details of acquisitions in the year are shown in note 27. During the year, goodwill was reviewed for impairment in accordance with IAS36. For the purposes of this impairment review goodwill has been tested on the basis of discounted future cash flows arising in each relevant cash generating unit. Goodwill is allocated across multiple cash generating units and the amount allocated to each unit is not significant in comparison with the total carrying amount of goodwill.

## 9. Other intangible assets

	2008 £m	2007 £m
<b>Cost</b>		
At 1 January	63.0	47.8
Additions (note 27b)	29.5	12.0
Currency translation adjustments	19.1	3.2
<b>At 31 December</b>	<b>111.6</b>	<b>63.0</b>
<b>Amortisation</b>		
At 1 January	19.8	12.9
Amortisation for the year	9.5	5.6
Currency translation adjustments	6.6	1.3
<b>At 31 December</b>	<b>35.9</b>	<b>19.8</b>
<b>Net book amount at 31 December</b>	<b>75.7</b>	<b>43.2</b>

The addition of £29.5 million in the year is in respect of customer contracts recognised on the acquisition of De Blas.

All amortisation charges in the year have been charged through net operating expenses. Intangible assets relate to identifiable assets purchased as part of the group's business combinations, and the right to operate the Arriva Trains Wales and CrossCountry rail franchises. Intangible assets are amortised on a straight-line basis over their expected useful economic lives.

## 10. Property, plant and equipment

2008	Land & buildings £m	Plant, company vehicles, fixtures & fittings £m	Buses & coaches £m	Railway rolling stock £m	Total £m
<b>Cost</b>					
At 1 January 2008	341.0	228.1	1,281.2	156.5	2,006.8
Acquisitions	5.7	19.0	105.3	0.5	130.5
Additions	9.2	38.3	176.7	39.6	263.8
Disposals	(2.9)	(14.0)	(74.7)	(0.1)	(91.7)
Currency translation adjustments	62.0	50.7	208.8	57.1	378.6
<b>At 31 December 2008</b>	<b>415.0</b>	<b>322.1</b>	<b>1,697.3</b>	<b>253.6</b>	<b>2,688.0</b>
<b>Accumulated depreciation</b>					
At 1 January 2008	64.0	138.7	602.6	37.1	842.4
Acquisitions	-	12.5	47.5	0.4	60.4
Charge for the year	7.5	22.2	108.9	8.0	146.6
Disposals	(1.1)	(5.0)	(66.5)	(0.1)	(72.7)
Currency translation adjustments	17.5	32.5	88.2	13.2	151.4
<b>At 31 December 2008</b>	<b>87.9</b>	<b>200.9</b>	<b>780.7</b>	<b>58.6</b>	<b>1,128.1</b>
<b>Net book amounts</b>					
<b>At 31 December 2008</b>	<b>327.1</b>	<b>121.2</b>	<b>916.6</b>	<b>195.0</b>	<b>1,559.9</b>

The net book amount of assets held under hire purchase and finance lease contracts included in plant, company vehicles, buses and coaches is £358.7 million (2007: £277.0 million). The depreciation provided in the year in respect of these assets was £42.7 million (2007: £28.3 million). The gross cost of assets held for the purpose of letting under operating leases amounts to £15.3 million (2007: £15.3 million). The accumulated depreciation on these assets was £6.3 million (2007: £7.3 million).

2007	Land & buildings £m	Plant, company vehicles, fixtures & fittings £m	Buses & coaches £m	Railway rolling stock £m	Total £m
<b>Cost</b>					
At 1 January 2007	267.4	134.7	1,099.6	108.1	1,609.8
Acquisitions	49.8	55.3	99.9	13.5	218.5
Additions	14.5	31.3	93.9	92.9	232.6
Disposals	(5.9)	(4.2)	(59.3)	(70.5)	(139.9)
Currency translation adjustments	15.2	11.0	47.1	12.5	85.8
<b>At 31 December 2007</b>	<b>341.0</b>	<b>228.1</b>	<b>1,281.2</b>	<b>156.5</b>	<b>2,006.8</b>
<b>Accumulated depreciation</b>					
At 1 January 2007	39.8	76.6	488.2	22.7	627.3
Acquisitions	16.5	41.5	56.5	5.6	120.1
Charge for the year	5.6	16.1	86.2	5.9	113.8
Disposals	(2.2)	(2.5)	(47.8)	-	(52.5)
Currency translation adjustments	4.3	7.0	19.5	2.9	33.7
<b>At 31 December 2007</b>	<b>64.0</b>	<b>138.7</b>	<b>602.6</b>	<b>37.1</b>	<b>842.4</b>
<b>Net book amounts</b>					
<b>At 31 December 2007</b>	<b>277.0</b>	<b>89.4</b>	<b>678.6</b>	<b>119.4</b>	<b>1,164.4</b>

	2008 £m	2007 £m
Net book amount of land and buildings comprises:		
- Freehold	323.5	275.0
- Long-leasehold	2.1	0.4
- Short-leasehold	1.5	1.6
	327.1	277.0

## 11. Investments accounted for using the equity method

Investments (all unquoted)	2008 £m	2007 £m
<b>Cost</b>		
At 1 January	63.6	51.4
Additions	42.7	3.7
Share of recognised profit for the year*	4.4	4.3
Currency translation adjustments	31.2	4.2
<b>At 31 December</b>	<b>141.9</b>	<b>63.6</b>

\* Share of recognised profit for the year is stated after tax

The group's share of the net assets of its associates is analysed below:	2008 £m	2007 £m
Non-current assets	206.2	112.9
Current assets	54.2	39.4
Non-current liabilities	(63.0)	(51.5)
Current liabilities	(56.8)	(38.4)
Share of net assets	140.6	62.4

The group's share of its associates' revenue and profit is analysed below:	2008 £m	2007 £m
Revenue	112.6	63.9
Profit	4.4	4.3

## 12. Inventories

	2008 £m	2007 £m
Raw materials, consumables and work in progress	42.9	33.0
Finished goods and goods for resale	9.4	8.1
	52.3	41.1

The group consumed £354.6 million (2007: £269.1 million) of inventories during the year. There was no material write down of inventories during the current or prior year.

