

Notes to the accounts

1. Segmental reporting

Management has determined the operating segments based on the information provided to the Board of directors which is considered to be the chief operating decision maker. The group is managed, and reports internally, on a basis consistent with its three operating divisions - UK Bus, Mainland Europe and UK Trains. The principal activities of these divisions are set out in the chief executive's review, which shows segmental revenue and operating profit grossed up to include the revenue and operating profit of associates, together with a reconciliation to the information below.

Business segments

year ended 31 December 2009

	UK Bus £m	Mainland Europe £m	UK Trains £m	Central £m	Total operations £m
Revenue	961.5	1,483.7	702.6	-	3,147.8
EBITDA	155.1	170.6	16.8	(18.4)	324.1
Depreciation	(63.9)	(96.8)	(4.7)	(0.4)	(165.8)
Operating profit (before goodwill impairment, intangible asset amortisation and exceptional items)	91.2	73.8	12.1	(18.8)	158.3
Goodwill impairment and intangible asset amortisation	-	(42.6)	(2.2)	-	(44.8)
Exceptional item	46.8	-	-	-	46.8
Group operating profit	138.0	31.2	9.9	(18.8)	160.3
Share of post tax profits from associates	-	5.2	-	-	5.2
Net finance costs					(43.8)
Profit on ordinary activities before taxation					121.7
Tax on profit on ordinary activities					(2.5)
Profit for the year					119.2
Profit attributable to minority interests					(10.7)
Net profit attributable to equity shareholders					108.5

Goodwill impairment and intangible asset amortisation of £44.8 million includes an impairment charge of £29.6 million primarily in relation to Portugal (see note 8 for further details).

Exceptional item:

From 1 December 2009, the benefit structure of the Arriva Passenger Services Pension Plan, the largest of the group's defined benefit schemes, was changed. One of the principal changes is the capping of pensionable salary increases until the scheme returns to surplus on an uncapped basis. In accordance with IAS19, this capping of future benefits has been recognised immediately in the group's income statement, giving rise to a curtailment gain of £46.8 million.

Tax on profit on ordinary activities includes a deferred tax charge of £13.1 million on the exceptional item.

1. Segmental reporting (continued)

Business segments

year ended 31 December 2008

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

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.

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.

Business segments

year ended 31 December 2009

	UK Bus £m	Mainland Europe £m	UK Trains £m	Central £m	Group £m
Segment assets	734.5	1,664.2	126.4	13.7	2,538.8
Investment in equity accounted associates	2.0	132.9	-	-	134.9
Unallocated assets:					
- Cash and cash equivalents					238.4
- Derivative financial instruments					72.9
Total assets	736.5	1,797.1	126.4	13.7	2,985.0
Segment liabilities	(254.1)	(530.1)	(169.2)	(71.6)	(1,025.0)
Unallocated liabilities:					
- Corporate borrowings					(1,090.5)
- Derivative financial instruments					(69.0)
- Deferred tax on derivative financial instruments					(12.2)
Total liabilities	(254.1)	(530.1)	(169.2)	(71.6)	(2,196.7)
Net assets					788.3
Other segment items					
Capital expenditure:					
- Property, plant and equipment existing businesses	96.3	184.2	7.3	0.1	287.9

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
Total assets	717.4	1,911.0	126.3	15.4	2,979.6
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
Total liabilities	(265.3)	(605.0)	(173.4)	(71.8)	(2,261.4)
Net assets					718.2
Other segment items					
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

1. Segmental reporting (continued)

Geographical segments

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

	Revenue		Segment assets		Capital expenditure	
	2009 £m	2008 £m	2009 £m	2008 £m	2009 £m	2008 £m
UK	1,664.1	1,760.2	874.6	857.1	103.7	99.2
Mainland Europe	1,483.7	1,282.0	1,664.2	1,771.1	184.2	164.6
	3,147.8	3,042.2	2,538.8	2,628.2	287.9	263.8
Investments in equity accounted associates			134.9	141.9	-	-
Unallocated assets:						
- Cash and cash equivalents			238.4	147.7	-	-
- Derivative financial instruments			72.9	61.8	-	-
			2,985.0	2,979.6	287.9	263.8

2. Net finance costs

	2009 £m	2008 £m
Finance costs:		
- Interest payable on bank and other borrowings repayable within five years	31.6	24.9
- Interest payable on bank and other borrowings repayable after five years	1.8	1.9
Finance lease charges	7.5	7.6
Hire purchase charges	4.9	1.3
Interest payable and similar charges	45.8	35.7
Finance income:		
- Interest receivable on other financing items	(2.0)	(9.5)
Net finance costs	43.8	26.2

3. Profit on ordinary activities before taxation

(a) Net operating expenses (before goodwill impairment, intangible asset amortisation and exceptional items) (analysis by function):	2009 £m	2008 £m
Operating costs	2,651.7	2,537.6
Administrative expenses	337.8	320.8
	2,989.5	2,858.4

(b) The following items have been included in arriving at group operating profit (analysis by nature):	2009 £m	2008 £m
Staff costs (note 4)	1,308.0	1,256.1
Depreciation of property, plant and equipment (note 10)	165.8	146.6
Amortisation of intangible assets (note 9)	11.9	9.5
Impairment of goodwill (note 8)	32.9	2.5
Profit on disposal of properties	(2.1)	(3.7)
Operating lease rentals payable:		
- Plant and equipment	438.9	547.4
- Property	19.8	20.3
Repairs and maintenance expenditure on property, plant and equipment	17.6	15.0
UK Trains franchise agreement receipts	(246.7)	(402.9)

During the year the group (including its overseas subsidiaries) obtained the following services from the group's auditors and network firms at costs as detailed below:

	2009 £m	2008 £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 of Great Britain)	0.9	0.9
Services relating to taxation	0.4	0.3
All other services	0.1	0.2
	1.8	1.8

Included in the group's audit fees and expenses paid to the auditors is £0.1 million (2008: £0.1 million) in respect of the parent company. An amount of £16,000 was paid to the group's auditors in respect of the audit of group pension schemes.

