ARRIVA

ANNUAL REPORT & ACCOUNTS 2008

347103

FRIDAY

A04049A1

A13 24/04/2009 218

COMPANIES HOUSE

Highlights

Group

Revenue up 52 per cent to over £3 billion

2008	£3,042.2m
2007	£2,000.7m
2006	£1,729.0m
2005	£1,571.2m*
2004	£1,759.0m**

Profit before tax up 30 per cent to £150.0 million

2008	£150.0m
2007	£115.8m
2006	£109.8m
2005	£103.1m*
2004	£109.3m**

Cash generated from operations up 35 per cent to £334.0 million

2008	£334.0m
2007	£248.2m
2006	£159.7m
2005	£180.3m*
2004	£254.6m**

Adjusted EPS† up 32 per cent to 61.5 pence

2008	61.5p
2007	46.5p
2006	44.4p
2005	43.6p*
2004	45.1p**

Total dividend for the year up 6 per cent to 24.06 pence

2008	24.06p
2007	22.65p
2006	20.83p
2005	19.84p
2004	18.90p

Divisional

- Strong UK Bus performance, with revenue and operating profit up 13 per cent
- UK Trains operating profit up 349 per cent and revenue up 160 per cent, on first full year of CrossCountry. Excellent operational performance in both franchises
- Mainland European division 50 per cent revenue growth and 22 per cent operating profit growth††. Revenue and operating profit now both more than doubled since 2004

* From continuing operations
** 2004 includes results of the discontinued vehicle rental operation
† Before goodwill impairment, intangible asset amortisation and exceptional items
†† Before goodwill impairment and intangible asset amortisation and including share of associated companies' revenue and operating profit

Contents

Who we are

Arriva is a public transport operator with more than 43,500 employees and operations across 12 European countries.

We run many modes of transport including buses, trains, coaches and waterbuses. Amongst our related successful activities are a bus and coach distribution business, a highly-regarded sightseeing tour bus business and airport-related transport services.

Originally floated in 1965 under the Cowie name, as a motor retailer, we entered the public transport market in 1980. With around 6,000 buses and two UK rail franchises we are now one of the largest transport operators in the UK.

The present Arriva identity was created in 1997, bringing together many different company backgrounds under the Arriva name. Also in that year Arriva acquired its first business on the European mainland.

What distinguishes us most strongly from the other major UK-listed bus and rail operators is our geographical and market spread.

In 1999 we recognised the long-term growth opportunities that would be presented by the historic opening of transport markets across Europe, and refocused our strategy to concentrate on public transport. We started a disposal programme of our contract hire, motor retailing and vehicle rental businesses. In their place, we carefully and patiently built up a network of operations in mainland Europe, through targeted acquisitions and contract wins, and today we operate around 9,000 buses and 350 train sets. Our vision is to be the leading transport services organisation in Europe.

We are now well positioned as a leading privately owned pan-European public transport operator with bus and rail operations in the Czech Republic, Denmark, Germany, Hungary, Italy, the Netherlands, Poland, Portugal, Slovakia, Spain, Sweden and the UK.

How we work

We operate according to several different business models which vary by country, by region, and by the mode of transport.

Deregulated services
In a deregulated bus market, the key commercial relationship is directly between Arriva and our passengers - they are our customers, and their fare payments are the dominant source of income for the business. Our services have to be profitable in order to be sustainable, to generate the profits which underpin investments in replacement vehicles, our depot facilities, and the expansion and development of services.

In a deregulated market we compete against other forms of transport, and against other operators of similar transport, in just the same way as a high street retailer competes for the spending power of the public. We bear the revenue risk, which is to say that if the travelling public decides to switch to another form of transport, the lost revenue directly affects our finances.

Even deregulated services are subject to significant oversight, scrutiny and regulation in various ways, and there is usually a layer of sector-specific regulation. In our UK Bus operations, for example, the quality of operation and fitness for service of our vehicles and drivers is regulated by Traffic Commissioners.

Most of the bus operations in the UK, outside London, are deregulated and operate on a purely commercial basis. Contracted services are more common in other European countries, and Spain and Portugal operate on a largely commercialised basis.

Contracted services
In most of our mainland European bus and rail markets, the London bus market, and the UK rail market, our primary customer is some form of public-sector body. A regional government or transport authority may offer various forms of contract which give an operator the right to operate services, usually exclusively, on a particular route or in a specific area. Increasingly, as European transport markets become more liberalised, these contracts are awarded on the basis of competitive tendering. During a transition period, however, contracts may be awarded directly following negotiation with an incumbent operator.

Gross cost contracts
In a gross cost contract the tendering authority agrees to pay an operator a specified sum to provide the specified service for a specified period. Revenue from fares is passed to the tendering authority, which bears the revenue risk. The service provider generally carries the cost risk, though there may be provisions for cost increases to be passed through, such as elements of wage or fuel costs. Generally the tendering authority will take responsibility for working out routes, and may also specify the vehicles to be used.

Because the operator has no direct commercial relationship with passengers it is common for the tendering authority to provide a system of bonuses and penalties to give operators a financial incentive to provide the desired quality of service.

The UK London bus business, some rail operations in Sweden and Germany, and bus contracts in Denmark, are examples of Arriva's gross cost contracts.

Net cost contracts
In a net cost contract the operator takes on both the revenue risk and the cost risk. It keeps the revenues from fares, and the tendering authority provides a contribution in the form of additional contracted income. This offsets obligations that the tendering authority may have to ensure the provision of a public transport service, or to meet social objectives where the cost of providing such a service would not be commercially viable if it depended solely on the fare income that it could achieve.

On especially popular and important services it may be possible for the tendering authority to receive a premium payment from the operator running these routes rather than providing financial support.

UK rail franchises, Italian bus contracts, and bus and rail contracts in the Netherlands are examples of where Arriva operates this business model.

Revenue split

As a result of the different business models under which we operate, revenue across the group is derived from a combination of passenger revenue, and non-passenger revenue, including contracted government payments. The table below shows the 2008 revenue split for different parts of the group.

	Total revenue £m	Passenger revenue %	Non-passenger revenue %
UK Bus	922.4	49	51
UK Trains	837.8	48	52
Mainland Europe - Bus	860.5	21	79
Mainland Europe - Trains	421.5	36	64
Total	3,042.2	39*	61*

* Weighted average

Visibility of contracted revenue

The order book represents the expected future revenue from public transport contracts already won by the group. By providing forward visibility of a large proportion of future revenue, it helps to demonstrate the underlying strength and stability of the business.

It tracks estimated future revenue from contracted business, of over a year in duration, rolled forward to reflect contract variations and updated to current prices at each year end.

The principal areas of the group where contractual arrangements prevail are the bus operations in London, Italy, the Netherlands and Scandinavia, and the rail operations in the UK, Germany, the Netherlands and Scandinavia. The other parts of the group, principally the UK regional bus business and Portugal, operate under concessions, licences or other commercial arrangements, and are not included.

Group order book

Turn to the directors' report on page 50 for more information on Key Performance Indicators (KPIs)

Between 2007 and 2008, the group order book has grown eight per cent to £12.9 billion.

The 30 per cent increase for the Mainland Europe division includes an exchange rate impact. In local currency, the Mainland Europe order book was maintained broadly at 2007 levels.

Turn to Inside Arriva on page 8 for the contract and order book information by country

The big picture

Key facts

- Three divisions
- 12 countries
- 15,000 buses
- 570 train sets
- 43,500 employees
- One billion plus passenger journeys a year

Our strategic approach
Arriva is a large scale business, but never forgets to be local. We understand when to think big and when to focus on the detail. Our sources of competitive advantage are not easy for others to replicate.

Our broad footprint in mainland Europe gives us practical experience of operating successfully in many different commercial and regulatory regimes. Bringing together experts from many regions and city-scale operations into one group supports innovation and helps us to spread best practice and identify economies of scale. We are thirsty for knowledge and learning. We run transport networks on the ground, and learning networks within our organisation.

Our wealth of local contacts and our network of operating and maintenance bases help us to develop existing businesses and to develop new opportunities for the future. By understanding each local market in depth we constantly stay abreast of the evolving bigger picture of how our markets are evolving across Europe.

We think long term, and build our market positions piece by piece. We may start small, but our long-term aim is always to be one of the top three private sector operators wherever we work. Our commercial focus is on winning and retaining contracts and generating organic growth. In those activities we use the expertise and experience gained from 10 years of operating across Europe.

We strive for operational excellence. It makes our services attractive for our passengers. It rewards our tendering authorities for their confidence in us. It makes our employees proud of what they do for their communities. It improves our reputation amongst our stakeholders. Punctuality, reliability and serviceability are naturally desirable in themselves, but also underpin good financial performance over time.

We keep our business balanced. Our operations include a mixture of cash generative businesses in mature markets, and growth businesses in opening markets. We depend on no single mode of transport, on no single contract, on no single source of revenue, and no single source of funding.

We have a broad range of stakeholders and aim to operate in ways which benefit many different sets of stakeholder interests.

- To our passengers, we aim to provide safe, reliable and comfortable services that are an attractive alternative to other modes of transport
- To our transport authority customers, we bring the benefits of private sector delivery. We aim to provide value for money for the services their communities rely on, affording them improved services and / or lower public spending
- To our employees, we aim to provide worthwhile long-term work, of recognised value to their own communities, in a safe, supportive working environment
- To the wider community, in every city, region or country where we operate, we aim to provide the social and economic benefits of affordable, accessible travel, and responsible management of the environmental impact of transport
- To our investors, we aim to provide long-term growth in earnings and dividends based on a varied portfolio of business models, a mixture of contract sizes, types and durations, a range of transport modes, and a broad range of operating territories

Individually, each of our three divisions – Mainland Europe, UK Trains and UK Bus – has attractive and distinctive features, and is run by its own dedicated management team under its own managing director. Taken together, our three divisions form a blend of resilient market positions and growth opportunities.

Each country's bus and rail markets have their own distinct characteristics, which is one reason why each of our city or regional businesses is run by people who are part of the communities they serve.

Turn to Inside Arriva on page 8 for the country by country information

Bus operating area

Associate company Barraqueiro's
operating area

Inside Arriva

Our public transport services across 12 countries span a wide range of operating environments, in locations with varying market characteristics. Here we give you an insight into those differing operating environments and the role Arriva plays.

Bus operating area
Train operating area
New contracts yet to start

United Kingdom

Revenue	£1,760.2 million (2007: £1,137.1 million)
Order book	£7.7 billion (2007: £8.0 billion)
Buses	6,000
Train sets	217
Employees	23,300
Entered bus market	1980
Entered rail market	2000
Population	60.5 million
Liberalisation stage	Mature

In the UK, where our plc headquarters are based, we are well known as one of the largest bus operators, and as an operator of highly performing rail franchises.

UK Bus
The UK bus market has two different operating environments:

UK Regions
Outside London, the UK bus market is deregulated, having been privatised in the mid 1980s. Bus companies operate on a commercial basis, providing services where our relationship is direct with the customer, and we take full revenue risk. Where there is deemed to be a social need for services, local authorities may contract out services to operators on routes that would not otherwise be commercially viable.

Our UK Regions business represents about two-thirds of the UK Bus division. It runs around 4,500 buses and has a market share of approximately 15 per cent.

London
In London the bus market is regulated, and is contracted out by the city's transport authority, Transport for London (TfL). Contracts specify the required routes, vehicles and timetables and are closely monitored to ensure high quality services, with TfL bearing the revenue risk under gross cost contracts.

Our London operations represent around one-third of the UK Bus division. We operate approximately 20 per cent of this market, covering almost 65 million miles a year. Also in London, we run The Original Tour, which provides sightseeing tours of the capital.

UK Trains
The UK rail market is competitively tendered, with companies bidding for franchises of set timescales and service provision. UK rail franchises are generally much larger than their equivalents in mainland Europe.

Arriva currently operates two UK rail franchises:

CrossCountry
In November 2007 Arriva began operating a nine-year franchise on the CrossCountry network. Geographically the most extensive rail franchise in the UK, it stretches from Aberdeen to Penzance, and from Stansted to Cardiff, covering around 1,500 route miles and calling at more than 100 stations.

At CrossCountry we operate under contract to the UK government's Department for Transport. Support payments steadily decline over the life of the franchise, reducing to almost zero by the time the franchise comes to an end in 2016.

Our successful bid for the franchise included an innovative programme of improvements and benefits for travellers, including a 35 per cent increase in seating capacity at critical evening peak times on principal routes, with the introduction of additional newly-refurbished trains, and the refurbishment of existing rolling stock.

Arriva Trains Wales
At Arriva Trains Wales (ATW), we operate under contract to the Welsh Assembly Government.

We began operating the 15-year franchise in 2003, providing inter-urban, rural and commuter passenger rail services throughout Wales and the English border counties.
The ATW network, over 1,000 miles of track, stretches from Manchester, through north and south Wales and across to Birmingham and Gloucester.

Franchise support payments at ATW decline slightly each year over the life of the franchise.

The future
In both the UK regions and London, we aim to maintain our bus market share, whilst working to improve operational performance.

In rail, we will be concentrating on maintaining and improving the excellent operational performance of our two franchises.

At CrossCountry, we will continue putting our plans into action to add capacity by the end of the summer, and improve the customer experience.

At ATW we are continuing to work closely with the Welsh Assembly Government to develop rail services, and will be adding a new half hourly service between Merthyr Tydfil and Cardiff from May.

Germany

Revenue	£365.0 million (2007: £219.2 million)
Order book	£1.6 billion (2007: £1.2 billion)
Buses	1,000
Train sets	212
Employees	3,200
Entered rail market	2004
Entered bus market	2005
Population	82.3 million
Liberalisation stage	Bus, emerging Rail, mid-liberalisation

Cross border service to the Netherlands
Cross border service to the Czech Republic
Cross border service to Austria

Germany is the largest European transport market, and we are developing a network of bus and rail operations across the country.

Bus
The highly regulated bus market is almost three times as big as that of the UK. It is hugely fragmented and dominated by public sector companies, including state-owned Deutsche Bahn (DB). Conditions differ widely between the regions, and a substantial proportion of the market is still closed, with the exception of the federal state of Hesse which has decided on a programme to tender all bus services by 2010.

Rail
The rail market is also dominated by DB, however 20 per cent of the regional rail network has now been competitively tendered by regional authorities, with around half of the routes awarded going to the private sector.

The future
Economic pressures are increasingly driving the need for market testing in Germany. With high state capital subsidies due to end, private companies are becoming an increasingly attractive option for the regional authorities. In rail, it is expected that more short-distance passenger routes will be put up for tender. There is much exciting potential for future growth, in both bus and rail, in this emerging market.

Netherlands

Revenue	£221.9 million (2007: £178.5 million)
Order book	£1.4 billion (2007: £1.2 billion)
Buses	930
Train sets	50
Employees	2,500
Entered bus market	1998
Entered rail market	1999
Population	16.4 million
Liberalisation stage	Bus, mature Rail, emerging

Cross border service to Germany

Bus
The 19 regional authorities in the Netherlands have had responsibility for public transport since January 2001 when the Passenger Transport Act 2000 came into force. The regional authorities are obliged to organise public transport into concessions, which are periodically put out to open tender. Three big cities in the Netherlands, Amsterdam, Rotterdam and the Hague, are yet to put concessions out to tender.

The market is still dominated by formerly state-owned Connexxion. Arriva is one of the three largest private bus operators in the Netherlands, with approximately 20 per cent of the regional bus market.

Rail
Very little of the rail network has been competitively tendered to date, but as regional rail responsibility transfers to regional authorities, this is due to increase. The rail market is dominated by state-owned NS Rail, and Arriva is the largest private operator.

The future
We will continue to build on our established position as one of the leading private bus and rail operators in the Netherlands. Having developed a strong reputation for operational reliability and passenger growth, we are well placed to benefit from further liberalisation in this market.

Italy*

Revenue
£190.5 million (2007: £146.8 million)

Order book
£0.4 billion (2007: £0.4 billion)

Buses
1,940

Employees
2,550

Entered bus market
2002

Population
59.1 million

Liberalisation stage
Bus, emerging
Rail, yet to liberalise

* Including share of associates

Bus

The public transport system in Italy is highly subsidised with low fares.

With competitive tendering yet to emerge fully, the situation in Italy remains diverse. The market is highly fragmented with a large number of local operators, owned principally by regions and municipalities.

Arriva is the largest wholly privately owned public transport operator in Italy, with approximately five per cent of the bus market.