### 13. Trade and other receivables

	2008 £m	2007 £m
Current assets:		
Trade receivables	206.4	144.3
Less: Provision for impairment of receivables	(6.2)	(4.5)
Trade receivables – net	200.2	139.8
Prepayments and accrued income	77.9	69.2
Other receivables	152.3	151.3
	430.4	360.3

Credit risk arising from customers is managed at a local level and is subject to periodic reviews by central management and the group's internal audit function. Credit limits are in place for customers, many of which are local authorities or local transport authorities. Due to the nature of certain contractual arrangements, particularly where the agreement and settlement of allocations of passenger revenues between multiple service providers can take more than one year to complete, certain customer debts can often exceed one year before settlement. This is common, and the incidence of impairment of such debt is both rare and immaterial.

Due to the immaterial level of the provision for impairment of receivables as detailed above, no further disclosure is made. The group considers there to be no material difference between the fair value of trade and other receivables and their carrying amount in the balance sheet.

The carrying amounts of the group's trade and other receivables are denominated in the following currencies:	2008 £m	2007 £m
Sterling	133.6	135.7
Euro	178.8	147.0
Other European currencies	118.0	77.6
	430.4	360.3

### 14. Cash, cash equivalents and overdrafts

Cash, cash equivalents and overdrafts in the cash flow statement comprise:	2008 £m	2007 £m
Cash and cash equivalents	147.7	95.7
Bank overdrafts (note 17)	(34.4)	(33.3)
	113.3	62.4

### 15. Trade and other payables

	2008 £m	2007 £m
Current liabilities:		
Trade payables	258.1	160.2
Payments received on account	0.4	0.4
Other taxation and social security payable	46.9	35.5
Other payables	136.3	115.2
Accruals and deferred income	266.1	235.2
	707.8	546.5

## 16. Tax liabilities

	2008 £m	2007 £m
Current tax liabilities	51.2	34.5

## 17. Financial liabilities - borrowings

	2008 £m	2007 £m
Current liabilities:		
- Short-term loans	110.6	84.6
- Bank overdrafts	34.4	33.3
	145.0	117.9
- Finance leases	29.1	10.5
	174.1	128.4
Non-current liabilities:		
- Syndicated loans	434.7	203.2
- Other loans	258.2	123.3
- Finance leases	104.1	89.3
	797.0	415.8

	2008 £m	2007 £m
Loan capital and other borrowings repayment statement:		
- Within one year or on demand	174.1	128.4
- Between one and two years	128.3	96.2
- Between two and five years	600.5	299.6
- Over five years	68.2	20.0
	971.1	544.2

The total of the loans, any part of which fall due for repayment after five years, is £101.8 million (2007: £63.8 million). £63.5 million (2007: £31.2 million) represents bank loans in the Mainland Europe division, with varying repayment dates and interest rates. £38.3 million (2007: £32.6 million) represents fixed interest finance lease funding of the Mainland Europe bus fleet, with varying repayment dates and interest rates ranging between 3.9 per cent and 8.7 per cent.

## 17. Financial liabilities - borrowings (continued)

### Security and guarantees

Borrowings amounting to £372 million, principally relating to the bus fleet, are secured by charges over the related assets.

As part of the UK rail franchising arrangements the group has provided guarantees of £47 million (2007: £46 million). The group has provided £31 million (2007: £25 million) of bonds in respect of its rail operations in Denmark, the Netherlands and Germany.

At 31 December 2008, letters of credit amounting to the value of £11 million (2007: £16 million) are provided by the group's bankers, guaranteed by Arriva plc, in favour of the group's insurers.

Syndicated loans are secured by guarantees given by Arriva plc and certain UK subsidiaries.

	2008	2007
The effective interest rates at the balance sheet date were as follows:	%	%
Cash and cash equivalents	2.6	4.8
Bank overdraft	3.0	6.5
Bank borrowings	4.3	4.2
Finance lease	4.4	5.2
Other financial liabilities	5.3	5.6

	2008	2007
The carrying amount of the group's borrowings are denominated in the following currencies:	£m	£m
Sterling	273.2	78.5
Euro	519.1	280.9
Other European currencies	178.8	184.8
	<b>971.1</b>	<b>544.2</b>

### Fair value of financial assets and financial liabilities

Due to the short-term nature of financial assets and financial liabilities, or the floating rate nature of non-current financial liabilities, the group considers there to be no material difference between the fair value of financial assets and financial liabilities and their carrying amount in the balance sheet.

### Maturity of financial liabilities

The maturity profile of the carrying amount of the group's non-current liabilities at 31 December was as follows:

	Debt	Finance	2008	Debt	Finance	2007
	£m	leases	Total	£m	leases	Total
		£m	£m		£m	£m
In more than one year but not more than two years	109.3	19.0	128.3	72.4	23.8	96.2
In more than two years but not more than five years	543.9	56.6	600.5	247.7	51.9	299.6
In more than five years	39.7	28.5	68.2	6.4	13.6	20.0
	<b>692.9</b>	<b>104.1</b>	<b>797.0</b>	<b>326.5</b>	<b>89.3</b>	<b>415.8</b>

### Borrowing facilities

The group has the following undrawn committed borrowing facilities available at 31 December in respect of which all conditions precedent had been met at that date:

	2008 £m	2007 £m
Expiring within one year	78.0	57.0
Expiring in more than two years	180.3	415.8
	258.3	472.8

### Finance leases

The group typically enters into finance leases of no more than five years' duration on an amortising basis. Given the short-term nature of this funding, the group considers there to be no material difference between the fair value of finance leases and their carrying amount in the balance sheet.