4. Employee information

	2009	2008
(a) Average number of employees by business:	Number	Number
UK Bus	18,873	19,243
UK Trains	3,889	3,797
Mainland Europe	17,755	17,312
	40,517	40,352
Central	132	135
Total operations	40,649	40,487

	2009	2008
(b) Staff costs (including executive directors):	£m	£m
Wages and salaries	1,157.1	1,086.0
Social security costs	139.2	122.5
Pension costs (note 20)*	11.7	47.6
	1,308.0	1,256.1

* Including impact of curtailment gain (see note 1)

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. The charge to the group in respect of share-based payments relating to senior employees is included in note 23c.

5. Taxation

	2009	2008
Analysis of charge in the year	£m	£m
Current tax - current year	13.6	28.7
Current tax - adjustments in respect of prior years	(11.8)	(16.5)
Current tax	1.8	12.2
Deferred tax - current year	2.1	14.8
Deferred tax - adjustments in respect of prior years	(14.5)	4.1
Deferred tax	(12.4)	18.9
Deferred tax charge on exceptional item	13.1	-
Exceptional deferred tax charge	-	7.7
Total taxation	2.5	38.8

The 'Deferred tax charge on exceptional item' in 2009 relates to the deferred tax impact of the exceptional pension credit of £46.8 million arising in the UK (see note 1).

The exceptional deferred tax charge in 2008 was due to the impact of the abolition of Industrial Buildings Allowances in the UK.

As in previous years, adjustments in respect of prior years of £26.3 million (2008: £12.4 million) reflect the resolution of a number of historical tax matters with the tax authorities, including £15 million relating to a settlement which is expected to give rise to total savings of approximately £68 million. The 'Deferred tax - current year' figure noted above is stated after recognising a further tax credit of £7 million in respect of this particular settlement, and the balance of £46 million is expected to be available for release to the income statement in future years.

	2009	2008
	£m	£m
Tax on items credited to equity		
Current tax credit on exchange movements offset in reserves	(3.7)	(16.2)
Deferred tax credit on cross currency swaps	(1.2)	(3.2)
Deferred tax charge/(credit) on cash flow hedges	21.4	(22.9)
Deferred tax credit on actuarial losses on defined benefit schemes	(17.1)	(14.6)
Deferred tax charge/(credit) on other items	0.2	(0.5)
Total tax on items credited to equity	(0.4)	(57.4)

The tax charge for the year is lower (2008: lower) than the standard rate of corporation tax in the UK of 28.0 per cent (2008: 28.5 per cent). The differences are explained below:

	2009	2008
	£m	£m
Profit on ordinary activities before tax	121.7	150.0
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 28.0 per cent (2008: 28.5 per cent)	34.1	42.8
Effects of:		
- Adjustments to tax in respect of prior years - tax efficient leasing	(15.0)	-
- Adjustments to tax in respect of prior years - other items	(11.3)	(12.4)
- Income not subject to tax	(0.8)	(0.8)
- Expenses not deductible for tax purposes	4.5	3.8
- Goodwill impairment	8.3	-
- Recognition of previously unrecognised tax losses	(10.9)	(7.4)
- Current year losses arising where no deferred tax benefit has been recognised	0.6	2.0
- Different tax rates of subsidiaries operating in other jurisdictions	5.4	4.3
- Results from associated undertakings	(1.4)	(1.2)
- Tax efficient leasing and restructuring	(11.0)	-
- Abolition of Industrial Buildings Allowances in the UK	-	7.7
Total taxation	2.5	38.8

6. Dividends

	2009	2008
	£m	£m
Final dividend paid for the year ended 31 December 2008 of 17.91 pence (2008: final dividend paid for the year ended 31 December 2007 of 17.06 pence) per share	35.6	33.9
Interim dividend paid for the year ended 31 December 2009 of 6.46 pence (2008: interim dividend paid for the year ended 31 December 2008 of 6.15 pence) per share	12.9	12.2
Amounts recognised as distributions to equity holders in the year	48.5	46.1

The directors are proposing a final dividend in respect of the financial year ended 31 December 2009 of 18.80 pence per share which will absorb an estimated £37.4 million of shareholders' funds taking the total dividend for the year to 25.26 pence. It will be paid on 10 May 2010 to shareholders who are on the Register of Members on 9 April 2010.

7. Earnings per share

	2009			2008		
	Per share p	Earnings £m	Shares m	Per share p	Earnings £m	Shares m
(a) Basic and diluted earnings per share						
Profit attributable to equity holders of the parent company		108.5			104.5	
Weighted average number of shares			199.0			198.6
Basic earnings per share	54.5	108.5	199.0	52.6	104.5	198.6
Performance based share option schemes:						
- Additional shares for earnings contingency			0.6			1.8
- Number of shares that would have been issued at fair value			(0.1)			(0.7)
Diluted earnings per share	54.4	108.5	199.5	52.3	104.5	199.7
(b) Basic earnings per share before goodwill impairment, intangible asset amortisation and exceptional items						
				2009	2008	
				p	p	
Basic earnings per share				54.5	52.6	
Earnings per share relating to:						
- Goodwill impairment and intangible asset amortisation				21.2	5.0	
- Exceptional item, net of tax (see note 1)				(16.9)	-	
- Exceptional deferred tax				-	3.9	
Basic earnings per share before goodwill impairment, intangible asset amortisation and exceptional items				58.8	61.5	

8. Goodwill

	2009 £m	2008 £m
Cost		
At 1 January	572.6	381.3
Additions	-	100.0
Hindsight adjustment in respect of prior year acquisitions (note 26)	0.5	0.8
Currency translation adjustments	(32.2)	90.5
At 31 December	540.9	572.6
Impairment		
At 1 January	62.7	53.1
Impairment in the year	32.9	2.5
Currency translation adjustments	(2.5)	7.1
At 31 December	93.1	62.7
Net book amount at 31 December	447.8	509.9

There have been no significant acquisitions during the year. The hindsight fair value adjustments in the year relate to the final determination of provisional fair value adjustments made in respect of prior year acquisitions. Comparative amounts have not been restated following the final determination of fair value adjustments as the amounts included are not material.