Rail

The responsibility for regional rail networks is devolved to local authorities, however early attempts at competitive tendering have failed. The state-owned passenger rail operator, Trenitalia, has an 83 per cent market share, with 26 region-owned operators sharing the remaining 17 per cent. If, and when, competitive tendering commences in the rail market, we will monitor any regional developments with interest.

The future

Successive changes in government have delayed the liberalisation process. Nevertheless, we are constructively working with municipal companies, and local and regional authorities to find innovative transport solutions.
We continue to believe that further opening of the market remains in the interests of the authorities, potentially bringing medium-term opportunities for Arriva.

Scandinavia

Revenue
£404.0 million (2007: £270.2 million)

Order book
£1.6 billion (2007: £1.2 billion)

Denmark

Buses	1,650
Train sets	47
Employees	5,000
Entered bus market	1997
Entered rail market	2003
Population	5.4 million
Liberalisation stage	Bus, mature Rail, mid-liberalisation

Bus
The Danish bus market is a mature regulated market. Five Passenger Transport Authorities have the responsibility for public transport services, including determining ticket prices, timetables and contract duration in their regions. Contracts are typically gross cost, of six years in length. Quality and service incentives apply.

Arriva is the largest private sector public transport operator in Denmark. Having acquired the Danish operations of Veolia, the second largest bus operator, in July 2007, our bus market share is approximately 60 per cent in Copenhagen and 50 per cent of the overall market.

Rail
The rail market was opened to public tendering in 2000. Arriva became the first private company to be awarded a rail franchise, operating 15 per cent of the regional network from January 2003. The rail market is dominated by state-owned DSB (Danish State Railways), which operates contracts under direct award from the Ministry of Transport.

The future
Arriva has integrated the former Veolia operations well, establishing scale in the bus market. We are now focusing on improving the quality of our contract portfolio, and are successfully retaining contracts at improved prices.

It is expected that one-third of DSB's regional rail kilometres will be competitively tendered in the next 10 years, and there is potential that 25 per cent of DSB will be privatised in the near future. Our experience means we are well placed to benefit from the increased levels of rail tendering expected in this market.

Sweden

Buses	430
Train sets	30
Employees	1,300
Entered bus market	1999
Entered rail market	2007
Population	9.1 million
Liberalisation stage	Bus, mature Rail, mid-liberalisation

Bus
Competitive tendering is well established in the Swedish bus market, after deregulation commenced in the 1980s. Bus contracts are typically six years in length, gross cost, with quality incentives and bonus / penalty regimes.

Arriva has secured a market share of around four per cent, mainly in the south of the country. In March 2009, we became the first new market entrant in Stockholm in 10 years when we started operating buses in the Swedish capital.

Rail
The rail market is dominated by the state-owned operator, Swedish Railways. Regional rail contracts are typically gross cost contracts of between three and five years. Inter-regional services tend to be net cost, with some awards of between 10 and 15 years.

After entering the rail market in June 2007 with the nine-year Pågåtag contract in the Skåne region, we now have around nine per cent of the short distance train market, by kilometres operated. This will increase in June 2009 when we start operating between Göteborg and Örebro.

The future
Transport markets in Sweden have benefited from a significant passenger increase over recent years, and present a growth opportunity for both our bus and rail businesses. We will be working hard to ensure our operations make the most of this passenger growth and will be looking to expand our bus operations and build upon our rail presence in Sweden.

Iberia*

Revenue
£175.3 million (2007: £105.4 million)

Portugal

Buses
1,550

Train sets
6

Employees
3,160

Entered bus market
2000

Population
10.6 million

Liberalisation stage
Bus, mid-liberalisation
Rail, yet to liberalise

* Including share of associates

Barraqueiro operating area shown in yellow

Spain

Buses
470

Employees
980

Entered bus market
1999

Population
44.5 million

Liberalisation stage
Bus, emerging
Rail, yet to liberalise

Bus
The bus market in Portugal is a regulated market in transition, with no competitive tendering. Municipalities are responsible for allocating routes or transport service networks by awarding exclusive concessions to independent operators, or by delivering the services directly. The national government is responsible for setting fares.

In addition to our Arriva operations, we have a 31.5 per cent stake in Barraqueiro, Portugal's largest bus and rail operator. Arriva is the third largest operator in the bus market.

Rail
Urban and regional rail services are operated under concessions allocated by the state, dominated by state-owned Camboios de Portugal. The first and only private company to hold a rail concession is Fertagus, owned by Barraqueiro. Through Barraqueiro, we also have an interest in the Metro Sul do Tejo tram operation, to the south of Lisbon.

The future
Work is underway to alter the legislation in force for bus public transport provision at a regional and national level. Metropolitan transport authorities are in the process of being established for the cities of Lisbon and Oporto.

There are no early signs of a move to competitive tendering in the rail market, but when changes do occur, we are well placed to benefit through the established good reputation of Fertagus.

Bus
The urban bus market is operated by private and city-owned companies, whilst the inter-urban and long-distance concessions are operated by private companies. Long concessions have typically been granted, with exclusive rights.

Traditionally the bus market in Spain is diverse, with many operators. A number of larger bus groups are emerging, however the market remains fragmented with 4,000 plus small operators, including a large number of family businesses.

In 2008, we more than doubled the number of buses we operate in Spain with an acquisition in Madrid.

Rail
The rail passenger market is yet to liberalise, and is dominated by state railway companies, with funding provided for loss-making regional and urban services. There are no immediate plans to implement competitive tendering.

The future
Many bus concessions with exclusive rights over long periods will expire over the next five years, bringing opportunities for bidding for these concessions. We have focused on building a strong presence in the greater Madrid area, and we are well placed to benefit from any market developments.

Eastern Europe

Revenue
£37.9 million (2007: £7.4 million)

In July 2008 we entered the Hungarian and Slovakian bus markets through the acquisition of 80 per cent of Hungarian-based bus group Eurobus.

Hungary

Buses	120
Employees	230
Entered bus market	2008
Population	10.1 million
Liberalisation stage	Yet to emerge

Slovakia

Buses	670
Employees	1,150
Entered bus market	2008
Population	5.4 million
Liberalisation stage	Bus, mid-liberalisation Rail, yet to emerge

Hungary

Bus
The national government is responsible for regional public transport provision, whilst municipalities are responsible for local public transport, and may provide this through municipally-owned operators. New contracts may only be awarded to an operator selected by a tendering procedure, however contracts signed before 2004 can remain in force for eight years, so there is currently little tendering. Regional services are primarily operated by the state-owned Volan companies.

Rail
The Hungarian rail market has not yet opened to liberalisation and remains dominated by state-owned service providers. The rail market is not expected to open to competitive tendering in the near future.

The future
There is potential for city transport companies to introduce tenders to operate bus services.

The Volan companies have committed to sub-contracting some of their services.

Slovakia

Bus
Competitive tendering of contracts is not yet common practice in Slovakia. City authorities are responsible for public transport provision and funding. In some cities, services are operated by city-owned companies, in other areas services are typically provided by the local operators, SADs, through public-interest contracts, with exclusive rights of up to nine years. Arriva's Eurobus business has a 60 per cent interest in two of these, SAD Novézámky and SAD Michalovce.

Rail
Rail is operated by Slovak Railways, the state monopoly incumbent rail company. No rail privatisation has taken place.

The future
Privatisation is underway in the bus market, and will remain a theme in coming years.

In rail, regional procurement is due to be devolved to regional authorities in the coming years.

Eastern Europe

Czech Republic

Buses	285
Employees	430
Entered bus market	2006
Population	10.2 million
Liberalisation stage	Emerging

Poland

Train sets	9
Employees	75
Entered rail market	2007
Population	38.2 million
Liberalisation stage	Emerging

Bus
Regional government controls route licensing and maximum fares, and individual cities are responsible for urban public transport and its funding. There is currently little competitive tendering, and direct award of concessions is not uncommon. There are around 250 bus companies operating in the market, many of which are the inter-urban CSAD companies that were formed in the 1990s as part of the original privatisation process.

Rail
Regional rail routes have been transferred to local government and competitive tendering has recently started in some regions, with the potential to expand in the mid to near future. Rail in the Czech Republic is dominated by state-owned CD, which has a 99 per cent share of the market.

The future
There is a gradual move towards competitive bus tendering, particularly in cities such as Prague where the market is growing. We have built a position around Prague and are well placed to grow as the market opens.

The government has committed to enhancing the role of the private sector in the Czech Republic rail market. There has been some market testing of passenger concessions by regional and central government.

Bus
There are increasing instances of bus tendering and sub-contracting in the larger towns and cities. The bus market is divided between 167 publicly-owned companies (PKS), providing rural, inter-urban and long-distance transport, and around 140 municipal bus operators in towns and cities.

Rail
PKP SA, the state-owned railway company, dominates the rail passenger market. After entering the market in December 2007, with the start of a three-year rail franchise in the north west of the country, the Arriva-PCC joint venture is the only other company currently operating tendered passenger rail services in Poland.

The future
There may be opportunities to grow in bus following the government's announcement of its intention to privatise up to 11 PKS companies during 2009.

Regional rail provison has been devolved to the regions, potentially creating further opportunities in this market.

Balance and stability

A year ago I said I believed that Arriva's commercial success during 2007 would be reflected in results during 2008 and beyond.

With significant growth in revenue, operating profit and earnings in 2008, Arriva has delivered record results this year. Behind the financial numbers is a pattern of continuing strategic progress.

No company can regard itself as insulated from upheaval in the world economy, but the turmoil of 2008 has illuminated several benefits of Arriva's strategic position. The business continues to be highly cash generative, and benefits from structural stability and diversity provided by its three divisions, UK Bus, UK Trains and Mainland Europe. Deriving a significant portion of its revenue from its long-term contracted base, it has relatively low exposure to fluctuations in passenger revenue.

While current macro-economic conditions make it impossible to predict with accuracy the short to medium-term trends in passenger demand, they highlight the benefits of Arriva's geographical and market diversity. With operations in 12 countries and a balance between bus and rail we do not depend solely on the different economics of either mode of transport. Our balance between consumer and government business gives us an order book with long-term visibility of future revenues. Our strong and predictable cash flows support our ability to face the challenges of the macro-economic environment.

The first full year of our CrossCountry franchise has, as anticipated, transformed our UK Trains division.

Both of our rail franchises performed well during 2008 with satisfactory growth in passenger revenues.

With demand continuing to be healthy during 2008, our UK Bus division has grown through increased passenger numbers, increased contract mileage in London, and acquisitions.

Our extensive presence in mainland European countries continues to increase. Through acquisitions this year, we have entered the Hungarian and Slovakian markets, significantly developed our position in the greater Madrid area, and reinforced our positions in Italy, Germany and Portugal. We have re-won a number of significant contracts and won a number of smaller new ones.

For 2008, I am delighted to report substantial growth in revenue, up 52 per cent to £3,042.2 million (2007: £2,000.7 million) and operating profit up 34 per cent to £171.8 million (2007: £128.0 million). Profit before taxation was up 30 per cent to £150.0 million (2007: £115.8 million). Basic earnings per share before goodwill impairment, intangible asset amortisation and exceptional items, our preferred measure, increased by 32 per cent to 61.5 pence (2007: 46.5 pence).

During 2008 we continued to invest in future growth. In 2009 we will make further disciplined capital investments in our fleet to make our existing business more attractive to our customers, and in preparation for contract starts. We will continue to invest in the talent and skills of our people, through training and development, and by enabling them to network across the group to learn from each other.

Our strong and predictable cash flows support our ability to face the challenges of the macro-economic environment

We will also continue to invest in long-term relationship building with all our stakeholders. Economic adversity drives change, and change creates opportunities. As those opportunities start to emerge we will be ready to find new ways to create value for our shareholders and for our customers.

The long-term issues of urban congestion and the sustainability of travel may appear less prominent while economic uncertainty captures the headlines, but they have not gone away. Responsible stewardship of our business and the environment gives us a mandate to make the best possible use of fuels and other resources, and to continue to innovate with alternative fuels, both in experimental trials and increasingly in passenger service. It remains crucial to maintain the environmental advantages that well-managed public transport can bring to society, and to provide Europe's citizens with the mobility that is essential to our economic and social needs. The need has never been greater to keep people moving safely and sustainably. However working patterns and the fortunes of different sectors of the economy may fluctuate, those needs will continue to provide opportunities for the public transport industry to serve its customers to mutual advantage.

The successes of 2008 are a solid base from which to take advantage of future opportunities that emerge from economic and market developments as they arise. The group's diversified nature, balance of revenue sources, and healthy order book are a strong basis for us to confront the challenges of the expected downturn in the European economy in 2009.

Over the last 12 months we increased our final 2007 and interim 2008 dividends by 10 per cent, double the rate of previous years, in anticipation of this year's increase in earnings. For the 2008 final dividend, we propose to revert to an increase of five per cent resulting in a payment of 17.91 pence per share. Combined with the interim dividend of 6.15 pence per share paid in October 2008, the proposed total dividend will be 24.06 pence per share, an increase of 6.2 per cent for the year. The final dividend will be paid on 1 May 2009 to all shareholders on the register at close of business on 27 March 2009.

Angie Risley, group human resources director, Lloyds Banking Group plc, joins the Board on 9 March as a non-executive director and my colleagues and I extend a warm welcome to her.

Finally, I would like to place on record my appreciation, and that of the Board, for the substantial contributions made to the company over many years by Veronica Palmer and Steve Clayton who both retire following the conclusion of the Annual General Meeting; we wish them well in their retirements.

Sir Richard Broadbent
Chairman

Turn to page 20 for the chief executive's review

Driving on

Arriva made substantial progress towards achieving its vision in 2008. Through the year we continued to drive on determinedly into Europe to build our distinctive business. Our strength and stability entering 2009 are the result of a decade of pursuing our strategy, focusing the group tightly on the opportunities in public transport.

We value highly our unique position in the European public transport market. We benefit from diversification by geography and market, and have an attractive balance between government and passenger revenues. These advantages may have become more apparent over the last 12 months, but such positions are not achieved overnight, and our journey continues. During 2008 we consolidated and developed our leading position across 12 countries, through integration and improvement of past acquisitions, further targeted acquisitions and investments and the start of new contracts. Built up through a disciplined, patient process of market entries, organic contract wins and carefully targeted acquisitions, our European business represents the benefits of more than a decade of learning and expertise.

Public transport is a long-term business with deep roots. Even against the current background of economic downturn and financial sector crisis, attractive, integrated public transport networks are increasingly seen as a kingpin for long-term prosperity, all over Europe. Whilst there are clear historic links between economic activity and demand for the services our industry provides, transport is also an enabler of growth. Recession presents challenges for every part of the economy, transport included. It also provides strong motives for fresh thinking, and opportunities for accelerated change.

During 2008 our acknowledged operational proficiency continued to pay off, with reliability, punctuality and quality of service across the group at high levels overall. We will continue to focus on improving the everyday deliverables that underpin today's customer satisfaction and tomorrow's business opportunities. Our three divisions delivered well for their passengers and transport authority customers and the business as a whole has demonstrated significant growth for shareholders.

Divisional results

	Revenue		Operating profit	
	2008 £m	2007 £m	2008 £m	2007 £m
Mainland Europe*	1,394.6	927.5	78.5	64.5
UK Bus	922.4	814.7	99.3	87.9
UK Trains	837.8	322.4	33.7	7.5
Central	-	-	(18.8)	(17.1)
	3,154.8	2,064.6	192.7	142.8
Associated companies - Mainland Europe	(112.6)	(63.9)	(8.9)	(7.4)
Total operations	3,042.2	2,000.7	183.8	135.4
Goodwill impairment and intangible asset amortisation	-	-	(12.0)	(7.4)
Group revenue and operating profit	3,042.2	2,000.7	171.8	128.0

* Including share of associated companies' revenue and operating profit

Our strength and stability entering 2009 are the result of a decade of pursuing our strategy, focusing the group tightly on the opportunities in public transport

Mainland Europe

Our Mainland Europe division recorded another year of double-digit growth. Operating profit rose 22 per cent to £78.5 million (2007: £64.5 million), on revenue up 50 per cent at £1,394.6 million (2007: £927.5 million).

The exchange rate used to translate euro results was £0.81 to the euro, with sterling 19 per cent weaker than last year.

There was a mixed performance from our mainland Europe businesses. In 2008, our Italian and Scandinavian businesses traded particularly well, however during the year we dealt with a number of unconnected challenges in other areas which collectively held back growth in operating profits. These included a strike in the Netherlands, some challenging results from rail contract starts in Germany, and higher fuel costs in our Portuguese associate.