Finance lease obligations included in current liabilities amount to £29.1 million (2007: £10.5 million) and in non-current liabilities amount to £104.1 million (2007: £89.3 million).

## 18. Other non-current liabilities

	2008 £m	2007 £m
Accruals and deferred income	110.1	99.2
Other payables	22.9	15.1
	133.0	114.3

## 19. Derivative financial instruments

Financial instrument disclosures are set out below. Additional disclosures are set out in the accounting policies.

	2008 £m	2007 £m
Non-current assets:		
Interest rate swaps - cash flow hedge	-	0.4
Fuel derivatives - cash flow hedge	51.8	39.2
	51.8	39.6
Current assets:		
Interest rate swaps - cash flow hedge	-	1.2
Fuel derivatives - cash flow hedge	10.0	20.6
	10.0	21.8

## 19. Derivative financial instruments (continued)

	2008 £m	2007 £m
Current liabilities:		
Interest rate swaps - cash flow hedge	0.9	-
Forward foreign currency contracts - cash flow hedge	0.7	-
Fuel derivatives - cash flow hedge	65.9	-
Cross currency swaps - net investment hedge	31.3	10.4
	<b>98.8</b>	<b>10.4</b>

	2008 £m	2007 £m
Non-current liabilities:		
Interest rate swaps - cash flow hedge	8.2	-
Fuel derivatives - cash flow hedge	17.2	-
Cross currency swaps - net investment hedge	58.6	12.7
	<b>84.0</b>	<b>12.7</b>

In accordance with IAS39 'Financial instruments: Recognition and Measurement', Arriva plc has reviewed all contracts for embedded derivatives that are required to be separately accounted for if they do not meet certain requirements set out in the standard. All embedded derivatives were found to be closely related to their host contracts, and therefore no fair value exercise was required to be undertaken.

### Maturity of derivative financial instruments

The maturity profile of the carrying amount of the group's derivative financial instruments was as follows:

	Less than one year £m	Between one and two years £m	Between two and five years £m	Over five years £m
<b>At 31 December 2008</b>				
Interest rate swaps - cash flow hedge	(0.9)	(3.5)	(4.7)	-
Forward foreign currency contracts - cash flow hedge	(0.7)	-	-	-
Fuel derivatives - cash flow hedge	(55.9)	(7.1)	23.9	17.8
Cross currency swaps - net investment hedge	(31.3)	(48.4)	(10.2)	-

	Less than one year £m	Between one and two years £m	Between two and five years £m	Over five years £m
<b>At 31 December 2007</b>				
Interest rate swaps - cash flow hedge	1.2	-	0.4	-
Fuel derivatives - cash flow hedge	20.6	1.0	5.6	32.6
Cross currency swaps - net investment hedge	(10.4)	(5.0)	(7.7)	-

### Net fair values of derivative financial instruments

The fair values of derivative financial instruments designated in cash flow hedges were:

	2008 £m	2007 £m
Contracts with positive fair values:		
- Interest rate swaps	-	1.6
- Fuel derivatives	61.8	59.8
Contracts with negative fair values:		
- Interest rate swaps	(9.1)	-
- Forward foreign currency contracts	(0.7)	-
- Fuel derivatives	(83.1)	-

The fair values of derivatives have been supplied externally by the respective counterparties to the derivative and by banks using market rates prevailing at the balance sheet date.

## 20. Retirement benefit obligations

At 31 December 2008 the group operated a number of retirement benefit schemes, both defined benefit and defined contribution, which are financed through separate Trustee administered funds managed by independent professional fund managers on behalf of the Trustees. Contributions to the defined benefit funds are based upon actuarial advice following the most recent of a regular series of valuations of the funds by their representative independent actuaries. Certain employees of Arriva Merseyside Limited participate in the Local Government Pension Scheme. This is a defined benefit scheme funded by payments to the Merseyside Pension Fund. The latest formal actuarial valuation of the Merseyside Pension Fund was carried out as at 31 March 2007.

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

### Total pension cost

The total pension cost for the group was £47.6 million (2007: £44.1 million). The pension costs in respect of the group's defined contribution schemes was £32.4 million (2007: £25.8 million).

### Defined benefit plans

The directors believe that separate consideration should be given to the RPS under IAS19 as the group has no rights or obligations in respect of sections of this scheme following the expiry of the franchises. The amounts relating to the rail schemes are therefore shown separately and relate to sections in respect of Arriva Trains Wales Limited and XC Trains Limited only.

The calculations used to assess the IAS19 liabilities of the retirement benefit schemes are based on the most recent actuarial valuations, updated to 31 December 2008 by qualified independent actuaries, KPMG LLP. The schemes' assets are stated at their market value at 31 December 2008. The principal actuarial assumptions at the balance sheet date are:

		2008 %	2007 %
Discount rate		6.6	5.9
Inflation rate		2.8	3.2
Increases to deferred benefits during deferment		2.8	3.2
Increases to pensions in payment		2.7	3.0
Increases to salaries		3.8	4.2
Weighted average expected long-term rate of return of the scheme assets at 31 December, after deduction for scheme expenses		7.1	7.6
Weighted average life expectancy for mortality tables to determine benefit obligations:		2008 years	2007 years
Member age 65 (current life expectancy)	Male	17	18
	Female	19	21
Member age 45 (life expectancy at age 65)	Male	18	19
	Female	20	22

## 20. Retirement benefit obligations (continued)

The major categories of plan assets and the expected rate of return at the balance sheet date for each category, is as follows:

	2008	2007
	%	%
<b>Category of assets at the year end</b>		
Equities	7.75	8.25
Bonds	5.5	5.0
Other	6.4	6.9
<hr/>		
Weighted average expected long-term rate of return at 31 December, after deduction for scheme expenses	7.1	7.6

The overall expected rate of return is a weighted average of the expected returns of the various categories of plan assets held. 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.