During the year, goodwill was reviewed for impairment in accordance with IAS36 'Impairment of Assets'. The recoverable amount of goodwill has been determined based on a value in use calculation for each cash generating unit, using cashflow projections based on the 2010 budget and business plans for 2011 to 2013, with cash flows for subsequent years extrapolated based on estimated growth rates of 2.0 per cent (2008: 2.0 per cent). A pre-tax discount rate of 11.0 per cent (2008: 11.0 per cent) has then been applied to the cashflows. The calculation of value in use is most sensitive to the principal assumptions of discount rate, growth rates and profit margin. The directors consider the assumptions to be reasonable based on the historic performance of each cash generating unit and to be realistic in light of economic and industry measures and forecasts.

The review has resulted in an impairment charge of £29.6 million primarily in relation to goodwill in Portugal. In light of the factors affecting the Portuguese bus market and the likely continued migration of revenue to the recently extended light-rail system south of Lisbon, the Portuguese operation has been de-scaled to a level commensurate with the changed environment.

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.

Sensitivity analysis has been performed on the calculations and has confirmed that, apart from the impairment noted above, it is believed that any reasonably possible movement on assumptions will not lead to a material impairment and we have therefore not presented any sensitivity analysis.

9. Other intangible assets

	2009 £m	2008 £m
Cost		
At 1 January	111.6	63.0
Additions	-	29.5
Currency translation adjustments	(7.1)	19.1
At 31 December	104.5	111.6
Accumulated amortisation		
At 1 January	35.9	19.8
Amortisation for the year	11.9	9.5
Currency translation adjustments	(2.4)	6.6
At 31 December	45.4	35.9
Net book amount at 31 December	59.1	75.7

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

2009	Land & buildings £m	Plant, company vehicles, fixtures & fittings £m	Buses & coaches £m	Railway rolling stock £m	Total £m
Cost					
At 1 January 2009	415.0	322.1	1,697.3	253.6	2,688.0
Reclassifications	3.2	1.3	4.0	-	8.5
Additions	9.8	34.7	163.7	79.7	287.9
Disposals	(2.4)	(14.3)	(96.4)	(5.2)	(118.3)
Currency translation adjustments	(21.2)	(17.9)	(72.1)	(20.4)	(131.6)
At 31 December 2009	404.4	325.9	1,696.5	307.7	2,734.5
Accumulated depreciation					
At 1 January 2009	87.9	200.9	780.7	58.6	1,128.1
Reclassifications	1.6	1.1	5.8	-	8.5
Charge for the year	8.3	22.8	123.8	10.9	165.8
Disposals	(0.4)	(6.4)	(85.7)	(1.3)	(93.8)
Currency translation adjustments	(6.0)	(11.5)	(30.7)	(6.2)	(54.4)
At 31 December 2009	91.4	206.9	793.9	62.0	1,154.2
Net book amounts					
At 31 December 2009	313.0	119.0	902.6	245.7	1,580.3

The net book amount of assets held under hire purchase and finance lease contracts included in plant, company vehicles, buses and coaches is £432.0 million (2008: £358.7 million). The depreciation provided in the year in respect of these assets was £55.0 million (2008: £42.7 million). The gross cost of assets held for the purpose of letting under operating leases amounts to £18.8 million (2008: £15.3 million). The accumulated depreciation on these assets was £5.8 million (2008: £6.3 million).

2008	Land & buildings £m	Plant, company vehicles, fixtures & fittings £m	Buses & coaches £m	Railway rolling stock £m	Total £m
Cost					
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
At 31 December 2008	415.0	322.1	1,697.3	253.6	2,688.0

2008	Land & buildings £m	Plant, company vehicles, fixtures & fittings £m	Buses & coaches £m	Railway rolling stock £m	Total £m
Accumulated depreciation					
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
At 31 December 2008	87.9	200.9	780.7	58.6	1,128.1
Net book amounts					
At 31 December 2008	327.1	121.2	916.6	195.0	1,559.9

	2009 £m	2008 £m
Net book amount of land and buildings comprises:		
- Freehold	306.4	323.5
- Long leasehold	4.9	2.1
- Short leasehold	1.7	1.5
	313.0	327.1

11. Investments accounted for using the equity method

Investments (all unquoted)	2009 £m	2008 £m
Cost		
At 1 January	141.9	63.6
Additions	-	42.7
Share of recognised profit after tax of associates for the year	5.2	4.4
Currency translation adjustments	(12.2)	31.2
At 31 December	134.9	141.9

The group's share of the net assets of its associates is analysed below:	2009 £m	2008 £m
Non-current assets	191.3	206.2
Current assets	53.3	54.2
Non-current liabilities	(60.0)	(63.0)
Current liabilities	(50.8)	(56.8)
Share of net assets	133.8	140.6

The group's share of its associates' revenue and profit after tax is analysed below:	2009 £m	2008 £m
Revenue	120.5	112.6
Profit	5.2	4.4

There were no significant transactions with associates during the year.