The order book for the division, reflecting estimated revenue over the life of contracted business based on prices at the 2008 year end, was up 30 per cent to £5.2 billion (2007: £4.0 billion), although in local currency it was maintained broadly at 2007 levels. Contract wins in the year for new business were lower than in previous years, though the retention level of existing contracts was highly satisfactory.

Scandinavia

Scandinavia revenue was £404.0 million (2007: £270.2 million). In local currency, revenue was up 24 per cent, reflecting the acquisition of loss making Veolia Denmark in August 2007, and a full year of rail operations in Sweden.

We are pleased with the progress made in the integration of Veolia Denmark and are particularly encouraged to see signs of more sensible pricing in the bus market in the core Copenhagen area, where we have retained former Veolia contracts at improved prices. Having established scale in the market, our strategy in Denmark will focus on continuing to improve the quality of our contract portfolio.

The Jutland rail contract, which expires at the end of 2010, is currently being retendered and we believe our credentials as the top-performing rail operator in Denmark will help in our endeavours to retain the contract. A decision is due to be made shortly.

On 1 March 2009, we began bus operations in the Swedish capital, Stockholm, with two five-year bus contracts, with five-year extension options and a combined fleet of 164 buses.

Germany

Revenue at our German operations was £365.0 million (2007: £219.2 million). In local currency, revenue was up 41 per cent reflecting the start or first full year of a number of new rail contracts, and the first full year impact of Osthannoversche Eisenbahnen AG (OHE).

Lower Saxony-based subsidiary OHE started two rail operations in December 2007, and these are operating well one year on. In southern Germany we completed the first full year of operations at two new 10-year rail franchises, started in December 2007. Mobilisation of two franchises in Bavaria proved more challenging than expected, and we have taken steps to improve operations. In December 2008, we started operating the 10-year Spree-Neisse rail contract in the east of the country, as part of the 50/50 ODEG joint venture.

In November 2008, we acquired a small bus company in eastern Germany, operating 79 buses and we have recently expanded our position in Frankfurt, starting three bus contracts in and around the city, adding more than 60 buses.

The Netherlands

Revenue was £221.9 million (2007: £178.5 million). In local currency, revenue was up five per cent.

In a challenging year for our Netherlands business, a three-way national dispute between the public transport companies, public transport authorities and trades unions over collective labour agreements and indexation on contracts (particularly indexation relating to fuel and labour costs) caused major disruption across the country. Disappointingly, despite an agreement being reached in June, the fuel indexation element has yet to be finally agreed and received and a new working agreement has yet to be established. The disruption cost more than □ 5 million. In addition, the business has as yet been unable to reflect fuel indexation recovery in its results. We are confident of resolving these issues in 2009.

More positively, at our DAV operations in the central Dordrecht region, a □ 30 million (£26 million) investment saw the introduction of seven new electric trains in September 2008, with a further three trains due to be added during 2011. In addition to the DAV contract we ordered seven diesel trains to operate in north Holland, which are due for delivery in 2009 and 2010.

Italy

Our Italian business had an excellent year, with revenue rising to £190.5 million (2007: £146.8 million). In local currency, revenue, including share of associates, was up 10 per cent.

We have continued our strategy of increasing investment in existing subsidiary and associate companies over time. In January 2008, we increased our holding in SAIA Trasporti Capital, a bus operator in the Brescia area, by acquiring the remaining 12 per cent of the company. In October 2008, we purchased the remaining 20 per cent interest in Sadem S.p.A and its subsidiary Sapav S.p.A, bus companies in the Piemonte region, taking our ownership to 100 per cent.

Successive changes in government have delayed the liberalisation process, which is disappointing in one respect, but paradoxically, in the short term, reinforces our position as one of the incumbent operators. Nevertheless, we continue to believe that further opening of the market remains in the long-term interests of the authorities as well as presenting long-term opportunities for Arriva.
We welcomed the passing of the Italian Budget Law which brought a further three-year commitment to state funding for public transport provision.

Iberia

Operations in Portugal and Spain reported revenue, including share of associates, of £175.3 million (2007: £105.4 million). In local currency, the increase was 41 per cent, primarily reflecting our increased stake in associate company Barraqueiro, in which we acquired a further 10 per cent in January 2008, taking our overall interest to 31.5 per cent. Our results were adversely affected by state regulated fare increases lagging fuel price increases, and by some weakening in patronage in the run-up to Christmas.

In Spain, we further expanded our strategic position in the busy Madrid transport market with the acquisition of Empresa de Blas y Cia S.L. (De Blas) in July 2008. De Blas is one of the largest contractors to the Madrid transport authority, operating 222 buses. Included in these results is revenue of □ 26.8 million (£22.2 million) and operating profit of □ 3.6 million (£3.0 million) from De Blas.

Eastern Europe

Revenue from the Czech Republic and Poland rose 159 per cent to £19.2 million (2007: £7.4 million), reflecting the first full year of Polish rail operations and the two Czech bus companies acquired in 2007. Hungary and Slovakia contributed a further £18.7 million from the acquisition of Eurobus Invest (Eurobus) in July, taking revenue for Eastern Europe to £37.9 million.

Our three bus operations in the Prague area of the Czech Republic are now managed by a central Arriva team, and are making good progress. The Polish rail operation made a small loss.

UK Bus

Our UK Bus division has continued to grow, and a robust operating performance was reflected in operating profit up 13 per cent to £99.3 million (2007: £87.9 million), on revenue of £922.4 million (2007: £814.7 million), up 13 per cent. Margins were maintained at 10.8 per cent.

Growth in the division was driven by increased passenger numbers in the regions and increased contract mileage in London, with a contribution from the acquisition of bus, coach and airside passenger transport operator, Tellings Golden Miller Group (TGM), in January 2008, and the Excel Group in April 2008. Included in these results is revenue of £48.7 million and operating profit of £2.0 million from these acquisitions.

UK Regions

In addition to ongoing cost control, our teams continue to focus on network development, matching services to demand, and using a range of marketing initiatives to stimulate passenger growth on key corridors. In 2008 patronage increased by approximately two per cent, including the effects of the extended concessionary fare scheme.

Investment in fleet renewal continues. We added more than 460 new buses in 2008, and plan to put approximately 500 more new buses into service during 2009, improving the passenger experience and representing a total investment of more than £130 million.

We continue to develop new technologies and were pleased to be the first UK bus operator to introduce a mobile ticketing trial on our Fastrack services in Kent. The trial proved successful and in 2009 we will roll out mobile ticketing across other services in Kent and Yorkshire. We have also initiated an LED display trial using colour digital displays on the outside of buses to provide customers with information on services, fares, destinations and promotions.

Cost control and responsible environmental stewardship are continuing areas of focus. Building on successful trials, we have continued to roll out driving aid technology which, combined with driver training, is helping to reduce fuel consumption. Further deployment is planned during 2009.

We were pleased to see improved customer satisfaction in our annual survey, based on interviews with 20,000 customers. 91 per cent were satisfied overall and 86 per cent of customers stated that they would recommend our services to others. We are working to improve this yet further.

London

Arriva continues to be one of the largest bus operators in London, running around 20 per cent of the capital's buses, with annual mileage of almost 65 million miles. In 2008, year-on-year mileage growth of five per cent was achieved. An excellent level of contract retention was maintained for all work retendered in 2008. In particular, we were pleased to retain the high profile route 38, on which the substitution of double deckers for articulated buses has added 24 per cent to the contracted mileage.

Street works continue to disrupt services, particularly in Arriva's north London heartland and around Brixton in the south, but the business has done well to mitigate this impact, and punctuality remains high.

The Original Tour continues to perform well, benefiting from a rise in London tourists in 2008, and the new Trafalgar Square visitor centre which opened in August 2007.

UK Trains

Our UK Trains division, which operates Arriva Trains Wales and CrossCountry, delivered significant growth in both franchises. Operating profit for the division rose by 349 per cent to £33.7 million (2007: £7.5 million), on revenue up by 160 per cent to £837.8 million (2007: £322.4 million), reflecting the first full year of operating the CrossCountry franchise.

In November 2008, we acquired train maintenance company LNWR and its maintenance depot in Crewe, for £2.2 million. The Crewe depot is a leading facility for servicing electric and diesel trains on the West Coast Main Line, with clients including Bombardier, Siemens, Freightliner and Arriva Trains Wales.

CrossCountry

The CrossCountry franchise, which we started in November 2007, performed well. Passenger revenue for CrossCountry was up 11.2 per cent for the year ended 31 December 2008, on the equivalent services in 2007, based on estimated like-for-like passenger revenues for the remapped franchise, slowing slightly in the fourth quarter of the year.

The franchise is operating efficiently, and improved consistently over the year. The Public Performance Measure (PPM) for the year ended 31 December 2008, based on the percentage of franchised passenger trains arriving at their destination within 10 minutes of schedule, increased to 89.6 per cent, from 86.3 per cent in 2007.

Developments within the CrossCountry franchise are well under way. All five refurbished High Speed Trains are now in service and refurbishment of the 57 Voyagers has started, adding around 4,000 seats to our fleet. We are well on track to increase capacity by 35 per cent at peak periods during 2009.

In December, CrossCountry became the UK's first train operator to offer e-tickets nationwide, enabling customers to purchase and print tickets at home, by 6.00 pm the day before departure. Plans to introduce mobile phone based ticketing are well advanced. Passengers will soon be able to access live train times, and book train tickets and seats via their mobile phones.

Arriva Trains Wales

Patronage continued to grow at Arriva Trains Wales, and passenger revenue was up 10.9 per cent for the year ended 31 December 2008.

Arriva Trains Wales' strong operational record continues, with PPM showing 92.5 per cent of services arriving at their destination within five minutes of schedule, up from 91.8 per cent in 2007, making Arriva Trains Wales one of the highest performing train operators in the UK.

In February, Arriva Trains Wales started operating passenger rail services on the newly re-opened Ebbw Valley Railway for the first time in 40 years, providing more than a hundred services a week to Cardiff. The line has proven to be very popular, with 11,000 passengers per week.

December 2008 saw the implementation of a new timetable, delivering major enhancements to services, particularly in mid and north Wales with the extension of services to Birmingham International Airport. A new, faster, North South Premier Class service was also introduced in December 2008, delivering journey time improvements between north and south Wales, and adding a First Class service for the first time on the Arriva Trains Wales network.

In 2009, Arriva Trains Wales will continue to work closely with the Welsh Assembly Government to develop rail services in Wales and the border regions, including, from May 2009, the addition of a new half hourly service between Merthyr Tydfil and Cardiff.

Turn to the directors' report on page 50 for more information on KPIs

Outlook

In the medium and long term, Arriva's strategic opportunities remain clear and the outlook for the business is positive.

As we have previously reported, 2009 presents the challenge of a significant increase in the cost of fuel, falling mainly on UK Bus and some mainland Europe businesses which do not have fuel indexation protection. We anticipate that the year-on-year impact of fuel cost increases across the group will be approximately £60 million in 2009. Fuel fixes for 2010, already in place for approximately 65 per cent of anticipated consumption, are at an average price of 35.7 pence per litre compared with an average of 42.9 pence for 2009, recovering about half the increase.

The effects of recessionary conditions in Europe are uncertain, but are likely to affect each of our three divisions in different ways.

In our UK Trains division, the scheduled support payments in relation to our CrossCountry franchise reduce over the life of the franchise. To maintain 2008 levels of profitability, against that background, CrossCountry needs to continue to achieve passenger revenue growth of around 10 per cent in 2009, from a 2008 base of £319 million. Revenue protection applies to the franchise from 2011. Passenger revenue has continued to grow in recent weeks, despite the effects of bad weather and network disruption, though at a slower rate than in 2008.

The characteristics of our Arriva Trains Wales franchise make it more resilient to economic downturn. Most of its revenue consists of a stable stream of support payments based on social need and its economic sensitivity to fluctuations in passenger revenue is therefore modest.

In our UK Bus division, the London-based business, about one-third of the division by revenue, has no exposure to passenger revenues, and has an excellent record of contract retention. In the deregulated UK Regions business, experience of previous recessions suggests that overall demand for bus travel may be relatively resilient. The flexible commercial nature of the business in any event enables it to match supply to the level of demand. Our position is reinforced by substantial investment in new fleet during 2008 and 2009, helping to improve the attractiveness and marketability of our services.

In our Mainland Europe division, less than 30 per cent of 2008 revenue was from passengers, reflecting the dominant contracted model of bus and rail provision in mainland European countries. The overwhelming majority of contracts have steady or increasing profiles of support payments. The Spanish and Portuguese bus markets have some characteristics in common with the UK regional bus market, being principally driven by passenger revenues. Overall in the division there is some sensitivity to passenger revenue fluctuations but we anticipate that our investments in acquisitions and tender wins will go some way to mitigating the effects of recession.

Further ahead, Arriva continues to be well positioned for growth with a proven strategy and a growing market share in a huge European public transport market.

Whilst recession presents challenges in the short term, it also presents opportunities. All recessions take their toll on the weakest businesses with the strong surviving to take advantage of long-term growth when economic circumstances improve. Already in our Scandinavian bus businesses we are seeing contract prices recover from artificially depressed levels following the exit of a major competitor which was unable to sustain its position.

The long-term social need for public transport remains beyond dispute. EU regulation provides a clear road map to hundreds of millions of euros of business coming out to tender across Europe by 2018. Further market opening is thereby built into the agendas of governments and public authorities, who are also highly motivated to find ways of achieving better value for money.

Arriva's unique strategy and business model remain attractive, with considerable opportunity for growth and great determination to achieve it. The group continues to be highly cash generative, well diversified and strategically focused on its long-term goals.

David Martin
Chief executive

Turn to page 28 for the financial review

Financial review

Progress in the development of the group was reflected in record financial results and substantial growth in 2008. However, the year also saw unprecedented volatility in financial markets. In many of the countries in which we operate, economic growth has given way to recession.

This review of the financial results and position of the group therefore takes place against a significantly different economic background to that of a year ago. Nevertheless, our diversified portfolio of operations and our financial strength continue to limit the impact of adverse external factors on the group and its prospects, and position us to take advantage of opportunities as Europe's economies come out of economic downturn.

Group income statement

Revenue was over £3 billion for the first time, at £3,042.2 million (2007: £2,000.7 million), reflecting strong growth across all three divisions, in particular in the UK Trains division, which benefited from the results of the first full year of the CrossCountry rail franchise.

Operating profit grew 34 per cent to £171.8 million from £128.0 million. Operating profit before goodwill impairment and intangible asset amortisation, our preferred internal measure, was up 36 per cent to £183.8 million (2007: £135.4 million). The operating results reflect a strong performance across the group, the impact of CrossCountry and the £10.6 million effect of translating the results of mainland Europe from euro to sterling at an average rate of £0.81 to the euro compared to £0.68 to the euro in 2007. Our policy of fixing fuel costs at least 12 months in advance largely negated the impact of higher prices for fuel in the group's subsidiaries.

The share of post tax profits from associates increased to £4.4 million from £4.3 million. The impact of increasing our 21.5 per cent holding in Barraqueiro to 31.5 per cent in January was largely offset by the adverse impact of higher fuel costs in that business. The net finance cost for the year was higher at £26.2 million (2007: £16.5 million) as a result of increased debt arising from acquisitions and investments, higher borrowing costs, and the £6.6 million impact of translating euro-based interest costs into sterling at a higher rate than in the previous year.

Profit before taxation thereby increased to £150.0 million (2007: £115.8 million). The change to UK tax rules in respect of Industrial Buildings Allowances has resulted in an exceptional deferred tax charge, in 2008, of £7.7 million, increasing the taxation charge to £38.8 million (2007: £25.8 million). The underlying effective rate of tax, excluding this exceptional item, has fallen from 22.3 per cent to 20.7 per cent. This rate of tax remains lower than the standard rate in the UK primarily due to the release of provisions for taxation, in respect of prior years, no longer required and the recognition of previously unrecognised tax assets. Profit for the year increased to £111.2 million (2007: £90.0 million).

After taking account of minority interests, principally in our Italian, German and eastern European subsidiaries, earnings per share, excluding goodwill impairment, intangible asset amortisation and exceptional items, increased significantly by 32 per cent to 61.5 pence (2007: 46.5 pence). Basic earnings per share was 52.6 pence (2007: 43.5 pence). The net impact of the year-on-year change in the average euro / sterling exchange rate was a benefit of 1.3 pence per share.

Cash flow

EBITDA increased by 33 per cent to £330.4 million (2007: £249.2 million) reflecting the substantial growth in the group's activities. A working capital inflow of £3.6 million (2007: outflow £1.0 million) contributed to net cash generated from operations for the year of £334.0 million, up 35 per cent (2007: £248.2 million).