The actual loss on plan assets was £230.5 million (2007: return £51.2 million).

	Group Schemes	RPS	Total	Total	Total	Total
The amounts recognised in the balance sheet are determined as follows:	2008	2008	2008	2007	2006	2005
	£m	£m	£m	£m	£m	£m
Present value of funded obligations	(613.3)	(295.4)	<b>(908.7)</b>	(1,062.1)	(927.9)	(856.3)
Fair value of plan assets	525.0	243.8	<b>768.8</b>	981.5	747.7	640.2
<hr/>						
Deficit	(88.3)	(51.6)	<b>(139.9)</b>	(80.6)	(180.2)	(216.1)
Deficit relating to scheme members	-	20.6	<b>20.6</b>	8.1	6.4	8.7
Unrecognised asset	(0.8)	-	<b>(0.8)</b>	(1.2)	-	-
<hr/>						
Net deficit recognised in the balance sheet	(89.1)	(31.0)	<b>(120.1)</b>	(73.7)	(173.8)	(207.4)

	2008	2007
	£m	£m
The amounts recognised in the income statement are as follows:		
Current service costs	24.3	23.4
Interest cost	54.7	46.4
Expected return on assets	<b>(63.8)</b>	(51.5)
<hr/>		
	15.2	18.3

Actuarial gains and losses have been reported in the statement of recognised income and expense.

	2008 £m	2007 £m
Movements in the present value of defined benefit obligations were as follows:		
At 1 January	1,062.1	927.9
Member contributions paid	20.6	17.3
Current service cost	24.3	23.4
Interest cost*	63.0	50.1
New rail franchise*	-	187.2
Benefits paid	(36.1)	(32.2)
Actuarial gains*	(225.2)	(111.6)
<b>At 31 December</b>	<b>908.7</b>	<b>1,062.1</b>

	2008 £m	2007 £m
Movements in the fair value of plan assets were as follows:		
At 1 January	981.5	747.7
Expected return on plan assets*	73.9	56.3
Total contributions	53.9	47.5
New rail franchise*	-	167.3
Benefits paid	(36.1)	(32.2)
Actuarial losses*	(304.4)	(5.1)
<b>At 31 December</b>	<b>768.8</b>	<b>981.5</b>

\* Before RPS shared cost adjustment

The movements in the present value of defined benefit obligations and in the fair value of the plan assets do not take into account the shared cost nature of the RPS. The income statement includes 60 per cent of the relevant RPS amounts.

Plan assets	2008 %	2007 %
The weighted average asset allocations at the year end were as follows:		
Equities	72	75
Bonds	21	18
Other	7	7

Cumulative actuarial gains and losses recognised in equity	2008 £m	2007 £m
At 1 January	123.6	24.1
Actuarial (losses)/gains recognised in year	(64.7)	99.5
<b>At 31 December</b>	<b>58.9</b>	<b>123.6</b>

History of experience gains and losses	2008 £m	2007 £m	2006 £m	2005 £m
Experience adjustments on scheme liabilities:				
- Amounts (£m)	225.2	111.6	(22.6)	(74.9)
- Percentage of scheme liabilities	24.8%	10.5%	2.4%	8.7%
Experience adjustments on scheme assets:				
- Amounts (£m)	(304.4)	(5.1)	38.0	65.5
- Percentage of scheme assets	39.6%	0.5%	5.1%	10.2%

The group expects to make contributions of approximately £35 million to the defined benefit plans during the next financial year.

## 21. Deferred tax

	2008	2007
	£m	£m
The movement in deferred tax is shown below:		
At 1 January	87.6	45.3
Exchange differences	11.7	2.0
Acquisition of subsidiaries	10.7	(7.4)
Income statement charge/(credit)	26.6	(0.2)
Tax (credited)/charged to equity	(41.2)	47.9
<b>At 31 December</b>	<b>95.4</b>	<b>87.6</b>

Deferred tax assets have not been recognised in respect of tax losses and other temporary differences giving rise to deferred tax assets where there is uncertainty regarding the recoverability of the resulting deferred tax assets. Deferred tax is not provided on the unremitted earnings of overseas subsidiaries where the group has control over the timing of remittance and it is probable that remittance will not take place in the foreseeable future. Material deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net.

The movements in deferred tax assets and liabilities during the period are shown below:

Deferred tax liabilities	Accelerated	Revaluation	Intangibles	Derivatives	Other	Total
	tax depreciation					
	£m	£m	£m	£m	£m	£m
At 1 January 2007	75.1	16.2	9.2	-	2.4	102.9
Exchange differences	1.9	-	0.6	-	0.3	2.8
Income statement (credit)/charge	(1.6)	(0.3)	(3.2)	-	1.3	(3.8)
Transferred from deferred tax assets	-	-	-	18.1	-	18.1
<b>At 31 December 2007</b>	<b>75.4</b>	<b>15.9</b>	<b>6.6</b>	<b>18.1</b>	<b>4.0</b>	<b>120.0</b>
Exchange differences	10.5	-	3.8	-	1.5	15.8
Acquisition of subsidiaries	1.9	-	8.8	-	-	10.7
Income statement (credit)/charge	25.6	(0.2)	(1.7)	-	1.4	25.1
Tax credited directly to equity	-	-	-	(26.1)	-	(26.1)
Transferred from deferred tax assets	-	-	-	8.0	2.5	10.5
<b>At 31 December 2008</b>	<b>113.4</b>	<b>15.7</b>	<b>17.5</b>	<b>-</b>	<b>9.4</b>	<b>156.0</b>

The deferred tax liability due after more than one year is £152.4 million (2007: £112.4 million).