12. Inventories

	2009 £m	2008 £m
Raw materials, consumables and work in progress	43.4	42.9
Finished goods and goods for resale	10.6	9.4
	54.0	52.3

The group consumed £420.1 million (2008: £354.6 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

	2009 £m	2008 £m
Trade receivables	184.3	206.4
Provision for impairment of receivables	(4.5)	(6.2)
Trade receivables - net	179.8	200.2
Prepayments and accrued income	100.6	77.9
Other receivables	117.2	152.3
	397.6	430.4

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:	2009 £m	2008 £m
Sterling	139.1	133.6
Euro	171.9	178.8
Other European currencies	86.6	118.0
	397.6	430.4

14. Cash, cash equivalents and overdrafts

Cash, cash equivalents and overdrafts in the cash flow statement comprise:	2009 £m	2008 £m
Cash and cash equivalents	238.4	147.7
Bank overdrafts (note 16)	(40.7)	(34.4)
	197.7	113.3

15. Trade and other payables

	2009 £m	2008 £m
Trade payables	217.2	258.1
Payments received on account	0.5	0.4
Other taxation and social security payable	49.5	46.9
Other payables	156.8	136.3
Accruals and deferred income	270.4	266.1
	694.4	707.8

16. Financial liabilities - borrowings

	2009 £m	2008 £m
Current liabilities:		
- Short-term loans	168.4	110.6
- Bank overdrafts	40.7	34.4
	209.1	145.0
- Finance leases	23.4	29.1
	232.5	174.1
Non-current liabilities:		
- Syndicated loans	413.6	434.7
- Other loans	302.3	258.2
- Finance leases	142.1	104.1
	858.0	797.0
	2009 £m	2008 £m
Loan capital and other borrowings repayment statement:		
- Within one year or on demand	232.5	174.1
- Between one and two years	124.2	128.3
- Between two and five years	633.8	600.5
- Over five years	100.0	68.2
	1,090.5	971.1

The total of the borrowings, any part of which fall due for repayment after five years, is £169.2 million (2008: £101.8 million). £74.2 million (2008: £63.5 million) represents bank loans in the Mainland Europe division, with varying repayment dates and interest rates. £95.0 million (2008: £38.3 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.

Security and guarantees

Borrowings amounting to £518 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 £48 million (2008: £47 million). The group has provided £31 million (2008: £31 million) of bonds in respect of its rail operations in Denmark, the Netherlands and Germany.

At 31 December 2009, letters of credit amounting to the value of £11 million (2008: £11 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.

16. Financial liabilities - borrowings (continued)

	2009	2008
The effective interest rates at the balance sheet date were as follows:	%	%
Cash and cash equivalents	1.2	2.6
Bank overdraft	3.6	3.0
Bank borrowings	3.3	4.3
Finance lease	4.6	4.4
Other financial liabilities	-	5.3

	2009	2008
The carrying amount of the group's borrowings are denominated in the following currencies:	£m	£m
Sterling	291.6	273.2
Euro	597.4	519.1
Other European currencies	201.5	178.8
	1,090.5	971.1

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	2009	Debt	Finance	2008
	£m	leases	Total	£m	leases	Total
	£m	£m	£m	£m	£m	£m
In more than one year but not more than two years	107.4	16.8	124.2	109.3	19.0	128.3
In more than two years but not more than five years	574.5	59.3	633.8	543.9	56.6	600.5
In more than five years	34.0	66.0	100.0	39.7	28.5	68.2
	715.9	142.1	858.0	692.9	104.1	797.0

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:

	2009	2008
	£m	£m
Expiring within one year	53.0	78.0
Expiring in more than two years	290.2	180.3
	343.2	258.3

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 £23.4 million (2008: £29.1 million) and in non-current liabilities amount to £142.1 million (2008: £104.1 million).

17. Other non-current liabilities

	2009 £m	2008 £m
Accruals and deferred income	107.1	110.1
Other payables	0.4	22.9
	107.5	133.0

18. Financial risk management objectives and policies

The group is exposed to financial risks including liquidity risk, credit risk and certain market based risks principally relating to exchange rates, interest rates and fuel prices. These financial risks are managed by the group treasury function in accordance with a formal Board-approved treasury policy. The policy sets a range of formal targets for managing the group's exposure to financial risks. For further details of the group's financial risk management objectives and policies please refer to the financial review. In addition, further information relating to credit risk and liquidity risk is detailed in notes 13 and 16 respectively.

Capital disclosures and compliance with financial covenants are detailed on page 47 of the financial review.

After taking into account the group's hedging policies referred to above, the sensitivity to changes in market based risks was as follows:

(a) Foreign currency risk

A 10 per cent strengthening of sterling against the euro would decrease profit for the year in 2009 by £2.5 million and decrease equity by £10 million at 31 December 2009.

(b) Interest rate risk

A 100 basis point increase in interest rates would reduce profit for the year in 2009 by £1.4 million and increase equity by £3 million at 31 December 2009.

(c) Commodity risk

A 10 per cent increase in fuel prices would reduce profit for the year in 2009 by £0.1 million and increase equity by £20 million at 31 December 2009.

In the sensitivity analyses above it is assumed that each change takes place at the beginning of the financial year and is held constant throughout the reporting period, all other variables remaining constant.