There was a significant increase in investment for the future. Net capital expenditure was £244.8 million, compared to £145.2 million in 2007, whilst expenditure on acquisitions, including the absorption of net debt, in 2008 was £218.7 million (2007: £73.5 million).

Turn to the directors' report on page 50 for more information on KPIs

...our cash generation has grown substantially, remains strong and provides the foundation for investment in the business and returns to shareholders

The increase in capital expenditure was mainly due to the introduction of more than 460 new vehicles in UK Regions, further bus and rail expansion in mainland Europe, and the impact of translating mainland Europe expenditure into sterling at a higher rate than previous years.

In January we acquired TGM, followed by the Excel Group in April for a combined consideration, including net debt acquired, of £36.7 million. Goodwill on the acquisitions amounted to £15.9 million. Also in January, we acquired an additional 10 per cent holding in Barraqueiro for € 50 million (£37.4 million), with goodwill on the acquisition amounting to £38.4 million. In July we acquired De Blas for € 118.1 million (£93.6 million), including net debt acquired, and also completed the acquisition of 80 per cent of Eurobus for £39.8 million including net debt acquired. Goodwill on the acquisitions amounted to £52.9 million and £23.1 million respectively. Expenditure, on the same basis, on other smaller acquisitions in Germany, Italy and the UK, was £11.2 million, with goodwill of £8.9 million arising.

Interest and dividend payments absorbed £78.1 million (2007: £59.4 million), whilst there were net corporation tax receipts during the year of £16.9 million (2007: payments £5.4 million). New shares issued on exercise of share options generated £0.2 million (2007: £1.3 million).

There was a significant increase in net debt to £823.4 million (2007: £448.5 million). This reflected the increased acquisition and investment activity and the £184.4 million impact of translating overseas debt into sterling at £0.97 to the euro (2007: £0.73 to the euro), sterling having weakened considerably in the final weeks of the year.

Treasury and financial risk management

The group's 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 fuel prices, interest rate changes and foreign currency movements. These targets are achieved through the use of forward fuel price fixes, interest rate and exchange rate swaps, and fixed rate finance.

Commodity risk

The group's general policy is to maintain fuel price fixes at least 12 months ahead on a rolling basis. The requirement to fix fuel is determined after taking into account the extent to which businesses are protected from fuel price volatility through contract price indexation. Following the award of the CrossCountry contract in 2007, a fuel fix was put in place covering 75 per cent of the anticipated 100 million litres annual fuel usage of the contract up to its expiry. The group's forward fixing of fuel (excluding Barraqueiro which has its own arrangements) for 2009 and 2010, at 24 February 2009, compared with 2008, was:

	2008 %	2009 %	2010 %
Protected by indexation arrangements	12.3	13.8	13.8
Forward purchased*	81.3	85.3	64.7
Subject to spot or future forward purchase	6.4	0.9	21.5
	100.0	100.0	100.0
Fixed price*	29.5 pence	42.9 pence	35.7 pence

* Average price per litre of forward purchased fuel, excluding fuel taxation and delivery

During 2008, the forward price of fuel was both relatively high and volatile, peaking in the summer. With forward fixes undertaken against this background, fuel costs (excluding fuel taxation) will increase in 2009 by approximately £60 million on a like-for-like basis. Fuel costs will decrease substantially in 2010 if current prices in the market are maintained. The total fuel consumption in 2008 was approximately 500 million litres.

Interest rate risk

Fluctuations in interest rates are managed by interest rate swaps and the use of fixed rate debt. Actual hedged debt at 31 December 2008 was 71 per cent. The target level of hedged debt is 80 per cent of group net debt, achieved within a banding of 65 per cent to 95 per cent of net debt, which allows for the impact of short-term variations arising from the fair value of interest rate hedging instruments. Hedged debt for this purpose represents fixed rate finance and swaps with over one year's duration.

Foreign currency risk

The group policy on foreign exchange exposure is that the risk to equity of translating non-UK assets and liabilities into sterling should be reduced to around 50 per cent of the balance sheet exposure. At 31 December 2008, the exposure was 26 per cent of non-UK assets. The risk is managed through the use of funding in local currencies and by entering into foreign currency swaps of durations up to three years. The majority of such swaps also encompass fixed interest rates, thus also providing interest rate protection between EURIBOR, LIBOR and CIBOR. The group also enters into foreign exchange forward contracts to hedge specific cash flows arising with overseas suppliers. The fair value of the group's cross currency swaps and foreign exchange forward contracts at 31 December 2008 is a liability of £90.6 million (2007: £23.1 million). The policy was amended in December 2008, from the previous policy of reducing the risk to equity to insignificant levels. Whilst increasing the risk to equity, the new policy will reduce the risk of sterling denominated facilities being eroded by increases in the sterling value of euro borrowings drawn on those facilities.

Credit risk

Credit risk arising from operational suppliers and 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. The group also manages its exposure to debit risk in respect of financial institutions that provide credit to the group, and operational suppliers and customers. The group nominates and approves banks and lease providers with whom it will deal. All group companies are required to bank with nominated banks.

Liquidity risk

In addition to daily local monitoring, the liquidity of the group is monitored fortnightly, via group net debt reports showing the level of drawdown compared to available facilities for all components of net debt, and monthly against forecasts and budget. Future liquidity is monitored through detailed 15-month cash forecasts prepared monthly, and through forecasts for each financial year, updated approximately quarterly throughout the year. At a strategic level, long-term liquidity is assessed as part of the five-year strategic planning process, which is updated annually. These reviews support compliance with group policy, which is to maintain an average weighted maturity of hedged debt of at least 18 months at any point in time, and to maintain a 12 months in advance, foreseeable level of unutilised available facilities of over £100 million. At 31 December 2008, hedged debt maturity was 22 months (2007: 19 months). Headroom on committed facilities was approximately £258 million (2007: £470 million) as set out in the table included in the borrowing facilities section > page 32.

Capital risk

The group monitors its capital risk on a continuous basis to ensure that, having regard to the anticipated and possible future requirements, sufficient capital exists to fund operations and provide returns to shareholders, and that the Weighted Average Cost of Capital (WACC) of the group is optimised. There are a number of alternative methods of calculating WACC and variations caused by operating in different markets in Europe. Our current assessment is that the group WACC is around eight per cent. Recent volatility in the capital markets has made calculation of the WACC more subjective but these calculations will continue to be updated as the long-term impact of the credit crunch becomes more evident.

Capital structure

Total shareholders' equity was £682.5 million (2007: £710.2 million) at the end of the year. Retained profits contributed £58.4 million to group distributable reserves. Actuarial losses on retirement benefits reduced equity by £51.2 million whilst the fair value of derivatives caused a reduction of £66.5 million. The value of derivatives has fluctuated considerably over the year and, at the year end, was significantly impacted by the fall in value of sterling against the euro. Gearing for the group at 31 December 2008 was 115 per cent (2007: 61 per cent). The 2008 interest cover (the ratio of EBITDA to net finance costs) was 13 times (2007: 15 times).

The ratio of year end net debt to EBITDA was 2.5 times (2007: 1.8 times). This ratio was inflated at the year end by euro debt being translated at £0.97 to the euro, and euro-based EBITDA being translated at £0.81 to the euro. Translating euro-based EBITDA at the year end exchange rate adjusts the ratio to 2.3 times. Arriva remains comfortably within the financial covenants set by its lenders, the principal covenants being that the ratio of EBITDA to net finance costs is not less than 3:1 and the ratio of net debt to EBITDA is not more than 3.5:1.

Borrowing facilities

The group's principal borrowing facility is the £615 million, five-year, revolving credit facility agreement, signed in August 2007 with a group of leading European banks.

Much of the group's bus fleet is financed on medium-term hire purchase or finance lease arrangements, typically three to five years in length. As part of the UK rail franchising arrangements, the group has provided guarantees of £47 million. The rolling stock of the UK, Netherlands, Danish and German rail businesses that is provided through operating leases has annual commitments of approximately £133 million. All material commitments will cease on expiry of the franchises. Bonds amounting to £31 million have been provided in respect of the Netherlands, Danish and German rail businesses. Letters of credit amounting to £11 million are provided as part of the group's UK insurance arrangements.

The group's working capital and ancillary requirements are mainly provided by our principal bankers and reviewed annually.

The group's facilities at 31 December 2008, and their maturity and drawdown are set out in the table below:

Facility	Maturity	Limit £m	Drawn £m	Headroom £m
Syndicated revolving credit facility	2012	615	435	180
Amortising facilities	to 2024	477	460	17
Term facilities	to 2011	104	43	61
Committed facilities		1,196	938	258
Uncommitted facilities		94	33	61
As at 31 December 2008		1,290	971	319

Amortising facilities include £372 million drawn on a secured asset backed basis. The £460 million drawn on amortising facilities includes £116 million repayable within one year, £110 million repayable between one and two years, £166 million repayable between two and five years and £68 million repayable over five years. Term facilities include £11 million repayable within one year. £80 million of amortising asset backed finance has been raised since the year end.

Group net debt of £823 million comprises the drawdown of £971 million in the table opposite, and cash balances of £148 million.

The principal sources of credit to the group have been the banking markets of the UK and mainland Europe. Whilst this may remain the preferred option, a reduction in liquidity to the corporate sector from these sources may cause the group to consider other sources of debt finance in future.

Retirement benefit obligations
At 31 December 2008, total liabilities in respect of retirement benefit obligations increased to £120.1 million (2007: £73.7 million). The retirement benefit obligations in respect of the Arriva Trains Wales and CrossCountry sections of the Railways Pension Scheme are £11.7 million (2007: £4.0 million) and £19.3 million (2007: £8.0 million) respectively. The overall increase in the group obligation was primarily due to a fall in the value of equities, partially offset by higher long-term interest rates used to discount liabilities and a reassessment of expected mortality rates. The related deferred tax asset recognised in the balance sheet was £27.0 million (2007: £17.3 million).

Return on Capital Employed
The financial return obtained from the capital employed by the group is a key measure of financial performance, and is monitored monthly. The definition of Return on Capital Employed (ROCE) used by the group is the last 12 months' operating profit, before goodwill impairment and intangible asset amortisation (excluding the impact of pension finance charges or credits), expressed as a percentage of the weighted monthly average total tangible assets less liabilities (excluding borrowings, deferred tax liabilities and retirement benefit obligations) ignoring derivatives. The ROCE on this basis for 2008, reported in the group's December 2008 management accounts, was 17.9 per cent (2007: 16.7 per cent).

Financial summary
The consequences of financial volatility and economic uncertainty for the group are likely to be mixed.

Distress in the banking market has reduced general liquidity and may increase the marginal cost of finance for Arriva, but also affects our competitors. There will be a significant increase in fuel costs in 2009 but a substantial proportion of this increase is expected to be temporary with fuel already being fixed for 2010 at lower prices. Importantly however, our cash generation has grown substantially, remains strong and provides the foundation for investment in the business and returns to shareholders. The strongest companies will emerge from the economic downturn with competitive advantage and a robust position from which to develop their businesses. We believe Arriva has the qualities to be one of those companies.

Steve Lonsdale
Group finance director

Turn to the directors' report on page 50 for more information on KPIs

Principal risks and uncertainties

The Board recognises that every business activity brings with it a degree of risk and that Arriva must therefore manage a range of risks in the course of its activities. We conduct an annual impact assessment to review the scale and probability of the principal risks to the business.

As part of the ongoing programme of risk assessment and management, the following actual and potential risks have been identified as those which the directors believe could have a material impact on the long-term value generation of the group. The factors described below are not intended to form a definitive list of all risks and uncertainties.

1. Market risks

Changes in national public transport budgets

A considerable proportion of the group's income is derived directly or indirectly from national public transport budgets. Changes in these budgets can have positive or negative impacts on the group's prospects. The group continues to monitor national public transport budgetary policies in the countries where it operates, and ensures it is strategically aware in order to understand possible changes, be in a position to influence them, and react in a timely fashion.

2. Operational risks

Meeting health, safety and environmental standards

The Board recognises the importance to the business, as a public transport operator, of maintaining high standards and the consequences of failing to do so. A safety committee of the Board oversees the group's health and safety policy and the arrangements for its implementation and reporting. The Arriva environmental management system holds a senior manager accountable in each business. Monitoring of environmental performance is carried out by a corporate responsibility committee which includes senior representatives of all group businesses and reports to the group's executive committee. For more information see corporate responsibility section > pages 36 to 47.

3. Commercial risks

Uncertainty over the impact of recession and economic volatility in the UK and mainland Europe

The uncertainty over the impact of the recession and the current economic volatility affects the group's ability to make accurate predictions of passenger demand for bus and rail services. To manage the risk, we are closely monitoring patronage and profitability in addition to the established budgeting and forecasting processes. We will put into effect such remedial action as is practicable if significant reductions become apparent.

One of the most significant sets of assumptions in constructing a franchise bid relates to general economic factors prevailing. Arriva's balanced portfolio of operations, between bus and rail, and between different countries, minimises its exposure to any downturn in individual market sectors. The revenue risk associated with any potential loss of consumer demand from the travelling public is mitigated by the substantial proportion of the group's revenues which flows from non-passenger sources. For more information see the how we work section > page 5.

Most tendered net cost contracts require the operator to deliver specified services whilst retaining the income from passengers. In contracts where passenger income represents a significant proportion of total revenue, the group is exposed to the risk of passenger revenue being higher or lower than anticipated. For more information see the how we work section > page 4. Historically, passenger revenue growth is highly correlated with growth in local economies. Our UK CrossCountry rail contract is a particularly large contract with these characteristics. Arriva is committed to reducing government financial support on this franchise to almost zero before the end of the franchise in 2016. To deliver anticipated returns, over eight per cent annual revenue growth in real terms will be required, a considerable proportion of which is dependent on economic growth. The financial risk is partially mitigated by a revenue risk sharing mechanism in the contract, which takes effect from 2011.

The principal financial arrangements are:

Percentage shortfall on target revenue	Revenue support
0 – 2%	Nil
2 – 6%	50%
6% and higher	80%

These risk mitigating factors are mirrored when targeted revenue is exceeded.

Throughout the franchise, revenue support may also be available if the dominant cause of a qualifying revenue shortfall is a 'Force Majeure' event, such as severe flooding.

Availability of finance during turbulence in financial markets
Recent turbulence in financial markets has impacted the amount and price of credit available to companies. If current conditions in the banking market endure for a prolonged period of years, a reduction in available finance at sensible margins could restrict capital expenditure and investment in acquisitions, reducing the short-term growth prospects for the business. The group's available facilities at 31 December 2008 are set out in the financial review > page 32, and are adequate for the foreseeable future.

Franchise / tender / acquisition costing and revenue forecasting
Errors or inaccurate assumptions in tenders or acquisitions represent a risk to the business. A number of procedures are in place to mitigate this risk.

The Board monitors all material new franchise, tender and acquisition submissions across the group's operations, whilst the executive directors review other bids on an ongoing basis in line with delegated authority limits. Standard tender models are in use across the business. Significant bus and train tender contracts are compared with current experience to identify weaknesses and potential improvements in the tender process. Post-investment appraisals are carried out through quarterly business review meetings.

Acquisitions
Arriva has clearly-defined guidelines for due diligence work and internal reporting on potential acquisitions, which require the monitoring of such items by the executive directors subject to delegated authority limits. Sale and purchase agreements include price adjustment mechanisms and warranties, as appropriate.

4. Financial risks
As noted in the financial review, the group's financial risks are managed by the group treasury function in accordance with a formal Board approved treasury policy.

Interest rate risk
Fluctuations in interest rates are managed through the use of interest rate derivatives and the level of fixed rate debt.

Commodity risk
The group's fuel hedging policy reduces the potential disruptive effect of short-term fluctuations in the cost of fuel and provides time to manage the business effectively in the light of longer-term price trends. It is set out in detail in the financial review.

Currency risk
Exchange rate variations, principally between sterling and the euro, affect the reported amounts of euro-based profits and assets, and also the group's overall level of net debt. The financial review provides more details on these effects during 2008. The group policy on foreign exchange exposure is that the risk of translating non-UK assets and liabilities into sterling should be reduced to around 50 per cent of the balance sheet exposure.

For more details on the above three items see the financial review > page 30.

Retirement benefit obligations
Increased retirement benefit obligations may require additional contributions to be made by companies to state or other schemes. Such contributions could have a material impact on the group. We perform regular pension strategy reviews with the group's pension advisors, and monitor developments in group pension schemes and state schemes where we operate.

5. Other risks
Changes in transport legislation and / or regulation
This is a risk that faces Arriva in every country in which it operates.

The group has procedures in place to ensure effective liaison with appropriate officials at national and European Union levels, and monitors developments for timely reporting to senior management.