Deferred tax assets	Retirement benefit obligations	Provisions	Derivatives	Losses	Other	Total
	£m	£m	£m	£m	£m	£m
At 1 January 2007	(49.3)	(4.4)	(0.9)	-	(3.0)	(57.6)
Exchange differences	-	(0.6)	-	-	(0.2)	(0.8)
Acquisition of subsidiaries	-	(7.9)	-	-	0.5	(7.4)
Income statement charge/(credit)	3.1	(1.1)	-	-	1.6	3.6
Tax charged directly to equity	28.9	-	19.0	-	-	47.9
Transferred to deferred tax liabilities	-	-	(18.1)	-	-	(18.1)
At 31 December 2007	(17.3)	(14.0)	-	-	(1.1)	(32.4)
Exchange differences	-	(2.6)	-	(2.0)	0.5	(4.1)
Income statement charge/(credit)	4.9	2.7	-	(9.7)	3.6	1.5
Tax credited directly to equity	(14.6)	-	-	-	(0.5)	(15.1)
Transferred to deferred tax liabilities	-	-	(8.0)	-	(2.5)	(10.5)
At 31 December 2008	(27.0)	(13.9)	(8.0)	(11.7)	-	(60.6)

The deferred tax asset due after more than one year is £37.7 million (2007: £20.9 million).

## 22. Called up equity share capital

	Authorised		Allotted - fully paid	
	2008	2007	2008	2007
Ordinary shares of 5 pence each	£14,500,000	£14,500,000	£9,932,854	£9,930,679
Number of shares	290,000,000	290,000,000	198,657,072	198,613,572
Reconciliation of movement in issued share capital:				
Shares in issue 1 January			198,613,572	198,089,442
Share allotments on exercise of options			43,500	524,130
<b>Shares in issue 31 December</b>			<b>198,657,072</b>	<b>198,613,572</b>

Consideration of £0.2 million was received in respect of the share allotments in the year ended 31 December 2008 (2007: £1.3 million).

At 31 December 2008 there were outstanding options to receive allotments of 3,727,901 ordinary shares under the Executive Share Option Scheme, the Share Incentive Scheme and the Long Term Incentive Plan. The price for the vested share for the Long Term Incentive Plan is £nil. The option exercise prices for the other schemes range from 283.0 pence to 745.0 pence. The options are exercisable up to March 2018. At 31 December 2008 the middle market quotation of the ordinary share, as derived from the Stock Exchange Official List, was 601.5 pence. The highest price attained by the ordinary share in 2008 was 803.5 pence and the lowest level during 2008 was 510.0 pence.

## 23. Share-based payments

The group operates an Executive Share Option Scheme (ESOS), Share Incentive Scheme (SIS) and Long Term Incentive Plan (LTIP).

The ESOS is an Inland Revenue approved discretionary employee share option scheme, with options granted to certain senior employees (excluding directors) and exercisable between three and ten years from date of grant, subject to performance criteria having been satisfied.

The SIS is an unapproved discretionary employee share option scheme, with options granted to certain senior employees (excluding directors) and exercisable between three and seven years from date of grant, subject to performance criteria having been satisfied.

The ESOS and SIS March 2007 and March 2008 awards have been granted under The Arriva plc Company Share Option Plan 2006.

The LTIP is a discretionary share scheme providing incentives in the form of conditional awards of shares to selected senior employees, including executive directors. There is a performance period of not less than three years before any of the shares may vest, with vesting of any of the shares subject to performance criteria having been satisfied. Further details of the LTIP and performance criteria are given in the directors' remuneration report.

In accordance with the transitional provisions of IFRS, the following disclosures relate only to awards made after 7 November 2002 that have not vested before 1 January 2005.

The fair value per option granted and the assumptions used in the calculation of fair value are as follows:

	Executive Share Option Scheme			
	March 2003	March 2004	March 2007	March 2008
Share price at grant date	£2.83	£3.73	£7.45	£6.87
Exercise price	£2.83	£3.73	£7.45	£6.87
Number of employees	12	46	44	31
Shares under option	73,000	206,162	121,324	96,902
Vesting period (years)	3	3	3	3
Expected volatility	32%	24%	20%	25%
Option life (years)	10	10	10	10
Expected life (years)	3	3	3	3
Risk free rate	4.0%	4.5%	5.1%	3.9%
Expected dividends expressed as a dividend yield	5.8%	5.1%	3.0%	3.0%
Expectations of meeting performance criteria	100%	100%	100%	100%
Fair value per option	£0.470	£0.504	£1.130	£1.144

  

	Share Incentive Scheme					
	March 2003	March 2004	March 2005	March 2006	March 2007	March 2008
Share price at grant date	£2.83	£3.73	£5.48	£6.13	£7.45	£6.87
Exercise price	£2.83	£3.73	£5.48	£6.13	£7.45	£6.87
Number of employees	44	54	95	78	73	84
Shares under option	254,500	197,338	442,500	336,000	221,676	327,098
Vesting period (years)	3	3	3	3	3	3
Expected volatility	32%	24%	24%	24%	20%	25%
Option life (years)	7	7	7	7	7	7
Expected life (years)	3	3	3	3	3	3
Risk free rate	4.0%	4.5%	4.0%	4.6%	5.1%	3.9%
Expected dividends expressed as a dividend yield	5.8%	5.1%	3.6%	3.7%	3.0%	3.0%
Expectations of meeting performance criteria	100%	100%	100%	100%	100%	100%
Fair value per option	£0.470	£0.504	£0.835	£0.959	£1.130	£1.144

### Long Term Incentive Plan

	May 2006 <sup>1</sup>	May 2006 <sup>2</sup>	Sept 2006 <sup>1</sup>	Sept 2006 <sup>2</sup>
Share price at grant date	£5.44	£5.44	£6.79	£6.79
Exercise price	£0.00	£0.00	£0.00	£0.00
Number of employees	3	3	14	14
Shares under option	178,194	178,194	267,228	109,150
Vesting period (years)	3	3	3	3
Expected volatility	25%	25%	20%	20%
Option life (years)	3	3	3	3
Expected life (years)	3	3	3	3
Risk free rate	4.8%	4.8%	4.8%	4.8%
Expected dividends expressed as a dividend yield	3.3%	3.3%	3.3%	3.3%
Expectations of meeting performance criteria	49%	100%	49%	100%
Fair value per option	£4.980	£2.140	£6.290	£4.330