19. Derivative financial instruments

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

	2009 £m	2008 £m
Non-current assets:		
Fuel derivatives - cash flow hedge	55.3	51.8
Cross currency swaps - net investment hedge	0.4	-
	55.7	51.8
	2009 £m	2008 £m
Current assets:		
Fuel derivatives - cash flow hedge	17.2	10.0
	17.2	10.0

19. Derivative financial instruments (continued)

	2009 £m	2008 £m
Current liabilities:		
Interest rate swaps - cash flow hedge	2.9	0.9
Forward foreign currency contracts - cash flow hedge	-	0.7
Fuel derivatives - cash flow hedge	13.3	65.9
Cross currency swaps - net investment hedge	35.9	31.3
	52.1	98.8
	2009 £m	2008 £m
Non-current liabilities:		
Interest rate swaps - cash flow hedge	10.7	8.2
Fuel derivatives - cash flow hedge	0.4	17.2
Cross currency swaps - net investment hedge	5.8	58.6
	16.9	84.0

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
At 31 December 2009				
Interest rate swaps - cash flow hedge	(2.9)	(5.5)	(0.6)	(4.6)
Fuel derivatives - cash flow hedge	3.9	14.0	29.1	11.8
Cross currency swaps - net investment hedge	(35.9)	(5.4)	-	-
	Less than one year £m	Between one and two years £m	Between two and five years £m	Over five years £m
At 31 December 2008				
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)	-

Net fair values of derivative financial instruments

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

	2009 £m	2008 £m
Contracts with positive fair values:		
- Fuel derivatives	72.5	61.8
Contracts with negative fair values:		
- Interest rate swaps	(13.6)	(9.1)
- Forward foreign currency contracts	-	(0.7)
- Fuel derivatives	(13.7)	(83.1)

The fair value 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 2009 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'). The latest formal actuarial valuation of the RPS was carried out on 31 December 2007.

Total pension cost

The total pension cost for the group was £11.7 million (2008: £47.6 million), net of the curtailment gain of £46.8 million detailed below. The pension costs in respect of the group's defined contribution schemes was £42.4 million (2008: £32.4 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. This is accounted for by way of a franchise adjustment, which increased from £nil at 31 December 2008 to £65.1 million at 31 December 2009. The amounts relating to the rail schemes are 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 2009 by qualified independent actuaries KPMG LLP. The schemes' assets are stated at their market value at 31 December 2009.

From 1 December 2009, the benefit structure of the Arriva Passenger Services Pension Plan, the largest of the group's defined benefit schemes, was changed. One of the principal changes is the capping of pensionable salary increases until the scheme returns to surplus on an uncapped basis. In accordance with IAS19, this capping of future benefits has been recognised immediately in the group's income statement, giving rise to a curtailment gain of £46.8 million.

20. Retirement benefit obligations (continued)

The principal actuarial assumptions at the balance sheet date are:

	2009 %	2008 %
Discount rate	5.7	6.6
Inflation rate	3.5	2.8
Increases to deferred benefits during deferment	3.5	2.8
Increases to pensions in payment	3.1	2.7
Increases to salaries	4.5	3.8
Weighted average expected long-term rate of return on the scheme assets at 31 December, after deduction for scheme expenses	7.7	7.1

Weighted average life expectancy for mortality tables to determine benefit obligations:

		2009 years	2008 years
Member age 65 (current life expectancy)	Male	17	17
	Female	19	19
Member age 45 (life expectancy at age 65)	Male	18	18
	Female	20	20

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

	2009 %	2008 %
Category of assets at the year end		
Equities	8.25	7.75
Bonds	5.9	5.5
Other	6.5	6.4
Weighted average expected long-term rate of return at 31 December, after deduction for scheme expenses	7.7	7.1

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 gain on plan assets was £139.6 million (2008: £230.5 million loss).

The amounts recognised in the balance sheet are determined as follows:

	Group Schemes 2009 £m	RPS 2009 £m	Total 2009 £m	Total 2008 £m	Total 2007 £m	Total 2006 £m	Total 2005 £m
Present value of funded obligations	(715.5)	(421.3)	(1,136.8)	(908.7)	(1,062.1)	(927.9)	(856.3)
Fair value of plan assets	627.8	292.6	920.4	768.8	981.5	747.7	640.2
Deficit	(87.7)	(128.7)	(216.4)	(139.9)	(80.6)	(180.2)	(216.1)
Deficit relating to scheme members	-	51.5	51.5	20.6	8.1	6.4	8.7
Rail franchise adjustment	-	65.1	65.1	-	-	-	-
Unrecognised asset	-	-	-	(0.8)	(1.2)	-	-
Net deficit recognised in the balance sheet	(87.7)	(12.1)	(99.8)	(120.1)	(73.7)	(173.8)	(207.4)

The amounts recognised in the income statement are as follows:

	2009 £m	2008 £m
Current service costs	14.4	24.3
Interest cost	51.7	54.7
Expected return on assets	(50.4)	(63.8)
Exceptional item - curtailment gain*	(46.8)	-
Past service cost	0.4	-
	(30.7)	15.2

* Net of expenses

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

	2009 £m	2008 £m
Movements in the present value of defined benefit obligations were as follows:		
At 1 January	908.7	1,062.1
Member contributions paid	18.7	20.6
Current service cost	14.4	24.3
Past service cost	0.4	-
Interest cost*	59.6	63.0
Benefits paid	(46.1)	(36.1)
Actuarial losses/(gains)*	228.1	(225.2)
Curtailment	(47.0)	-
At 31 December	1,136.8	908.7

* Before RPS shared cost adjustment

	2009 £m	2008 £m
Movements in the fair value of plan assets were as follows:		
At 1 January	768.8	981.5
Expected return on plan assets*	57.9	73.9
Total contributions	58.1	53.9
Benefits paid	(46.1)	(36.1)
Actuarial gains/(losses)*	81.7	(304.4)
At 31 December	920.4	768.8

* 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.