In the UK, the Local Transport Act has received Royal Assent. The government is also considering amendments to the Bus Service Operators Grant (BSOG). These planned and potential changes could have a significant impact on the UK bus industry. Arriva, alongside other UK bus operators, is monitoring the development of legislation in this area and representing the best long-term interests of the industry and its customers.

Succession planning for key managerial positions
Arriva is a fast-growing company in many markets. The group has a stable senior management population but an inability to fill a significant proportion of senior vacancies could have an adverse impact on the group's future development. An executive development programme and a succession planning process are in place at all locations, as is a process for identifying emerging home-grown management talent.

Moving forward responsibly

Every day across Europe millions of people rely on Arriva to get them to work, school and college; to visit friends and family; to access public services; to go shopping and to have fun. Our buses, trains and ferries are essential services operated by people who live in the communities they serve.

Our social impact falls under four main themes.

1. **Safety** – how we minimise risk for our passengers and employees

2. **Community** – how Arriva plays an active role in the areas in which we work

3. **People** – how we work to engage and empower the people running our services

4. **Environment** – how we measure and mitigate the impact of our operations

Policies which set out the way we do business are published in the corporate responsibility section of the group website, www.arriva.co.uk. The principles are explained in a new Code of Business Conduct to which all our employees are expected to adhere.

Arriva's corporate responsibility committee, which includes senior managers from all three operational divisions, guides the group's approach. Chairmanship of the committee will pass to Bob Holland, managing director of our UK Trains division, on the retirement of executive director Steve Clayton in April 2009.

Well-managed public transport is vital for the wider sustainability of the societies in which we live and work. We work with stakeholders, including trans-national, national and local government bodies across Europe, to achieve our shared aims: providing essential services and minimising any adverse effects.

1. Safety

The safety of our customers and employees is our primary concern. It is at the core of our values and is built in to our operating procedures.

The safety performance of our services across Europe are regularly reviewed by the Board Safety Committee. During 2008 the committee was chaired by non-executive director Veronica Palmer who retires in April 2009 and will be replaced by non-executive director Steve Williams.

Our approach to safety management includes specific training for senior operational managers, employees and supervisory staff. Much of the training is externally accredited by the Institute of Occupational Safety and Health (IOSH), Europe's leading body for health and safety professionals. We are also recognised as being one of the leaders in road risk management in the UK bus and coach industry.

We provide employees with training including, where appropriate, a safe approach to driving, customer care and conflict management. Operational locations are subject to periodic internal safety and standards audits.

In the UK in 2008 the first time pass rate for Arriva buses in the VOSA PSV vehicle test was 94.5 per cent, an improvement from 93.2 per cent in 2007.

Fault incidents per 100,000 km

A fault incident is where our driver or the condition of our vehicle, contributes to a loss, damage or injury.

Turn to the directors' report on page 50 for more information on KPIs

Employee injuries per 100 employed

An employee injury is where any person employed by the company (at the time of the incident) suffered physical harm or mental trauma as a result of an incident arising from Arriva work activity, not including physical assaults.

Snapshots from 2008
Putting safety first

- To enhance the safety and security of our employees and passengers, 81 per cent of our UK buses are now fitted with CCTV systems, up from 66 per cent at the end of 2007
- In London we produced a DVD to highlight known bus accident blackspots, with tips on defensive driving. It has now been incorporated into training for new drivers and ongoing refresher training
- In north east England, a record of five years' continuous improvement won us two gold awards from the Royal Society for the Prevention of Accidents (RoSPA) for Occupational Health and Management of Road Risk
- In Wales we ran an eye-catching superhero campaign, backed by RoSPA, to improve safety on trains and at railway stations and to combat anti-social behaviour
- In Italy, travelling safely was a key theme in summer workshops which introduced many families to bus use for the first time

2. Community

Reliable services are essential to the communities we serve. A key measure is the proportion of our planned mileage that we operate. In 2008, we managed to improve on an already strong performance of 99.1 per cent in 2007, with 99.2 per cent of the 649 million scheduled miles operated (excluding the impact of traffic congestion in our London operation).

Turn to the directors' report on page 50 for more information on KPIs

Scheduled mileage operated

We and our employees support community organisations, including charities, schools, neighbourhood groups and sports clubs. Young people and their safety, education and traning are at the core of many of our community activities.

Sarah Czyrko, from our CrossCountry rail operation in the UK, spent a week in Cornwall helping disadvantaged youngsters have a holiday of a lifetime. She was working as a volunteer with CrossCountry's adopted charity - Country Holidays for Inner City Kids (CHICKS). CrossCountry provides free rail travel to underprivileged children visiting the CHICKS holiday centres. The charity also receives donations from CrossCountry employees through a variety of fundraising activities.

Sarah supported the youngsters as they tried out games, outdoor activities and crafts, which many of them would never experience without help from CHICKS and its supporters.

Snapshots from 2008
Making a difference

- In the UK we support many of our employees' community activities with financial donations and publicity. In 2008 more than 25 awards from the *Arriva Community Action Awards* scheme helped organisations including hospices, charities, sports clubs and community groups

- Two employees were recognised with special awards for their outstanding contributions. In July 2008 Liverpool bus driver Tom Gannon completed a 200 mile, five-day, sponsored walk for the Rhys Jones Memorial Cup Trust, to raise funds for a community centre in memory of the murdered schoolboy. Joy Lynes of Arriva Trains Wales was recognised for her outstanding fundraising for St Michael's Hospice, Hereford. Since 2000 Joy has raised over £42,000 for the hospice which cared for her niece as she battled cancer

- In Scotland, Arriva donated a vehicle for use as a community youth bus in conjunction with Renfrewshire Council, the YMCA, and police and fire services to help combat vandalism and anti-social behaviour

- Work by our SAF business to support literacy among young people continued in Italy's Medio Fruili region, with the provision of a 'story bus' which transports children to local libraries and on which they can listen to stories

- Our work to promote health awareness in Liverpool, through the *Healthy Schools Bus* project with Everton Football Club and the city council took a new step forward with the introduction of a second bus. In its first 18 months the first *Healthy Schools Bus* made over 250 school visits and helped more than 8,000 primary school children increase their understanding of the benefits of healthy eating and an active lifestyle

- Through our membership of the Prince's Trust Get Into Railways group, we work with other rail industry organisations to support training and employment opportunities. Support for young people in 2008 included backing for offshore rowers, netballers and a social and football club for young people with learning disabilities in Wales

- Arriva Trains Wales gained national recognition for work with young offenders in making environmental improvements at five stations, while our *Platform for Art* initiative involved schoolchildren in producing murals at stations, helping to generate community pride

- Across the UK, Arriva's *Getting to School* pack has now been used by more than 250 schools.
The pack, created alongside education experts and teachers, is a curriculum linked resource for teachers of seven to 11-year-olds. It includes a range of activities supporting maths, science and social and environmental awareness – all with a bus travel theme

- In Germany, more than 1,000 people got a closer look at Arriva Deutschland's ODEG rail business when the company invited neighbours to an open day at its Eberswalde workshop. Local charities also benefited from an auction of lost property

- Concern for the community also runs beyond the immediate neighbourhood. In Italy, our SAB business provided a bus to support 10 drivers giving up part of their holiday to help build and refurbish a series of orphanages in the Ukraine – an initiative the drivers have supported for a number of years. Likewise in Mallorca, our involvement boosted a campaign to raise awareness of malnutrition in Africa

- Improving accessibility to our services for people with restricted mobility has progressed. In the UK the proportion of accessible low floor vehicles in our UK bus fleet increased to 74 per cent in 2008 from 67 per cent in 2007, and will improve further as a result of our 2009 investment plans

- Our CrossCountry rail franchise, which does not operate any of the stations at which its trains call, has introduced a service to help those who need assistance, for mobility or other reasons, in getting on and off trains, wherever they are travelling

Customer satisfaction
Feedback on the experience of our passengers in using our services is vital to ensuring we meet their requirements for security, reliability and good value.

Across the group, from Scandinavia to Portugal, we have been listening to what our customers think about our services and working to improve the experience of travelling with Arriva.

At our suggestion, we have been the first operator in Scandinavia to have customer satisfaction measures included in our contracts in both Sweden and Denmark.

In December 2008 passengers on Arriva's Danish trains recorded an all time high satisfaction rating of 80.2 per cent. On our buses in the Greater Copenhagen area average satisfaction in 2008 was 80.6 per cent, up slightly on 2007.

In Sweden passengers on most of our bus services recorded higher levels of satisfaction, with ratings ranging from 71 per cent to 83 per cent. On our Swedish trains passenger satisfaction was 67 per cent, up two percentage points on the previous year.

Arriva's TST business in Portugal saw passenger satisfaction increase 19 per cent from 2007 to 2008 (from 55.4 to 66.0 per cent) with 97 per cent of customers intending to continue using the service and 95 per cent happy to recommend to family and friends.

In the UK the latest survey by official representative body Passenger Focus saw 86 per cent of Arriva Trains Wales passengers rating services satisfactory or good, while CrossCountry scored 84 per cent – both higher than the national average.

For the year ended 31 December 2008, the Public Performance Measure (PPM) which measures punctuality was 92.5 per cent for Arriva Trains Wales, up from 91.8 per cent in 2007. For CrossCountry, the 2008 PPM increased to 89.6 per cent, from 86.3 per cent in 2007 (based on best like-for-like estimates for the remapped franchise).

In 2008 through the GfK NOP market research group we surveyed almost 20,000 UK bus passengers, maintaining the 91 per cent satisfaction rating recorded in 2007.
The business continues to strive to improve on this excellent performance.

3. People

Arriva's 43,500 employees (including share of associate companies) in 12 countries represent a diverse range of backgrounds and cultures, and make us a significant employer in many areas.

Our aim is to provide a supportive, respectful working environment in which all receive the training and development that will enable them to fulfil their true potential.

Employee turnover

Annualised employee turnover excludes employees leaving as a consequence of tender loss or sale of operations.

While increasing slightly in 2008, employee turnover is not uncommon for the transport industry.

Employee non-attendance

Industrial action affecting Dutch bus operators contributed to an increase in non-attendance in 2008.

Our approach to training and development includes providing a wide range of learning resources covering technical skills, health and safety, customer service, people management and foreign languages. Our leaders, managers and supervisors are critical in ensuring our employees' welfare and we invest heavily in their training and development. Succession planning and individually tailored development plans help us build and retain the skills which will help move the business forward.

We work hard to develop partnerships with our employees, trades unions and works councils. Employee surveys and regular communications such as company newsletters, open forums, road shows and websites, help us to listen to our employees. The majority of our workforce is covered by collective arrangements on working conditions and we make provision for employee representatives to receive appropriate training and fulfil official union business. Arriva's European Works Council provides a formal group-wide update on operations and business performance for employee representatives. It is also a valuable opportunity for sharing best-practice and visiting operations in other countries.

A whistleblowing facility enables employees to raise any serious concerns in complete confidence if they believe malpractice is occurring, health and safety standards are being compromised, or in instances of victimisation, discrimination or harassment. The facility was cited as an example of best practice in PwC's Best Practice in Corporate Governance Reporting publication in December 2008.

Arriva's graduate development programme involves a series of hands-on work placements and an opportunity to experience Arriva's operations away from the trainee's home country. Graduates are encouraged to build networks with their colleagues in other countries and are mentored by senior managers. The 18-month scheme now has graduates from Denmark, Germany, Italy, the Netherlands, Portugal, Sweden and the UK. Over three years 49 graduates have been recruited with a retention rate of 80 per cent.

Turn to the directors' report on page 50 for more information on KPIs

Graduate programme drives career forward
Former graduate trainee Kim Purcell has become the youngest, and first female, bus depot manager for Arriva in north east England. At 24-years-old, the business and marketing graduate took on responsibility for 175 drivers and 15 office and clerical staff at Stockton-on-Tees.

Kim started the graduate programme at the company's Blyth depot which included working as a bus driver. She then worked at Arriva North East's head office gaining operational, commercial and HR skills and operational experience as deputy manager at the Stockton depot.

Kim said: "I hadn't considered a career in transport until I saw the diversity of the graduate programme and Arriva's business. It was a very intense 18 months and incredibly valuable working in lots of different roles. It's also important for my team to know I understand what it is like being a bus driver."

Snapshots from 2008
Skilled and dedicated people

- The company's commitment to management development was recognised at the UK's inaugural Passenger Transport Management Awards where Arriva people took five of the 10 top awards. Former graduate trainee James Higlett, now assistant engineering manager at Arriva Southern Counties, was one of three named Young Passenger Transport Professionals of the Year. Arriva's director of transport policy development Tony Depledge was given a Lifetime Achievement award for his contribution to the public transport industry, while Geraint Morgan, Arriva Trains Wales' community affairs manager was singled out for recognition with the Industry Ambassador award. Arriva Yorkshire's Chloe Leach won the Marketeer of the Year title, and Mike Topping of Arriva North West was named an Unsung Hero for dedication over a career spanning almost 50 years
- Arriva's UK Bus business embraced the new driver Certificate of Professional Competence, with a group of new drivers completing the qualification on the day it was introduced
- In the 2008 Rail Staff Awards, CrossCountry's Catriona Whitehead was awarded the Station Staff of the Year award for assisting a stranded passenger in her own time. Edinburgh-based Catriona won the prestigious award after coming top of a poll voted for by colleagues from across the industry
- Arriva Midlands graduate trainee Andrew Grierson won national recognition with a £1,500 award from the UK bus industry's Chris Moyes Scholarship Trust to progress his study of access to and from airports

4. Environment

Our aim is for well planned and well run public transport networks to create a virtuous circle. If more people are encouraged to use buses and trains, reduced congestion on our roads can in turn help the smooth operation of public transport, thereby improving its attractiveness. A beneficial by-product of reduced congestion is the more efficient use of fuel and reduced emissions.

Alongside our efforts to minimise the environmental impact of our operations we are working to increase general awareness of the environmental credentials of public transport and encourage its use.

This growing awareness was illustrated in our 2008 survey of almost 20,000 bus passengers in the UK where 42 per cent of respondents said they had changed their travel patterns to use the bus more. Of those, 61 per cent cited environmental considerations as the sole or a contributory reason for doing so.

Greenhouse gas footprint

In 2008 Arriva set itself a challenge of reducing its greenhouse gas emissions footprint by 15 per cent, like-for-like, from the 2006 level, by 2012.

The main focus in addressing this challenge is addressing the emissions from vehicle fuel, which was responsible for 94.6 per cent of our greenhouse gas footprint in 2008. In addition, programmes are being implemented to improve the carbon-efficiency of our depots and other facilities.

We are adopting a twin-pronged approach in reducing the impact of transport fuel. We are using technology and training to help bus and train drivers to improve fuel consumption, and increasing our use of alternative fuels which have a lower carbon impact than traditional diesel.

In order to deliver the overall reduction, these measures have to offset the increased fuel consumption of newer buses and trains, which has been a side effect of improving local air quality, and increased vehicle weights resulting from enhanced passenger comfort and safety.
For example, we estimate new buses introduced in the UK increased fuel consumption in 2008 by 1,456,000 litres, representing 3,892 tonnes of CO_2 equivalent (CO_2E).

Arriva's greenhouse gas target was set against the background of European Union aims to have biofuels make up 10 per cent of transport fuel by 2020 with some countries aiming for even higher use. Since Arriva published its targets the debate regarding the sustainability of biofuels has intensified and a further EU review is currently underway. Clarity on the policy approach regarding the viability and sustainability of various alternative fuels would assist in the longer-term planning of greenhouse gas reduction strategies.

In 2008 the greenhouse gas emissions attributable to Arriva's business operations amounted to 1,488,878 tonnes CO_2E, an increase in absolute terms of 438,880 tonnes CO_2E on 2007. This increase reflects the significant additional services run by Arriva during 2008, particularly a full year of operations for the CrossCountry rail franchise in the UK and new bus businesses acquired in the UK, Spain, Hungary and Slovakia.

One of the challenges of reporting greenhouse gas emissions is finding a consistently workable means of 'normalising' the absolute figure for emissions, i.e. enabling stakeholders to compare changes in the absolute CO_2E figure against changes in the overall scale of the business. The chart below shows Arriva's greenhouse gas footprint normalised against group revenue for the past three years. In order to strip out the effects of inflation, which tend to flatter the rate of progress, the right-hand bar for each reported year depicts a 'real terms' comparison, with greenhouse gas emissions divided by group revenue adjusted by changes in the sterling retail price index.