### Long Term Incentive Plan

	March 2007 <sup>1</sup>	March 2007 <sup>2</sup>	March 2007 <sup>2</sup>	March 2008 <sup>1</sup>	March 2008 <sup>2</sup>	March 2008 <sup>2</sup>
Share price at grant date	£7.45	£7.45	£7.45	£6.87	£6.87	£6.87
Exercise price	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00
Number of employees	17	3	14	18	3	15
Shares under option	402,596	139,329	107,532	487,845	155,138	135,895
Vesting period (years)	3	3	3	3	3	3
Expected volatility	20%	20%	20%	25%	25%	25%
Option life (years)	3	3	3	3	3	3
Expected life (years)	3	3	3	3	3	3
Risk free rate	5.1%	5.1%	5.1%	3.9%	3.9%	3.9%
Expected dividends expressed as a dividend yield	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Expectations of meeting performance criteria	22%	100%	100%	32%	100%	100%
Fair value per option	£6.900	£3.270	£3.710	£6.320	£2.610	£2.880

The expected volatility is based on historical volatility over the last three years. The expected life is the average expected period to exercise. The risk free rate of return is the yield on zero-coupon UK Government bonds of a term consistent with the assumed option life.

<sup>1</sup> Relates to the EPS element of the award

<sup>2</sup> Relates to the TSR element of the award

## 23. Share-based payments (continued)

A reconciliation of option movements for each of the above schemes over the year to 31 December is shown below:

### (a) Executive Share Option Scheme

	2008		2007	
	Number (‘000)	Weighted average exercise price (£)	Number (‘000)	Weighted average exercise price (£)
Outstanding at 1 January	194	6.01	173	3.69
Granted	97	6.87	121	7.45
Forfeited	(14)	7.34	(15)	3.73
Exercised	(19)	3.50	(85)	3.73
Outstanding at 31 December	258	6.45	194	6.01
Exercisable at 31 December	53	3.70	73	3.64

Range of exercise prices (£)	2008				2007			
	Weighted average exercise price (£)	Number of shares (‘000)	Weighted average remaining life		Weighted average exercise price (£)	Number of shares (‘000)	Weighted average remaining life	
			Expected (years)	Contractual (years)			Expected (years)	Contractual (years)
2.83 - 7.45	6.45	258	1.0	8.0	6.01	194	1.0	8.0

The weighted average share price during the period for options in the ESOS exercised over the year was 720.1 pence (2007: 762.9 pence). The total charge for the year relating to the scheme was £0.1 million (2007: £nil).

### (b) Share Incentive Scheme

	2008		2007	
	Number (‘000)	Weighted average exercise price (£)	Number (‘000)	Weighted average exercise price (£)
Outstanding at 1 January	1,013	5.90	950	5.24
Granted	327	6.87	221	7.45
Forfeited	(74)	5.73	(18)	5.66
Exercised	(14)	5.19	(140)	3.89
Outstanding at 31 December	1,252	6.17	1,013	5.90
Exercisable at 31 December	429	5.04	114	3.50

Range of exercise prices (£)	2008				2007			
	Weighted average exercise price (£)	Number of shares ('000)	Weighted average remaining life		Weighted average exercise price (£)	Number of shares ('000)	Weighted average remaining life	
			Expected (years)	Contractual (years)			Expected (years)	Contractual (years)
2.83 - 7.45	6.17	1,252	0.7	4.3	5.90	1,013	0.8	4.6

The weighted average share price during the year for options exercised in the Share Incentive Scheme over the year was 723.8 pence (2007: 768.5 pence). The total charge for the year relating to the scheme was £0.3 million (2007: £0.2 million), all of which related to equity-settled share-based payment transactions. After deferred tax, the total charge was £0.2 million (2007: £0.2 million).

### (c) Long Term Incentive Plan

	2008		2007	
	Number ('000)	Weighted average exercise price (£)	Number ('000)	Weighted average exercise price (£)
Outstanding at 1 January	1,644	-	1,285	-
Granted	779	-	649	-
Forfeited	(224)	-	(156)	-
Exercised	(36)	-	(134)	-
Outstanding at 31 December	2,163	-	1,644	-
Exercisable at 31 December	23	-	59	-

Range of exercise prices (£)	2008				2007			
	Weighted average exercise price (£)	Number of shares ('000)	Weighted average remaining life		Weighted average exercise price (£)	Number of shares ('000)	Weighted average remaining life	
			Expected (years)	Contractual (years)			Expected (years)	Contractual (years)
0.00	0.00	2,163	1.0	1.0	0.00	1,644	1.2	1.2

The weighted average share price for the LTIP awards exercised in the year was 795.0 pence (2007: 747.2 pence). The total charge for the year relating to the scheme was £1.7 million (2007: £1.4 million), all of which related to equity-settled share-based payment transactions. After deferred tax, the total charge was £1.2 million (2007: £1.0 million).

## 24. Other reserves

	Capital redemption reserve £m	Special reserve £m	Hedge reserve £m	Other reserves £m
At 1 January 2007	1.8	59.1	(2.9)	58.0
Cash flow hedges (net of tax):				
- Fair value gains in period	-	-	48.6	48.6
- Transfers to net profit	-	-	(1.6)	(1.6)
<b>At 31 December 2007</b>	<b>1.8</b>	<b>59.1</b>	<b>44.1</b>	<b>105.0</b>
Cash flow hedges (net of tax):				
- Fair value losses in period	-	-	(123.0)	(123.0)
- Transfers to net profit	-	-	56.5	56.5
<b>At 31 December 2008</b>	<b>1.8</b>	<b>59.1</b>	<b>(22.4)</b>	<b>38.5</b>

The capital redemption reserve represents the cumulative par value of all shares bought back and cancelled by the group and is not distributable. The special reserve was created in 1997 when an application to transfer the share premium account into a special reserve was granted by the High Court, and is not distributable. The hedge reserve records movements on derivative financial instruments designated as cash flow hedges.