20. Retirement benefit obligations (continued)

	2009	2008
	%	%
Plan assets		
The weighted average asset allocations at the year end were as follows:		
Equities	76	72
Bonds	15	21
Other	9	7

	2009	2008
	£m	£m
Cumulative actuarial gains and losses recognised in equity		
At 1 January	58.9	123.6
Actuarial losses recognised in the year	(50.0)	(64.7)
At 31 December	8.9	58.9

	2009	2008	2007	2006	2005
	£m	£m	£m	£m	£m
History of experience gains and losses					
Experience adjustments on scheme liabilities:					
- Amount	(228.1)	225.2	111.6	(22.6)	(74.9)
- Percentage of scheme liabilities	20.1%	24.8%	10.5%	2.4%	8.7%
Experience adjustments on scheme assets:					
- Amount	81.7	(304.4)	(5.1)	38.0	65.5
- Percentage of scheme assets	8.9%	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

The movement in deferred tax is shown below:

	2009	2008
	£m	£m
At 1 January	95.4	87.6
Exchange differences	(4.9)	11.7
Acquisition of subsidiaries	(0.2)	10.7
Income statement charge	0.7	26.6
Tax charged/(credited) to equity	3.3	(41.2)
At 31 December	94.3	95.4

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. No benefit has been recognised in respect of £133 million of unused tax losses and deductible temporary differences due to uncertainties and restrictions regarding their utilisation. Those unused tax losses and deductible temporary differences have the potential to produce tax credits of the order of £36 million in future years.

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. In addition, it is likely that the majority of the overseas earnings would qualify for the UK dividend exemption and therefore no tax liability is expected to arise.

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 year are shown below:

Deferred tax liabilities	Accelerated	Revaluation	Intangibles	Derivatives	Other	Total
	tax depreciation					
	£m	£m	£m	£m	£m	£m
At 1 January 2008	75.4	15.9	6.6	18.1	4.0	120.0
Exchange differences	10.5	-	3.8	-	1.5	15.8
Acquisition of subsidiaries	1.9	-	8.8	-	-	10.7
Income statement charge/(credit)	25.6	(0.2)	(1.7)	-	1.4	25.1
Tax credited directly to equity	-	-	-	(26.1)	-	(26.1)
Transferred to deferred tax assets	-	-	-	8.0	2.5	10.5
At 31 December 2008	113.4	15.7	17.5	-	9.4	156.0
Exchange differences	(5.1)	-	(1.4)	-	(0.1)	(6.6)
Acquisition of subsidiaries	(0.2)	-	-	-	-	(0.2)
Income statement credit	(9.6)	(2.9)	(3.0)	-	(5.5)	(21.0)
Tax charged directly to equity	-	-	-	-	0.2	0.2
Transferred to deferred tax assets	-	-	-	12.2	-	12.2
At 31 December 2009	98.5	12.8	13.1	12.2	4.0	140.6

The deferred tax liability due after more than one year is £137.4 million (2008: £152.4 million).

Deferred tax assets	Retirement	Provisions	Derivatives	Losses	Other	Total
	benefit obligations					
	£m	£m	£m	£m	£m	£m
At 1 January 2008	(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 from deferred tax liabilities	-	-	(8.0)	-	(2.5)	(10.5)
At 31 December 2008	(27.0)	(13.9)	(8.0)	(11.7)	-	(60.6)
Exchange differences	-	0.8	-	0.9	-	1.7
Income statement charge/(credit)	19.5	2.3	-	(0.1)	-	21.7
Tax (credited)/charged directly to equity	(17.1)	-	20.2	-	-	3.1
Transferred from deferred tax liabilities	-	-	(12.2)	-	-	(12.2)
At 31 December 2009	(24.6)	(10.8)	-	(10.9)	-	(46.3)

The deferred tax asset due after more than one year is £23.9 million (2008: £37.7 million).

22. Called up equity share capital

	Authorised		Issued - fully paid	
	2009	2008	2009	2008
Ordinary shares of 5p each	£20,000,000	£14,500,000	£9,957,960	£9,932,854
Number of shares	400,000,000	290,000,000	199,159,195	198,657,072
Reconciliation of movement in issued share capital:				
Shares in issue 1 January			198,657,072	198,613,572
Share allotments on exercise of options			502,123	43,500
Shares in issue 31 December			199,159,195	198,657,072

Consideration of £0.1 million was received in respect of share allotments in the year ended 31 December 2009 (2008: £0.2 million).

At 31 December 2009 there were outstanding options to receive allotments of 4,726,210 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 2019. At 31 December 2009 the middle market quotation of the ordinary share, as derived from the Stock Exchange Official List, was 497.1 pence. The highest price attained by the ordinary share in 2009 was 641.0 pence and the lowest level during 2009 was 361.0 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 a H.M. Revenue and Customs approved discretionary employee share option scheme, with options granted to certain senior employees (excluding directors) and exercisable between three and 10 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, March 2008 and March 2009 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	March 2009
Share price at grant date	£2.83	£3.73	£7.45	£6.87	£3.92
Exercise price	£2.83	£3.73	£7.45	£6.87	£3.92
Number of employees	12	46	44	31	9
Shares under option	73,000	206,162	121,324	96,902	42,363
Vesting period (years)	3	3	3	3	3
Expected volatility	32%	24%	20%	25%	35%
Option life (years)	10	10	10	10	10
Expected life (years)	3	3	3	3	3
Risk free rate	4.0%	4.5%	5.1%	3.9%	1.7%
Expected dividends expressed as a dividend yield	5.8%	5.1%	3.0%	3.0%	4.0%
Expectations of meeting performance criteria	100%	100%	100%	100%	100%
Fair value per option	£0.470	£0.504	£1.130	£1.144	£0.739