Total greenhouse gas emissions

Normalised greenhouse gas emissions

For the last three years Arriva has submitted returns to the Carbon Disclosure Project (CDP) - an independent not-for-profit organisation which holds the largest database of corporate climate change information in the world. Arriva's CDP returns are available at www.cdproject.net.

Alternative fuels
Given the finite and diminishing reserves of fossil oil, Arriva has a keen interest in vehicle propulsion systems which may power our buses and trains in a post-diesel age. Different propulsion systems may well be suited to different geographical regions and political environments.
For instance, in places with abundant renewable electric power from hydroelectric schemes, geothermal wind or wave power, electric propulsion will be high on the agenda. Ethanol derived from wood cellulose is only likely to be appropriate in heavily forested regions where the raw material is both accessible and renewable.

Manufacturers of buses propelled by hybrid diesel / electric motors estimate fuel savings of 30 per cent with a resultant reduction in CO_2 emissions in comparison to a bus powered by fossil diesel.

While the technology and economics of diesel / electric hybrid propulsion are yet to be fully proven, Arriva has been active in trials of the first hybrid double decker in London. This prototype has covered 10,000 miles providing a valuable learning ground for the technology. Five second generation series hybrid vehicles which followed began service with Arriva London in February 2009.

In addition six new buses equipped with a parallel hybrid system, where both the diesel and electric motors can directly drive the transmission, are being introduced to the Arriva London fleet from March 2009.

Further experience of hybrid technology has been gained from our trial on park-and-ride services in West Sussex and in Copenhagen where in 2008 we were awarded a contract to operate a fleet of 11 electric buses in the city centre.

Arriva has gained a wide range of experience in the application of biofuels in differing operating environments with varied climatic and network conditions. The adoption of biofuels has supported public policy objectives of regional, national and international institutions which in some countries include commercial incentives to adopt alternative fuels. A significant increase in the deployment of biofuels would be dependent on consistently supportive public policy regimes.

In Germany, Arriva has experience of running modern trains with 100 per cent biodiesel dating back to 2004. In the Berlin area the conversion of 25 trains to run on B100 biodiesel has delivered an annual saving of 5,900 tonnes of CO_2, while at our operation in north eastern Germany 32 trains running on B100 biodiesel deliver an annual saving of 9,300 tonnes of CO_2 compared to mineral diesel.

In the UK, the diesel we use to run our bus fleet has a five per cent biofuel content and in Portugal we have 240 buses running on B30 biodiesel, a blend of 30 per cent biofuel and 70 per cent mineral diesel. We are also increasing our use of biofuel for buses in Germany where more than two-thirds of our bus fuel is now B100.

In southern Sweden, Arriva is using bio-gas produced by a landfill facility next to our Helsingborg depot to fuel a fleet of 61 buses, thereby reducing the impact on fossil oil reserves. In Dordrecht, in the Netherlands, Arriva is set to introduce buses fuelled by bio-methane gas generated from sewage waste.

In March 2009 Arriva introduced 43 new buses fuelled by E95 bio-ethanol, derived from sugar cane, other crops and waste wood cellulose, to our fleet in Stockholm.

The use of compressed natural gas (CNG) and liquid propane gas (LPG) reduce the carbon monoxide, nitrous oxides, particulates and hydrocarbons emissions significantly, compared to diesel-powered buses.
In Scandinavia, Arriva is using CNG and LPG in various urban operating areas, while in Trutnov in the Czech Republic our Osnado business is operating buses fuelled by CNG.

In Italy, Arriva continues to deploy an emulsified diesel with 10 per cent water content, where engine technology permits, on older vehicles. This reduces particulate emissions by over 50 per cent, nitrogen oxides by five to six per cent, and carbon monoxide by over 30 per cent. Improving the emissions of older vehicles is important due to the long life of buses compared to cars. Their longer lifespan makes good use of the energy, materials and other natural resources used in construction.

In the Dutch region of Groningen / Drenthe Arriva introduced 10 buses to operate on the busiest routes in Groningen fuelled on gas produced from domestic waste, while in the Friesland / Leeuwarden region Arriva has 23 buses running on CNG.

Eco-driving

The way buses and trains are driven has a big impact on fuel consumption and exhaust emissions.

Over the last 18 months Arriva has developed a bespoke system known as Eco-manager which, combined with driver training, is helping our drivers to improve fuel efficiency. Passenger research also points to improved customer satisfaction as a result of smoother acceleration and braking. The system includes a real time display to prompt the driving techniques covered in the training.

The system's 'black box' produces detailed reports enabling comparison between different vehicles on the same route, different driving styles in the same vehicle and a particular vehicle type's performance on different routes.

Training begins with a video presentation and a coaching session to become familiar with the system. Each month the record for each driver shows their performance against the depot average and the best performing driver. Eco-trainers are available to give individual training for those who need the most support.

During 2008 the trial was widened to 500 vehicles, and indicated an overall fuel saving of 12 per cent. Based on this, and an assumption of fuel economy improvements of five to 10 per cent in normal operating conditions, Arriva has committed to roll out the system and training across its UK regional bus operations. While being installed in all driver-training vehicles in the UK, Eco-manager is being fitted to all our new buses in the UK and retro-fitted to a further 1,400 buses during 2009. In all, more than 2,000 of our UK vehicles are set to have Eco-manager by the end of 2009.

Equivalent technology is in use on Arriva trains in Bavaria, and at our TST bus business in Portugal we are extending the use of an alternative system developed with industrial and academic partners which has delivered benefits in part of the fleet.

Many other fuel saving and emissions-control initiatives are being built into good engineering, servicing and operational practice. Even those with modest effects can help the big picture.

Arriva's investment in new vehicles continues to increase the proportion of buses and trains which meet the more recent environmental standards. Since 1992 the European Union has introduced a series of emission standards setting the permitted levels of exhaust pollutants for new vehicles. The maximum limits for carbon monoxide, hydrocarbons, nitrous oxides and particulate matter emissions defined in the standards from Euro I in 1992 through to Euro V in 2008 have become progressively lower with each phase of the standard.

Vehicle by engine type (%)

	Bus		Train	
	2008	2007	2008	2007
Euro I	11.4	13.6	0.3	0.4
Euro II	34.6	36.1	55.3	64.3
Euro III	29.6	31.3	6.1	3.4
Euro IV	8.8	4.0	4.5	5.0
Euro V	1.8	1.8	-	-
EEV	2.5	1.4	0.9	-
Non Euro class	8.4	9.3	25.5	26.0
Other	2.9	2.5	7.4	0.9

Mileage split by engine type (%)

	Bus		Train	
	2008	2007	2008	2007
Euro I	11.6	14.6	0.1	0.3
Euro II	33.3	35.5	72.2	53.9
Euro III	35.7	36.6	4.2	6.5
Euro IV	7.0	2.7	0.1	4.4
Euro V	1.4	0.7	2.9	-
EEV	2.1	0.4	0.1	-
Non Euro class	6.1	7.6	18.0	33.4
Other	2.8	1.9	2.4	1.5

Fuel consumption plays a significant part in the selection of the makes and models of new buses we select. The range of fuel performance can be more than 20 per cent between similar models. We continue to work with vehicle manufacturers to reduce vehicle weight and improve fuel consumption where possible. However, sometimes this is offset by other factors. For example, the Euro VI emissions standard, due for introduction in 2014, will further improve urban air quality, but may in itself increase fuel consumption.

The majority of waste handled by our businesses is that left by passengers on our trains and buses. Across the group we employ waste contractors whose operations include waste separation, recycling and energy generation from waste.

Arriva employees have embraced recycling policies at the group head office, and many other locations across the group, and are separating most types of general waste from office environments for recycling.

Snapshots from 2008
Promoting greener travel choices

- Arriva has been encouraging people to think about the impact of their journeys and making the case for modal shift from private to public transport
- In Liverpool, Arriva's *Green way to Liverpool One* marketing campaign set out to get people to use buses serving the city's new flagship shopping centre. The promotion highlighted benefits to the local environment and easing of congestion, leading to reduced vehicle emissions
- In recognition of increasing environmental and social awareness among travellers, Arriva Trains Wales has introduced an online calculator to compare the CO_2 emissions of a rail journey compared to travelling by car. A range of 'Fair Trade' products has been introduced to Arriva Trains Wales' catering services
- Environmental themes were also a key part of Arriva Scandinavia's *I love my bus* marketing campaign which also focused on punctuality and customer service
- In Spain, Arriva Noroeste was awarded the ISO 14001 environmental management standard and ISO 9001 quality management certification in 2008. Our new Spanish business, De Blas, achieved renewal of its ISO 9001 and 14001 certification as well as implementation of EMAS, the European Eco-Management and Audit Scheme
- In the Lisbon area TST held an inter-schools painting competition. TST's environmentally friendly bus cartoon mascot 'Buzinas' inspired children to paint pictures about transport and the environment. Winning designs were adopted for use on TST buses

Energy and water management

The CO_2 from vehicle fuel may be the largest part of Arriva's environmental impact but we also work hard to minimise other impacts.

One of Arriva's Italian companies, SAF, put environmental considerations to the forefront in the design of its new head office in Udine. A photovoltaic plant has been included to harness solar energy, and vehicle washing equipment that recycles water.

Wind turbines were commissioned at the Arriva Trains Wales Machynlleth depot and TST's Moita depot in Portugal during 2008. The turbine at Machynlleth runs alongside solar-powered domestic water heating, energy efficient lighting, and rainwater harvesting systems.

The new headquarters for our CrossCountry rail franchise in the UK is equipped with energy-saving equipment including motion-sensitive lighting, waste segregation and recycling arrangements, and water-efficient toilets.

In London, a comprehensive energy management and monitoring programme saw Arriva put time clocks on all heating systems, replacing failing oil boilers with condensing boilers, reducing long flow and return pipework, and using smaller water heating units in summer. This produced an eight per cent reduction in gas consumption within Arriva London in 2008 compared to 2007.

A combination of water reclamation units, leak reduction, auto shut-off taps and toilet flush management systems has resulted in a 21 per cent reduction in water consumption in 2008 in Arriva London.

In order to make a year-on-year comparison of water and energy consumption within Arriva's businesses the annual totals are averaged across the number of vehicles operated.

Water consumption average per vehicle (cubic metres)

	2008	2007
Bus	66	69
Rail	305	500
Group	88	88

Energy consumption average per vehicle (kilowatt hours)

	2008	2007
Bus	10,740	10,735
Rail	30,489	63,380
Group	12,614	13,035

Board of directors

Sir Richard Broadbent

David Martin

Steve Lonsdale

Steve Clayton

Steve Williams

Nick Buckles

Veronica Palmer

Simon Batey

Angie Risley

Sir Richard Broadbent KCB
Chairman

Age: 55. Sir Richard was appointed to the Board in July 2004 and was appointed chairman in November 2004. As chairman, Sir Richard chairs the Nomination Committee of the Board and is also a member of the Remuneration Committee.

Sir Richard is the senior independent director of Barclays plc and was executive chairman, HM Customs and Excise, from 2000 to 2003. He was formerly a member of the Group Executive Committee of Schroders plc and non-executive director of the Securities Institute.

David Martin BA, FCMA, MiMgt
Chief executive

Age: 57. David qualified as an accountant in 1977 after graduating in business studies. He held a variety of general management positions before joining the bus industry in 1986. After leading a management buy-out of an East Midlands based bus company, he was involved in the acquisition of National Express and the subsequent management buy-outs leading to the creation of British Bus Group Limited.

David joined Arriva in 1996 on the acquisition of British Bus, becoming a member of the Board in February 1998 with specific responsibility for the group's international operations and development. From March 2005 he was group managing director – operations and deputy chief executive until his appointment as chief executive in April 2006.

Steve Lonsdale BA, FCA
Group finance director

Age: 51. Steve graduated from the University of Newcastle upon Tyne with a degree in economics and accounting before joining Coopers & Lybrand in 1978. He qualified as a chartered accountant in 1981 and spent eight years working in the profession in the UK and overseas. Steve joined the group in 1987 where he worked as group accountant until 1991 when he was appointed to the Board as group finance director. Steve has responsibility for all finance, legal and company secretarial matters.

Steve Clayton BA, FCIT, MiMgt
Group managing director – corporate affairs

Age: 55. After graduating from London University in 1975, Steve held various management positions with London Transport. He was managing director of Leaside Bus Company Limited from 1988, which was acquired by the group in 1994.

Steve was appointed to the Board in February 1998 with responsibility for the group's UK bus operations. Since March 2005 he has been group managing director – corporate affairs, with responsibility for human resources, health, safety and the environment, technical services, corporate communications and all government relations activities across the group. He is chair of the Group Corporate Responsibility Committee and sits as a member of the Safety Committee.

Steve will retire as a director immediately after the Annual General Meeting on 22 April 2009.

Steve Williams, LLB
Non-executive director

Age: 61. Steve was appointed to the Board as a non-executive director on 1 September 2005 and on 18 October 2005 was appointed senior independent director. Steve sits on the Nomination and Audit Committees and will chair the Safety Committee from 22 April 2009.

Steve is chief legal officer and group general counsel of Unilever plc and Unilever NV. Prior to joining Unilever, Steve spent 11 years at Imperial Chemical Industries plc in the legal and company secretarial departments. Steve is a non-executive director of Whitbread PLC where he is also senior independent director and is chairman of the De Le Warr Pavillion Trust and a trustee of Arts & Business. He served for nine years as a non-executive director of Bunzl plc until 2004.

Nick Buckles
Non-executive director

Age: 48. Nick was appointed to the Board as a non-executive director on 19 July 2005, and since September 2007 has been chairman of the Remuneration Committee. Nick also sits on the Nomination Committee and, from 22 April 2009, the Safety Committee.

Having joined Securicor plc in 1985, Nick was appointed to its Board in 2000. Following the merger between Securicor plc and the security businesses of Group 4 Falck, he was appointed deputy chief executive and chief operating officer of the merged Group 4 Securicor (now G4S plc) in July 2004, becoming chief executive of G4S plc in July 2005.

Veronica Palmer OBE
Non-executive director

Age: 68. Veronica was appointed to the Board as a non-executive director in September 2001, and since September 2007 has chaired the Safety Committee. Veronica also sits on the Audit and Nomination Committees and was chairman of the Remuneration Committee from June 2005 until September 2007.

Veronica is chairman of the Northern Ireland Transport Holding Company Board. She held the position of director general of the Confederation of Passenger Transport UK from 1989 until June 2001. Earlier she worked in the brewing industry's trade association as parliamentary secretary following a successful career in the Royal Air Force and as an employment consultant in Europe. Veronica has an MBE for military services and an OBE for services to the transport industry.

Veronica will retire as a director immediately after the Annual General Meeting on 22 April 2009.

Simon Batey BA, MA, FCA
Non-executive director

Age: 55. Simon joined the Board as a non-executive director on 1 October 2003 and since 1 January 2004 has been chairman of the Audit Committee. Simon also sits on the Remuneration and Nomination Committees, and, from 22 April 2009, the Safety Committee.

Simon has 20 years' experience in a number of senior finance roles in industry. Between 2000 and 2006, Simon was group finance director of United Utilities plc and, from 2006 until August 2007 he was chief financial officer of Thames Water Utilities Limited. From 1987 to 2000, he worked for AMEC plc, initially as deputy group finance director and then, from 1992, as group finance director. Simon has been a non-executive director of Telecity Group plc since October 2007 and has also served as a non-executive director of THUS Group plc.

Angie Risley
Non-executive director

Age: 50. Angie Risley, group human resources director of Lloyds Banking Group plc, will be appointed to the Board on 9 March 2009 as a non-executive director. Angie was formerly an executive director of Whitbread PLC, until May 2007, having joined the group in 1989. She has also been a member of the Low Pay Commission, and a non-executive director of Biffa plc. Subject to her election as a director at the Annual General Meeting, Angie will become a member of the Remuneration, Nomination and Audit Committees.

The directors submit their report and the audited accounts of Arriva plc for the year ended 31 December 2008.

Principal activities of the group

The principal activities of the group at 31 December 2008 comprised the operation of bus and train services in the UK and eleven countries in mainland Europe.

Business review

A review of the group's principal activities and performance for the year is contained in the chairman's statement (on pages 18 and 19), the chief executive's review (on pages 20 to 27), the financial review (on pages 28 to 33) and the corporate responsibility report (on pages 36 to 47), which collectively comprise the business review and these are included in this report by reference. A review of the principal risks and uncertainties facing the company is set out on pages 34 and 35 and is also included in this report by reference.

This Annual Report & Accounts contains certain forward-looking statements. These statements and forecasts involve risk and uncertainty because they relate to events and depend upon circumstances that occur in the future. There may be a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements and forecasts.