## 25. Statement of changes in equity

	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total shareholders' equity £m	Minority interests £m	Total equity £m
At 1 January 2007	9.9	22.4	58.0	452.2	542.5	16.3	558.8
Arising on issue of shares	-	1.8	-	(0.5)	1.3	-	1.3
Share-based payments	-	-	-	1.6	1.6	-	1.6
Total recognised income and expense for the year	-	-	47.0	159.7	206.7	5.5	212.2
Dividends	-	-	-	(41.9)	(41.9)	(1.0)	(42.9)
Minority share of acquisition	-	-	-	-	-	3.0	3.0
<b>At 31 December 2007</b>	<b>9.9</b>	<b>24.2</b>	<b>105.0</b>	<b>571.1</b>	<b>710.2</b>	<b>23.8</b>	<b>734.0</b>
Arising on issue of shares	-	0.2	-	-	0.2	-	0.2
Share-based payments	-	-	-	2.1	2.1	-	2.1
Total recognised income and expense for the year	-	-	(66.5)	82.6	16.1	14.6	30.7
Dividends	-	-	-	(46.1)	(46.1)	(4.3)	(50.4)
Minority share of acquisition	-	-	-	-	-	1.6	1.6
<b>At 31 December 2008</b>	<b>9.9</b>	<b>24.4</b>	<b>38.5</b>	<b>609.7</b>	<b>682.5</b>	<b>35.7</b>	<b>718.2</b>

## 26. Notes to the group cash flow statement

	2008	2007
	£m	£m
<b>(a) Reconciliation of net debt</b>		
At 1 January	448.5	378.4
(Increase)/decrease in cash, cash equivalents and overdrafts	(44.4)	5.1
Decrease in loans due within one year	(4.3)	(39.4)
Increase in loans due after one year	215.3	36.0
Decrease in finance lease obligations	(24.0)	(15.2)
Loans acquired	23.7	19.5
Finance leases acquired	24.2	28.0
Currency translation adjustments	184.4	36.1
<b>At 31 December</b>	<b>823.4</b>	<b>448.5</b>

	2008	2007
	£m	£m
<b>(b) Reconciliation of operating profit to cash generated from operations</b>		
Operating profit	171.8	128.0
Depreciation	146.6	113.8
Goodwill impairment and intangible asset amortisation	12.0	7.4
<b>EBITDA</b>	<b>330.4</b>	<b>249.2</b>
Increase in inventories, excluding acquisitions	(1.3)	(1.0)
Decrease/(increase) in trade and other receivables, excluding acquisitions	23.5	(87.2)
(Decrease)/increase in creditors, excluding acquisitions	(18.6)	87.2
<b>Cash generated from operations</b>	<b>334.0</b>	<b>248.2</b>

	1 January	Acquisitions (excluding cash & overdrafts)		Exchange	31
	2008	Cash flow	& overdrafts)	differences	December
	£m	£m	£m	£m	2008
<b>(c) Analysis of net debt</b>					£m
Cash, cash equivalents and overdrafts	(62.4)	(44.4)	-	(6.5)	(113.3)
Loans due within one year	84.6	(4.3)	12.5	17.8	110.6
Loans due after one year	326.5	215.3	11.2	139.9	692.9
Finance leases	99.8	(24.0)	24.2	33.2	133.2
	448.5	142.6	47.9	184.4	823.4

## 27. Acquisitions

(a) Analysis of the net cash outflow in respect of acquisitions	Total £m		
Cash consideration (including expenses)			132.6
Net cash acquired			(1.2)
Net cash outflow in respect of acquisitions			131.4
	Acquired book value £m	Provisional fair value adjustments £m	Net cost £m
<b>(b) Current year acquisitions</b>			
Intangible fixed assets	5.8	23.7	29.5
Property, plant and equipment	74.1	(4.0)	70.1
Investments	3.3	-	3.3
Inventories	1.7	(0.3)	1.4
Trade and other receivables	18.8	(0.1)	18.7
Cash and cash equivalents	1.2	-	1.2
Finance lease obligations	(24.2)	-	(24.2)
Trade and other payables	(24.5)	(7.5)	(32.0)
Loans	(23.7)	-	(23.7)
Deferred tax	(3.3)	(7.4)	(10.7)
	29.2	4.4	33.6
Minority interest			(1.6)
Goodwill			100.0
Satisfied by cash			132.0

The goodwill of £100.0 million noted above relates to premiums paid in respect of strategic market entry.

In January 2008 the group acquired 100 per cent of the share capital of TGM for £10.8 million, resulting in goodwill of £11.3 million. In April 2008 the group acquired 100 per cent of the share capital of The Excel Group for £6.4 million, £0.3 million of which is deferred, resulting in goodwill of £4.6 million.

In July 2008 the group acquired 100 per cent of the share capital of Spanish transport operator De Blas for £79.8 million, resulting in goodwill of £52.9 million. Also in July 2008 the group acquired 80 per cent of the share capital of Eurobus for £26.8 million, resulting in goodwill of £23.1 million.

In addition, smaller acquisitions were made in the year, the total cost of which was £8.5 million, resulting in goodwill of £8.1 million.

If all acquisitions had occurred at the start of the period the additional revenue and profit for the year would have been £61.5 million and £0.7 million respectively.