Share Incentive Scheme

	March 2003	March 2004	March 2005	March 2006	March 2007	March 2008	March 2009
Share price at grant date	£2.83	£3.73	£5.48	£6.13	£7.45	£6.87	£3.92
Exercise price	£2.83	£3.73	£5.48	£6.13	£7.45	£6.87	£3.92
Number of employees	44	54	95	78	73	84	77
Shares under option	254,500	197,338	442,500	336,000	221,676	327,098	382,637
Vesting period (years)	3	3	3	3	3	3	3
Expected volatility	32%	24%	24%	24%	20%	25%	35%
Option life (years)	7	7	7	7	7	7	7
Expected life (years)	3	3	3	3	3	3	3
Risk free rate	4.0%	4.5%	4.0%	4.6%	5.1%	3.9%	1.7%
Expected dividends expressed as a dividend yield	5.8%	5.1%	3.6%	3.7%	3.0%	3.0%	4.0%
Expectations of meeting performance criteria	100%	100%	100%	100%	100%	100%	100%
Fair value per option	£0.470	£0.504	£0.835	£0.959	£1.130	£1.144	£0.739

23. Share-based payments (continued)

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

Long Term Incentive Plan					
	March 2008 ²	March 2009 ¹	March 2009 ²	March 2009 ²	March 2009 ²
Share price at grant date	£6.87	£3.82	£3.82	£3.82	£3.82
Exercise price	£0.00	£0.00	£0.00	£0.00	£0.00
Number of employees	15	19	2	17	17
Shares under option	135,895	975,526	209,560	312,860	312,860
Vesting period (years)	3	3	3	3	3
Expected volatility	25%	35%	35%	35%	35%
Option life (years)	3	3	3	3	3
Expected life (years)	3	3	3	3	3
Risk free rate	3.9%	1.7%	1.7%	1.7%	1.7%
Expected dividends expressed as a dividend yield	3.0%	4.0%	4.0%	4.0%	4.0%
Expectations of meeting performance criteria	100%	0%	100%	100%	100%
Fair value per option	£2.880	£3.410	£0.920	£1.010	£1.010

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.

¹ Relates to the EPS element of the award

² Relates to the TSR element of the award

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

	2009		2008	
	Number (^{'000})	Weighted average exercise price (£)	Number (^{'000})	Weighted average exercise price (£)
Outstanding at 1 January	258	6.45	194	6.01
Granted	42	3.92	97	6.87
Forfeited	(11)	7.30	(14)	7.34
Exercised	-	-	(19)	3.50
Outstanding at 31 December	289	6.06	258	6.45
Exercisable at 31 December	53	3.70	53	3.70

Range of exercise prices (£)	2009				2008			
	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	6.06	289	1.0	7.0	6.45	258	1.0	8.0

No options in the ESOS were exercised over the year. In 2008, the weighted average share price during the period for options in the ESOS exercised over the year was 720.1 pence. The total charge for the year relating to the scheme was £0.1 million (2008: £0.1 million).

b) Share Incentive Scheme

	2009		2008	
	Number (^{'000})	Weighted average exercise price (£)	Number (^{'000})	Weighted average exercise price (£)
Outstanding at 1 January	1,252	6.17	1,013	5.90
Granted	383	3.92	327	6.87
Forfeited	(168)	5.84	(74)	5.73
Exercised	(10)	2.83	(14)	5.19
Outstanding at 31 December	1,457	5.64	1,252	6.17
Exercisable at 31 December	599	5.53	429	5.04

Range of exercise prices (£)	2009				2008			
	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	5.64	1,457	0.7	4.0	6.17	1,252	0.7	4.3

The weighted average share price during the year for options exercised in the SIS over the year was 473.3 pence (2008: 723.8 pence). The total charge for the year relating to the scheme was £0.2 million (2008: £0.3 million), all of which related to equity-settled share-based payment transactions. After deferred tax, the total charge was £0.1 million (2008: £0.2 million).

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:

c) Long Term Incentive Plan

	2009		2008	
	Number ('000)	Weighted average exercise price (£)	Number ('000)	Weighted average exercise price (£)
Outstanding at 1 January	2,163	-	1,644	-
Granted	1,498	-	779	-
Forfeited	(220)	-	(224)	-
Exercised	(469)	-	(36)	-
Outstanding at 31 December	2,972	-	2,163	-
Exercisable at 31 December	46	-	23	-

Range of exercise prices (£)	2009				2008			
	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	2,972	1.3	1.3	0.00	2,163	1.0	1.0

The weighted average share price for the LTIP awards exercised in the year was 412.1 pence (2008: 795.0 pence). The total charge for the year relating to the scheme was £1.5 million (2008: £1.7 million), all of which related to equity-settled share-based payment transactions. After deferred tax, the total charge was £1.1 million (2008: £1.2 million).

24. Other reserves

	Capital redemption reserve fund £m	Special reserve £m	Hedge reserve £m	Other reserves £m
At 1 January 2008	1.8	59.1	44.1	105.0
Cash flow hedges (net of tax):				
- Fair value losses in the year	-	-	(123.0)	(123.0)
- Transfers to net profit	-	-	56.5	56.5
At 31 December 2008	1.8	59.1	(22.4)	38.5
Cash flow hedges (net of tax):				
- Fair value gains in the year	-	-	115.6	115.6
- Transfers to net profit	-	-	(60.7)	(60.7)
At 31 December 2009	1.8	59.1	32.5	93.4

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. Notes to the group cash flow statement

	2009	2008
	£m	£m
a) Reconciliation of net debt		
At 1 January	823.4	448.5
Increase in cash, cash equivalents and overdrafts	(86.7)	(44.4)
Increase/(decrease) in loans due within one year	59.5	(4.3)
Increase in loans due after one year	64.2	215.3
Increase/(decrease) in finance lease obligations	43.0	(24.0)
Loans acquired	-	23.7
Finance leases acquired	-	24.2
Currency translation adjustments	(51.3)	184.4
At 31 December	852.1	823.4