Key performance indicators

The group uses the following key performance indicators (KPIs) to assist in the understanding of the development, performance and position of the business:

(i) Earnings per share, before goodwill impairment, intangible asset amortisation and exceptional items (see financial review page 28)

(ii) Order book (see how we work page 5)

(iii) Employee turnover and non-attendance (see corporate responsibility report page 41)

(iv) Return on capital employed (see financial review page 33)

(v) Percentage of scheduled mileage operated (see corporate responsibility report page 38)

(vi) Public Performance Measure for UK Trains (see chief executive's review page 25)

(vii) Fault incidents per 100,000 km (see corporate responsibility report page 37)

(viii) Employee injuries per 100 employees (see corporate responsibility report page 37)

Results and dividends

The profit for the year amounted to £111.2 million (2007: £90.0 million). The directors recommend the payment of a final dividend on the ordinary shares of the company of 17.91 pence per share (2007: 17.06 pence), which together with the interim dividend of 6.15 pence (2007: 5.59 pence) represents a total of 24.06 pence per ordinary share (2007: 22.65 pence). The proposed final dividend, if approved, will be payable on 1 May 2009 to shareholders on the Register of Members at the close of business on 27 March 2009. The total amount paid and proposed to be paid is £47.8 million in respect of 2008 (2007: £45.0 million).

Share capital

The share capital of the company is made up of 290,000,000 ordinary shares of 5 pence each, each share having one vote. As at 1 March 2009, there were 198,657,072 shares in issue. The total number of voting rights was therefore 198,657,072.

The movement in the share capital during the year is detailed in note 22 to the accounts.

Directors

The names and biographies of the current directors appear on pages 48 and 49.

Steve Clayton and Veronica Palmer will retire as directors immediately following the Annual General Meeting on 22 April 2009.

Sir Richard Broadbent, Simon Batey and Steve Lonsdale will retire by rotation and, being eligible, offer themselves for re-election at the Annual General Meeting.

Angie Risley will be appointed as a director of the company on 9 March 2009 and will stand for election at the Annual General Meeting.

Save for Sir Richard Broadbent's directorship of Barclays Bank plc, which bank was a lead arranger in a £615 million syndicated revolving credit refinancing facility that the company entered into in early August 2007 (and in which facility negotiations Sir Richard played no active role), no director was interested in any contract or arrangement which was significant in relation to the group's business.

Indemnification of directors

In accordance with its Articles of Association and as approved by shareholders at the 2006 Annual General Meeting, the company has the power (at its discretion) to grant an indemnity to the directors in respect of liabilities incurred as a result of their office. Deeds of indemnity were issued to all directors in post in May 2006 or on subsequent appointment.

The company has maintained a directors' and officers' liability insurance policy throughout the period.

Neither the company's indemnity nor insurance provides cover in the event that the director is proved to have acted fraudulently or dishonestly. No claims have been made either under the indemnity or the insurance policy.

Statement of directors' responsibilities in respect of the Annual Report, the directors' remuneration report and the financial statements

The directors are responsible for preparing the Annual Report, the directors' remuneration report and the group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, and the parent company financial statements and the directors' remuneration report in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice. In preparing the group financial statements, the directors have also elected to comply with IFRS, issued by the International Accounting Standards Board (IASB). The group and parent company financial statements are required by law to give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the group for that period.

In preparing those financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently
- Make judgements and estimates that are reasonable and prudent
- State that the group financial statements comply with IFRS as adopted by the European Union and IFRS issued by the IASB, and with regard to the parent company financial statements that applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements
- Prepare the group and parent company financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business, in which case there should be supporting assumptions or qualifications as necessary

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and the group and to enable them to ensure that the group financial statements comply with the Companies Act 1985 and Article 4 of the IAS Regulation and the parent company financial statements and the directors' remuneration report comply with the Companies Act 1985. The directors are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors confirm that, as at the date this report was approved, so far as each director is aware, there is no relevant audit information of which the auditors are unaware and they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

The directors are responsible for the maintenance and integrity of the website. Financial information published on the website is based on the legislation in the United Kingdom governing the preparation and dissemination of financial statements and may differ from legislation in other jurisdictions.

Directors' interests

The interests of the directors (including their relevant family interests) at the end of the year, and details of the directors' interests under the Long Term Incentive Plan, appear in the directors' remuneration report on pages 54 to 61.

Purchase of own shares

No shares were purchased pursuant to the authority granted to the directors at the Annual General Meeting held on 23 April 2008. Renewal of this authority will be sought at the Annual General Meeting to be held on 22 April 2009.

Acquisitions and disposals

In January 2008, a further 10 per cent interest was acquired in Barraqueiro SGPS SA, the leading Portuguese passenger transport operator, for a consideration of □ 50 million in cash (approximately £37.4 million). This built on Arriva's acquisition of 21.5 per cent of Barraqueiro in May 2006.

In April the company announced its entry into the Hungarian and Slovakian bus markets following an agreement to buy 80 per cent of Interbus Invest, the holding company of Eurobus Invest, for £39.8 million, plus net debt. The acquisition took the number of countries in which Arriva operates to 12. The acquisition was conditional on competition and regulatory clearance in Slovakia. In July the company completed the purchase following clearance by the Slovak Merger Authority.

Also in July the company increased its position in the Madrid transport market, with the acquisition of Empresa de Blas y Cia S.L. and its subsidiaries and investments for □ 118.1 million (£93.6 million) including net debt acquired.

Charitable and political donations

During the year the group made charitable donations, for a variety of charitable purposes, amounting to £97,107 (2007: £111,640). There were no political donations (2007: £nil). Further information on charitable donations can be found in the corporate responsibility report on pages 38 and 39.

Annual General Meeting

The Annual General Meeting will be held on 22 April 2009. Details of the business to be considered at the meeting can be found in the Notice of Annual General Meeting which has been sent to all shareholders with the Annual Report & Accounts, and will appear on the website at www.arriva.co.uk, from 20 March 2009.

Employees

The Board of Arriva plc recognises that its employees are key to its success and is committed to creating a working environment where everyone has the opportunity to learn, develop and contribute to the success of the group, working within a common set of values.

The group continues to aim to be an employer of choice and to employ a diverse workforce with the skills, abilities and attitudes to meet business objectives and needs. The group's aim is to provide appropriate remuneration, benefits and conditions of employment which will serve to attract, retain, motivate and reward such employees.

The group continues to give full and fair consideration to applications for employment by disabled persons, having regard to their respective aptitudes and abilities and its policy includes, where applicable, the continued employment of those who may become disabled during their employment.

The group has, subject to the constraints of commercial confidentiality, continued its policy of employee involvement, by making information available to employees on a regular basis regarding recent and probable future developments and business activities.

Further information on employee representation can be found in the corporate responsibility report on page 41.

Policy regarding payment of suppliers

The group's policy regarding the payment of suppliers is either to agree terms of payment at the start of business with each supplier or to ensure that the supplier is made aware of the payment terms, and in either case to pay in accordance with its contractual or other legal obligations. At 31 December 2008 the company's trade creditors outstanding represented approximately 33 days' purchases (2007: 40 days).

Substantial shareholdings

As far as the directors are aware, the only notifiable holdings equal to or in excess of three per cent of the issued ordinary share capital as at 1 March 2009 were:

	%
Aberdeen Asset Management PLC's Fund Management Operating Subsidiaries	5.00
Artemis Investment Management Limited	6.14
AXA S.A.	12.76
Legal & General Group Plc	3.96
Marathon Asset Management LLP	6.64

Corporate governance

A review of the company's application of the principles and provisions of The Combined Code on Corporate Governance 2006 appears on pages 62 to 68.

Health, safety and the environment

Details of the company's approach to health, safety and environmental issues appears within the corporate responsibility report on pages 36 to 47.

Auditors

A resolution to re-appoint PricewaterhouseCoopers LLP as auditors to the company and to authorise the directors to fix the auditors' remuneration will be proposed at the Annual General Meeting.

By order of the Board

D P Turner

Company secretary

4 March 2009

1. Introduction

This report has been prepared in accordance with the provisions of schedule 7A to the Companies Act 1985 and has been approved by both the Remuneration Committee and the Board.

The committee is responsible for all matters relating to the remuneration arrangements for executive directors, and selected senior management below Board level.

Membership of the committee is limited to the non-executive directors. The membership in 2008 was as follows:

N P Buckles (chairman)

Sir Richard Broadbent

S G Batey

As announced on 11 December 2008, Angie Risley will be joining the Board as a non-executive director on 9 March 2009. Subject to her election as a director at the Annual General Meeting she will also become a member of the Remuneration Committee on 22 April 2009. The membership will thereafter comprise three independent non-executive directors and the chairman of the Board.

During the year, the committee met on five occasions; details of the attendance at meetings appear in the corporate governance report on page 65.

2. Remuneration policy

The objective of the Board's remuneration policy is to recruit and retain high quality directors and managers by providing competitive rewards based on the achievement of targets which are aligned to the company's strategic goals and with returns to shareholders. In reaching its decisions, the committee has regard to levels and structures of remuneration among a peer pay comparator group which it has established and continues to maintain with independent advice comprising a selection of FTSE 250 companies (from the transport and other sectors) of a similar size and complexity to that of the company. The committee also has regard to remuneration levels and structures among a smaller group of companies representing its direct competitors in the transport sector and, on the basis of survey data, of a broad range of industrial companies.

Performance targets selected by the committee are subject to periodic review to ensure continued congruence with the group's strategic goals.

3. Remuneration review

During 2008, the committee conducted a full review of the remuneration arrangements introduced after the last such review in 2005. The committee appointed Towers Perrin as independent advisers to assist in the review.

The review concluded that the remuneration arrangements introduced in 2006 were working broadly as intended with regard to structure and opportunity. In particular, the committee decided to recommend no change to the performance targets of the LTIP which remain top quartile TSR and annual growth in EPS of RPI plus 4 - 13 per cent over three years. Regarding the annual bonus structure, the committee decided that no change was necessary in the quantum of opportunity (100 per cent of salary of which 30 per cent relates to personal objectives and 70 per cent to a defined financial target) but that in respect of 2009 the financial target would be specified 50 per cent in relation to EBIT and 20 per cent in relation to EPS.

Independent analysis of published data during the review revealed that a material gap has opened up between executive directors' salaries at Arriva and at companies in its peer groups whether narrowly or broadly defined. This gap is currently in the range 10 - 15 per cent, reflecting the restraint shown in recent years during which executive salaries have increased by 3 - 4 per cent per annum. On the basis of the extensive analysis conducted, the committee concluded that fair and competitive salaries for the individuals concerned would be, respectively, £535,000 for David Martin (an increase of 11.4 per cent), £360,000 for Steve Lonsdale (an increase of 15.4 per cent) and £305,000 for Steve Clayton (an increase of 8.9 per cent).

The Remuneration Committee has considered very carefully what to do in this situation. It is aware that the external environment, and the reputation of the company, must be fully taken into account in its decisions. It is also aware of its responsibilities to the individuals concerned, and to the interests of the company in ensuring that management at the most senior level are properly motivated and their services retained for the benefit of the company. It has discussed the situation with the executive directors themselves and it has conducted extensive consultations with major shareholders.

The committee is clear that it is not in the interests of the company to continue indefinitely paying salaries to its senior executives that are well below the median of its competitors and its peer group. It intends therefore as a matter of policy to seek to close the gap that has developed as quickly as possible. The committee also recognises that in doing so it must take full account of the external environment it is operating in. In reaching its decisions, it has also paid careful regard to the views expressed by shareholders and shareholder representative bodies that it has consulted. In all the circumstances, the committee has concluded that basic salaries will be increased as follows:

	Increase	Salary at 1 January 2009 £000 pa
D R Martin	3%	494
S J Clayton	3%	288
S P Lonsdale	5%	328

These increases are materially less than those required to deal with the shortfall in executive salaries described above and the committee will continue to give close attention to executive salaries in the coming years.

4. Remuneration structure

(a) Base salary

Each of the executive directors is paid a basic annual salary which is reviewed in January each year. The salaries of the executive directors were increased effective from 1 January 2009, as detailed in section 3 above.

(b) Performance related bonus

Each of the executive directors has the opportunity to earn an annual bonus of up to 100 per cent of basic annual salary of which 70 per cent of the potential award is determined by group financial performance, with the balance being determined by the performance of each director against qualitative objectives agreed at the beginning of the year.

With regard to the group financial performance element, the target is group earnings per share before goodwill impairment and intangible asset amortisation calculated in accordance with International Financial Reporting Standards and adjusted for exceptional items. The committee reviews annually the EPS target to ensure that it remains appropriate in the context of the group's strategy and the delivery of sustained shareholder value. For 2008 the EPS element of the bonus arrangement was structured as follows:

EPS target (p)	Bonus as a per cent of basic salary
Less than 55.9	Nil
59.7	25
61.4	50
64.4	70

The qualitative element of directors' bonus arrangements focuses on delivery of specific elements of strategy, environmental issues, organisational and management goals and the development of a high calibre management team. The Remuneration Committee will consider also the opportunities for incorporating social and governance targets within future performance related pay structures.

As a consequence of the EPS performance of the group for the year ended 31 December 2008 of 61.5 pence and the performance of each director against the qualitative targets agreed at the beginning of the year, bonus payments were made to each executive director in March 2009 as follows:

	Bonus for year ended 31 December	
	2008	2007
	£	£
D R Martin	375,360	425,000
S J Clayton	209,200	243,900
S P Lonsdale	239,300	265,700
	823,860	934,600

The non-executive directors do not participate in the performance related bonus scheme and no change to this policy is envisaged.

(c) Long Term Incentive Plan ('LTIP')
The LTIP is a share-based plan and comprises a conditional award of shares of a value equivalent to 200 per cent of the executive director's basic salary as at the date of an award; awards are normally made each March following the announcement of the group's preliminary results for the preceding financial year.

Since 2006, awards have comprised a blend of two elements with each element providing the opportunity for each executive director to earn up to one half of the conditional share award. Each element operates as follows:

(i) Total Shareholder Return element ('TSR')
This element provides the opportunity to earn up to one half of the initial conditional award and is based on the group's TSR performance when ranked against the TSR performance of those companies comprising a 'peer comparator group'. For this purpose the peer comparator group consists of companies (excluding the company and investment companies) whose shares comprise the FTSE 250 at the beginning of each three-year measurement period.

Performance is measured over three consecutive financial years (1 January – 31 December), the first year of the measurement period being the year in which the conditional share award is made. In order for shares to vest under this element, the TSR performance of the group must achieve, as a minimum, the median TSR performance of the peer comparator group; achievement of the median position will generate the vesting of 25 per cent of this element of the award, and this will increase on a linear basis to 100 per cent (of this element) on the achievement of upper quartile performance.

The TSR performance is independently calculated and verified by Alithos Limited.

(ii) The EPS element
This element also provides the opportunity to earn up to one half of the initial conditional award; vesting of the shares is on a linear scale with 10 per cent vesting if EPS increases to a level which is four per cent per annum in excess of the increase in the Retail Prices Index over the three-year measurement period; vesting will increase on a linear scale to a maximum of 100 per cent (of this element) on EPS performance achieving or exceeding 13 per cent per annum in excess of the growth in the Retail Prices Index.

The company operates share retention guidelines which require each executive director to retain 50 per cent of any vested shares until such time as a holding equivalent in value to basic annual salary has been achieved.

The non-executive directors do not participate in the LTIP, and no change to this policy is envisaged.

The vesting of the shares conditionally awarded in 2006 had as the performance measurement period the three years ended 31 December 2008. The TSR over the period was in the upper quartile and therefore 100 per cent of this element of the award vests. The EPS performance target required to achieve 100 per cent vesting of this element of the award was 70.4 pence. The actual EPS performance was 61.5 pence and, as a consequence 49 per cent of this element of the award vests. The Remuneration Committee confirmed the vesting position on 4 March 2009.