The fair value adjustments in the table above relate mainly to the recognition of an intangible asset in respect of customer contracts in De Blas and alignment to group accounting policies. The fair values are provisional, depending on the final determination of the value of related assets and liabilities. The final fair values are subject to completion of contractual discussions and settlement of balances and may change after the balance sheet date.

**(c) Prior year acquisitions**

The total cost in the year relating to acquisitions from prior years was £0.6 million, this is additional consideration relating to Veolia Transport Danmark AS, acquired in August 2007, Fray Escoba, acquired in November 2007, and Osnado spol. s.r.o., acquired in November 2007. In addition hindsight fair value adjustments were made in the year resulting from the final determination of the assets and liabilities as follows:

	£m
Hindsight period adjustments:	
Trade and other payables	0.2
Decrease in fair values	0.2
Additional consideration paid	0.6
	0.8
Goodwill based on provisional fair values	13.5
Goodwill based on final fair values	14.3

Comparative amounts have not been restated following the final determination of fair value adjustments as the amounts involved are not material.

## 28. Group undertakings

Detailed below is a list of those subsidiaries which in the opinion of the directors principally affect the amount of the profit or the amount of the assets of the group. The group percentage of equity capital is 100 per cent and the country of registration is England and Wales in each case, except where indicated. All subsidiaries operate within England and Wales, except where indicated:

<u>Passenger transport</u>		<u>Rental and distribution of buses &amp; coaches</u>
Arriva Croydon and North Surrey Limited	Arriva The Shires Limited	Arriva Bus and Coach Rental (1) Limited
Arriva Cymru Limited	Arriva Trains Wales/Trenau Arriva Cymru Limited	Arriva Bus and Coach Rental (2) Limited
Arriva Derby Limited		Arriva Bus and Coach Rental (3) Limited
Arriva Durham County Limited	Arriva UK Trains Limited	Arriva Bus and Coach Rental (4) Limited
Arriva East Herts & Essex Limited	Arriva Yorkshire Limited	Arriva Bus and Coach Limited
Arriva International Trains (Leasing) Limited	Arriva Yorkshire West Limited	
Arriva Kent & Sussex Limited	Autobus Sippel GmbH <sup>8</sup>	<u>Investment</u>
Arriva Kent Thameside Limited	Empresa de Blas y Cia S.L. <sup>2</sup>	Arriva Findiv Limited
Arriva London North Limited	Eurobus-Invest Regionális Közlekedésfejlesztési <sup>13</sup>	Arriva International Limited*
Arriva London South Limited	London Pride Sightseeing Limited	Arriva Motor Holdings Limited*
Arriva Manchester Limited	MK Metro Limited	Arriva Passenger Services Limited*
Arriva Medway Towns Limited	Osthannoversche Eisenbahnen AG <sup>9</sup>	British Bus Group Limited
Arriva Merseyside Limited	Prignitzer Eisenbahn GmbH <sup>8</sup>	MTL Services Limited*
Arriva Midlands Limited	Regentalbahn AG <sup>8</sup>	Arriva Insurance Company (Gibraltar) Limited <sup>12*</sup>
Arriva Midlands North Limited	SAB Autoservizi S.r.L. <sup>7</sup>	Arriva International (Northern Europe) Limited
Arriva Noroeste SL <sup>2</sup>	SAB Autoservizi F.V.G. S.p.A. <sup>10</sup>	Arriva International (Southern Europe) Limited
Arriva North East Limited	Sadem S.p.A. <sup>11</sup>	Arriva (2007) Limited
Arriva Northumbria Limited	Stevensons of Uttoxeter Limited	
Arriva North West Limited	Tellings Golden Miller Group plc*	<u>Property</u>
APS (Leasing) Limited	The Original London Sightseeing Tour Limited	British Bus (Properties) Limited
Arriva Personenvervoer Nederland B.V. <sup>3</sup>	Transportes Sul do Tejo S.A. <sup>6</sup>	
Arriva Portugal Transportes LDA <sup>6</sup>	Veolia Transport Danmark AS <sup>1</sup>	Except where marked by * shares are held by a subsidiary company
Arriva Scotland West Limited <sup>4</sup>	Verkehrsbetriebe Bils GmbH <sup>8</sup>	<sup>1</sup> Registered and operates in Denmark
Arriva Skandinavien A/S <sup>1</sup>	XC Trains Limited	<sup>2</sup> Registered and operates in Spain
Arriva Southern Counties Limited		<sup>3</sup> Registered and operates in the Netherlands
Arriva Sverige AB <sup>5</sup>		<sup>4</sup> Registered and operates in Scotland
Arriva Tees & District Limited		<sup>5</sup> Registered and operates in Sweden
Arriva Teesside Limited		<sup>6</sup> Registered and operates in Portugal
		<sup>7</sup> Registered and operates in Italy
		<sup>8</sup> Registered and operates in Germany
		<sup>9</sup> Registered and operates in Germany (85% owned)
		<sup>10</sup> Registered and operates in Italy (60% owned)
		<sup>11</sup> Registered and operates in Italy (80% owned)
		<sup>12</sup> Registered and operates in Gibraltar
		<sup>13</sup> Registered in Hungary and operates in Hungary and Slovakia (80% owned)

## 29. Commitments

Capital amounts contracted for but not provided amount to £86.7 million (2007: £26.0 million) for the group. At 31 December 2008 the group had total commitments under non-cancellable operating leases, including access charges to the rail infrastructure and leases for rail rolling stock, expiring as follows:

	2008			2007		
	Land & buildings £m	Other £m	Total £m	Land & buildings £m	Other £m	Total £m
Within one year	0.7	17.1	17.8	0.4	13.0	13.4
Later than one year and less than five years	4.1	322.0	326.1	3.9	277.4	281.3
After five years	209.1	3,411.8	3,620.9	188.0	3,572.8	3,760.8
	213.9	3,750.9	3,964.8	192.3	3,863.2	4,055.5