	2009	2008
	£m	£m
b) Reconciliation of operating profit to cash generated from operations		
Operating profit (before exceptional item)	113.5	171.8
Depreciation	165.8	146.6
Goodwill impairment and intangible asset amortisation	44.8	12.0
EBITDA (before exceptional item)	324.1	330.4
Increase in inventories, excluding acquisitions	(4.7)	(1.3)
Decrease in trade and other receivables, excluding acquisitions	8.9	23.5
(Decrease)/increase in creditors, excluding acquisitions	(0.4)	27.3
Difference between pension contributions paid and amounts recognised in the income statement	(18.5)	(18.3)
Cash generated from operations	309.4	361.6

The 2008 comparatives have been restated to reflect the reclassification of the settlement of cross currency swaps (£27.6 million) to financing activities.

	1 January	Cash flow	Exchange	31 December
	2009		differences	2009
	£m	£m	£m	£m
c) Analysis of net debt				
Cash, cash equivalents and overdrafts	(113.3)	(86.7)	2.3	(197.7)
Loans due within one year	110.6	59.5	(1.7)	168.4
Loans due after one year	692.9	64.2	(41.2)	715.9
Finance leases	133.2	43.0	(10.7)	165.5
	823.4	80.0	(51.3)	852.1

26. Acquisitions

In November 2009 the group acquired the remaining 20 per cent of the share capital of Eurobus Invest for £0.4 million.

Prior year acquisitions:

Adjustments in respect of prior year acquisitions are detailed in the table below:

	£m
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Hindsight period adjustments:	
Trade and other receivables	0.1
Trade and other payables	1.4
Corporation tax	(0.1)
Deferred tax	(0.2)
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Decrease in fair values	1.2
Consideration received	(0.7)
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	0.5
Goodwill based on provisional fair values	50.1
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Goodwill based on final fair values	50.6
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Comparative amounts have not been restated following the final determination of fair value adjustments as the amounts involved are not material.

27. 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:

Passenger Transport

Arriva Cymru Limited
Arriva Derby Limited
Arriva Durham County Limited
Arriva East Herts & Essex Limited
Arriva International Trains (Leasing) Limited
Arriva Kent & Sussex Limited
Arriva Kent Thameside Limited
Arriva London North Limited
Arriva London South Limited
Arriva Medway Towns Limited
Arriva Merseyside Limited
Arriva Midlands Limited
Arriva Midlands North Limited
Arriva Noroeste SL²
Arriva Northumbria Limited
Arriva North West Limited
APS (Leasing) Limited
Arriva Personenvervoer Nederland B.V.³
Arriva Portugal Transportes LDA⁶
Arriva Scotland West Limited⁴
Arriva Skandinavien A/S¹
Arriva Sverige AB⁵
Arriva Tees & District Limited
Arriva Teesside Limited
Arriva The Shires Limited
Arriva Trains Wales/Trenau Arriva Cymru Limited
Arriva UK Trains Limited
Arriva Yorkshire Limited
Arriva Yorkshire West Limited
Autobus Sippel GmbH⁸
Empresa de Blas y Cia S.L.²
Eurobus-Invest Regionalis Kozlekedesfejlesztési¹³
London Pride Sightseeing Limited
MK Metro Limited
Osthannoversche Eisenbahnen AG⁹
Prignitzer Eisenbahn GmbH⁸
Regentalbahn AG⁸
SAB Autoservizi S.r.L.⁷
SAB Autoservizi F.V.G. S.p.A.¹⁰
Sadem S.p.A.¹¹
Stevensons of Uttoxeter Limited
Tellings Golden Miller Group Limited*
The Original London Sightseeing Tour Limited
Transportes Sul do Tejo S.A.⁶
Veolia Transport Danmark AS¹
Verkehrsbetriebe Bils GmbH⁸
XC Trains Limited

Rental and Distribution of Buses and Coaches

Arriva Bus and Coach Rental (4) Limited
Arriva Bus and Coach Limited

Investment

Arriva Findiv Limited
Arriva International Limited*
Arriva Motor Holdings Limited*
Arriva Passenger Services Limited*
MTL Services Limited*
Arriva Insurance Company (Gibraltar) Limited*¹²
Arriva International (Northern Europe) Limited
Arriva International (Southern Europe) Limited
Arriva Malta Holdings Limited
Arriva (2007) Limited

Property

British Bus (Properties) Limited

Except where marked by * shares are held by a subsidiary company

- ¹ Registered and operates in Denmark
- ² Registered and operates in Spain
- ³ Registered and operates in the Netherlands
- ⁴ Registered and operates in Scotland
- ⁵ Registered and operates in Sweden
- ⁶ Registered and operates in Portugal
- ⁷ Registered and operates in Italy
- ⁸ Registered and operates in Germany
- ⁹ Registered and operates in Germany (85% owned)
- ¹⁰ Registered and operates in Italy (60% owned)
- ¹¹ Registered and operates in Italy (80% owned)
- ¹² Registered and operates in Gibraltar
- ¹³ Registered in Hungary and operates in Hungary and Slovakia

28. Commitments

Capital amounts contracted for but not provided amount to £25.4 million (2008: £86.7 million) for the group. At 31 December 2009 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:

	2009			2008		
	Land & buildings £m	Other £m	Total £m	Land & buildings £m	Other £m	Total £m
Within one year	0.5	10.4	10.9	0.7	17.1	17.8
Later than one year and less than five years	3.6	189.8	193.4	4.1	322.0	326.1
After five years	158.6	2,018.7	2,177.3	209.1	3,411.8	3,620.9
	162.7	2,218.9	2,381.6	213.9	3,750.9	3,964.8