Changes in the interests of the executive directors in conditional share awards made under the LTIP in the year ended 31 December 2008 were as follows:

	Awards subsisting at 1 January 2008			Movement in conditionally awarded shares (audited information): Awarded during year			Vested during year			Not vested in year	Balance at 31 Dec 2008
	No. of shares	Date awarded	Share price at date of calculation of award (p)	No. of shares	Date	Share price at date of calculation of award (p)	No. of shares	Date of vesting	Value of shares at date of vesting (£)		
D R Martin	54,744	14/3/05	548.0				Nil			54,744	-
	159,785	17/5/06	544.0								159,785
	124,832	16/3/07	745.0								124,832
				138,929	13/3/08	691.0					138,929
Total	**339,361**			**138,929**			**Nil**			**54,744**	**423,546**
S J Clayton	45,620	14/3/05	548.0				Nil			45,620	-
	92,940	17/5/06	544.0								92,940
	72,752	16/3/07	745.0								72,752
				81,042	13/3/08	691.0					81,042
Total	**211,312**			**81,042**			**Nil**			**45,620**	**246,734**
S P Lonsdale	45,620	14/3/05	548.0				Nil			45,620	-
	103,663	17/5/06	544.0								103,663
	81,074	16/3/07	745.0								81,074
				90,304	13/3/08	691.0					90,304
Total	**230,357**			**90,304**			**Nil**			**45,620**	**275,041**

(d) Share option schemes

None of the executive directors has any residual interest in the share option schemes. The non-executive directors do not participate (and have not participated) in any of the company's share option schemes.

(e) Directors' remuneration details for the year ended 31 December 2008 (audited information)

	Emoluments					
	Fees £	Salary £	Performance related bonus £	Benefits in kind/ allowance £	Total £	Prior year £
Sir Richard Broadbent	150,000	-	-	-	150,000	120,000
D R Martin	-	480,000	375,360	27,827	883,187	917,197
S J Clayton	-	280,000	209,200	24,823	514,023	540,120
S P Lonsdale	-	312,000	239,300	21,688	572,988	588,927
S G Batey	50,000	-	-	-	50,000	40,000
N P Buckles	45,000	-	-	-	45,000	35,500
A V M Palmer	45,000	-	-	-	45,000	35,500
S G Williams	45,000	-	-	-	45,000	35,500
Total	335,000	1,072,000	823,860	74,338	2,305,198	2,312,744

Notes:

1. Benefits in kind for each director comprise a company car and/or car allowance, fuel, medical insurance and telephone costs.
2. A pension of £5,000 (2007: £5,000) was paid to a former director.

The fees paid to the non-executive directors are as follows and comprise a basic fee and an additional fee to recognise specific further responsibilities.

	Basic annual fee £	Additonal annual fee £	Total £	Additonal responsibilities
Sir Richard Broadbent	150,000	-	150,000	Chairman of the Nomination Committee
S G Batey	40,000	10,000	50,000	Chairman of the Audit Committee
N P Buckles	40,000	5,000	45,000	Chairman of the Remuneration Committee
A V M Palmer	40,000	5,000	45,000	Chairman of the Safety Committee
S G Williams	40,000	5,000	45,000	Senior independent director
	310,000	25,000	335,000	

The non-executive directors take no part in the process for establishing their individual fee level.

Under the terms of the Articles of Association the fees payable to the non-executive directors are limited to £400,000 per annum in the aggregate; this level was established following approval by the shareholders at the Annual General Meeting held on 23 April 2004, and the Articles permit the directors to increase this cap annually in line with the increase in the index of UK wage inflation.

As at 31 December 2008, in accordance with the indexation provisions, the cap on the aggregate level of non-executive directors' fees was £470,504.

Each non-executive director has been appointed for a fixed-term not exceeding three years and, following the implementation of the Companies Act 2006, those appointments are normally renewable, with the agreement of both parties, for terms not exceeding two years.

(f) Directors' share interests (audited information)
The interests of the directors (including their relevant family interests) in the share capital of the company at the beginning and the end of the year and at the date one month prior to the notice of the Annual General Meeting were as follows:

	Number of ordinary shares		
	1 January 2008	31 December 2008	20 February 2009
Sir Richard Broadbent	27,246	27,246	27,246
S J Clayton	80,000	80,000	80,000
S P Lonsdale	314,831	314,831	314,831
D R Martin	488,848	488,848	488,848
S G Batey	7,268	7,268	7,268
N P Buckles	5,000	5,000	5,000
A V M Palmer	Nil	Nil	Nil
S G Williams	1,060	1,060	1,060

(g) Pensions (audited information)

	D R Martin	S J Clayton	S P Lonsdale
Scheme*	2	3	1
Normal retirement age	65	65	65
Director's contribution	Nil	Nil	Nil
Increase in accrued pension during the year (allowing for indexation) (£ pa)	25,344	8,961	13,567
Gross increase in accrued pension (£ pa)	34,374	12,888	22,100
Accrued pension at 31/12/2008 (£ pa)	334,928	113,585	240,875
Accrued pension at 31/12/2007 (£ pa)	300,554	100,697	218,755
Value of net increase in accrual over period (£)	260,499	112,613	138,845
Transfer value of accrued pension at 31/12/2007 (£)	4,281,623	1,056,898	1,992,137
Transfer value of accrued pension at 31/12/2008 (£)	3,600,772	1,427,413	2,698,358
Total change in value during period (£)	(680,851)	370,515	706,221

*1 Arriva Pension Scheme
2 Arriva Passenger Services Pension Plan
3 Arriva London North & Arriva London South Pension Scheme

Notes:

1. Notwithstanding an increase in Mr Martin's accrued pension at 31 December 2008, the transfer value fell in comparison with the previous year reflecting changes in market conditions and changes to the calculation of the transfer value consequent upon the adoption of revised assumptions for the 2008 valuation of the Arriva Passenger Services Pension Plan.

2. The transfer values for Messrs Clayton and Lonsdale have increased as a result of an increase in their accrued pensions, changes in market conditions and the impact of the trustees of their respective schemes having adopted increased allowances for future mortality improvements for all scheme members.

Messrs Martin, Clayton and Lonsdale are now accruing pension at 1/30th of base pay for all years of service. For service pre 2000 pension had been calculated at 1/60th per annum of base pay and a restricted element of bonus; in accordance with best practice guidelines, bonus is now removed from the calculation which now computes pension at 1/30th per annum of base salary for all service. This change does not alter the actuarial value of the benefit.

No future executive director external appointees to the Board will be eligible for a final salary based pension arrangement, but instead will receive a cash contribution equal to 25 per cent of basic salary.

Mr Martin has the opportunity to elect to take an annual cash sum, paid monthly in arrears (on a basis that is cost neutral to the company), in lieu of any future pension accrual.

(h) Service contracts
Each of the three executive directors has a service contract dated 19 April 2006; the contracts are subject to 12 months' notice from the company and six months' notice from the director. Each contract contains covenants restricting the ability of the director, within a period of six months from termination, from competing with the company. The contracts make specific provision with regard to termination payments which are quantified as the sum of:

(i) The director's basic pay at the date of termination;

(ii) The amount of bonus estimated to be payable in respect of the year in which notice is served, but in any event capped at maximum of 40 per cent of basic pay; and

(iii) The value of the benefits in kind.

Additionally, in the case of termination by the company, the company will seek to procure that the director is credited with an additional 12 months' service in his respective pension scheme.

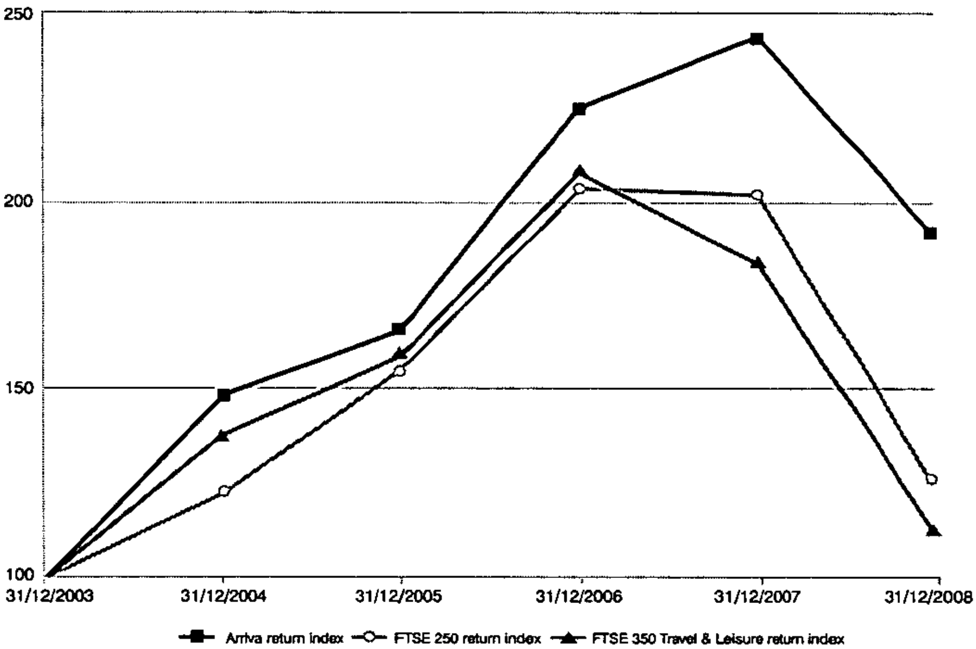
Should the director terminate the contract within six months of a change of control of the company he will receive a termination payment equal to 50 per cent of the termination payment described above.

(i) External Board appointments
The Board will permit executive directors to accept one appointment outside the company. Before accepting such appointments the director(s) involved must receive the prior approval of the Board. In considering such cases the Board will always satisfy itself, as far as is possible, that such appointments will not detract from the executive directors' expected contribution to the company, nor that such appointment will create any conflict of interest; any fees earned by an executive director in such a capacity will be assigned to the company.

(j) TSR graph
In accordance with the provisions of Schedule 7A to the Companies Act 1985, detailed below is a graph charting the performance of the company's Total Shareholder Return (share value growth plus re-invested dividends over the past five years) compared with the most relevant comparator indices as follows:

(a) The FTSE 250; and

(b) The FTSE 350 Travel and Leisure Index.



(k) Remuneration report approval
An ordinary resolution to consider and, if thought fit, approve this remuneration report will be proposed at the Annual General Meeting to be held on 22 April 2009.

For and on behalf of the Board

N P Buckles
Chairman, Remuneration Committee

4 March 2009

Compliance statement

The essential principles of corporate governance applied by the company are detailed in Section 1 of The Combined Code on Corporate Governance 2006 ('The 2006 Code') and throughout the year under review the company in all material respects complied with those provisions. In June 2008 the Financial Reporting Council issued a revised Code which applies to accounting periods beginning on or after 29 June 2008 and with which the company also complies in all material respects. The purpose of this report is to describe how the principles of The 2006 Code have been applied by the company throughout the year under review.

The Board and its structure

A. General

For the year under review, the Board comprised a non-executive chairman, three executive directors and four independent non-executive directors. At the Annual General Meeting on 22 April 2009 Steve Clayton and Veronica Palmer will retire as directors and Angie Risley will stand for election as a non-executive director; subsequent to these changes the Board will comprise a non-executive chairman, two executive directors and four independent non-executive directors. Steve Williams is the senior independent director and in this regard his responsibilities include providing shareholders with an additional channel of communication with the company should the normal channels be either inappropriate or have failed to provide resolution. Additionally, in his capacity as senior independent director, Steve Williams may attend and participate at the meeting of any Board committee of which he is not a member.

In fulfilling its responsibilities for determining the group's strategic priorities and policies, providing overall direction and managing the balance between short, medium and long-term objectives, the Board reserves for itself decisions over certain critical areas including the approval of financial statements, long-term objectives and strategy, capital structure, organisational structure, Board and Board committee membership and the maintenance and development of good corporate governance practice.

The Board will normally meet between eight and 10 times annually, with one of the meetings always reserved for the review and testing of the group's strategy. During 2008, the Board met on nine occasions.

The Board agenda is clearly structured, and, in addition to business matters that require attention, the Board receives financial, operational and progress reports from the executive directors, including matters relating to corporate social responsibility, the environment, management and employees and issues affecting the public transport industry in the UK and mainland Europe. The Board also receives reports from the chairmen of its four principal committees and updates on regulatory, corporate governance and other compliance matters.

The roles of the chairman and the chief executive are clearly defined and separated and are set out in writing in the company's manual of corporate governance. The chairman is responsible for the effective operation of the Board, corporate governance, regulatory compliance, Board succession and director performance evaluation and for ensuring constructive relations with shareholders.

The role of the chief executive is to devise and implement appropriate business strategies and to run the business and implement decisions agreed by the Board, having due regard to the long-term interests of the shareholders, employees and other stakeholders.

One-third of the directors are required to submit themselves for re-election at each Annual General Meeting and all directors will have so submitted themselves every three years. Directors newly-appointed to the Board will be subject to election by the shareholders at the first available opportunity following their appointment.

All directors have access to the advice and services of the company secretary who administers the Board and Board committee meetings, provides updates to the Board on regulatory and compliance developments and ensures that relevant procedures and regulations are adhered to. There is an established procedure for any of the directors to obtain independent professional advice at the company's expense.

B. Induction

An induction programme applies to all new Board appointees and incorporates a full briefing of the group's businesses (including site visits and meetings with senior managers), a review of the Board's approach to corporate governance and other general corporate issues.

C. Evaluation

Each year the Board undertakes an evaluation of its own performance. The performance evaluation for 2008, conducted in early 2009, was led by Steve Williams as the senior independent director and included a specific element concerning an assessment of the performance of the chairman.

D. Board committees

As an integral part of discharging its corporate governance responsibilities effectively, the Board has established four principal committees: Audit, Nomination, Remuneration and Safety. Each of the committees operates under clearly defined terms of reference which can be viewed on the company's website www.arriva.co.uk within the corporate responsibility section.

D1. Audit Committee

The Audit Committee comprises exclusively independent non-executive directors and is chaired by Simon Batey, a chartered accountant and former finance director of United Utilities plc and more latterly, until his retirement from that post, chief financial officer of Thames Water Utilities Limited. The other members of the committee are Steve Williams and Veronica Palmer. From 22 April 2009, subject to her election at the Annual General Meeting, Angie Risley will be appointed a member of the committee on Veronica Palmer's retirement from the Board. The Audit Committee's principal areas of focus are:

(a) Financial reporting

The discipline of financial reporting is clearly an activity of crucial importance to the company, its shareholders and the wider stakeholder community. It is the responsibility of the Audit Committee to monitor and provide assurance to the Board on the integrity of all of the company's financial statements. As part of this process the committee is specifically required to review and challenge where necessary the continued application of the company's accounting policies (and any changes thereto), the methods used to account for significant or unusual transactions and the clarity of the financial statements and reports.

(b) Internal control and risk management systems

The Board has delegated to the Audit Committee the responsibility of reviewing and providing assurance as to the company's systems of internal control and risk management, including risk transfer and risk retention policies and practices.

In this regard the Audit Committee is assisted by the group internal audit function, the head of which reports directly to the chairman of the Audit Committee.

(c) Internal audit

A key element in the company's internal control and risk management mechanism is the group internal audit function. A key responsibility of the committee is to provide assurance to the Board that appropriate action is being taken by the businesses to address relevant internal audit findings that have been communicated to the committee via the group internal audit function.

Additionally, the committee is responsible for monitoring the effectiveness of the group internal audit function. This includes an assessment of the ongoing adequacy of internal audit resources and the function's continuing freedom from any management or other material restrictions which may impact on its ability to operate with complete independence and objectivity.

(d) External audit

The external audit process is fundamental to any company's audit programme and the role of the external auditor is to provide assurance to the members of the company as a whole that the financial statements produced by the company are in all material respects true and fair. Whilst the external auditor is ultimately appointed by the shareholders in general meeting it is inevitable that the regular contact with the company is via the executive directors, senior managers and other employees.

It is therefore against this background that the Audit Committee is charged by the Board with the responsibility of ensuring that the external auditor remains completely independent of the company (and relevant officers of the company) in all material respects and that the external audit firm is adequately resourced (both from a technical and territorial capacity) to enable it to deliver a completely objective audit to the shareholders. It is the responsibility of the Audit Committee to formally recommend to the Board each year the continuation, or removal and replacement, of the external auditor. This process is supported by a full annual review of the expertise, resources, effectiveness and independence of the external audit firm.

Additionally, the Audit Committee, as part of its ongoing process for ensuring continued audit independence, reviews and approves the level and nature of non-audit work performed.

D2. Nomination Committee

The Nomination Committee membership comprises the independent non-executive directors and is chaired by Sir Richard Broadbent. The other members of the committee are Simon Batey, Nick Buckles, Veronica Palmer and Steve Williams. From 22 April 2009, subject to her election at the Annual General Meeting, Angie Risley will be appointed a member of the committee on Veronica Palmer's retirement from the Board.

The principal responsibility of the committee is to keep under regular review the structure, size and composition of the Board and to determine whether the level of resourcing remains appropriate. This process will also include a regular review of the succession plans at both Board and senior management levels.

All Board appointments and the appointment of the senior independent director and the chairmen of the Board committees are the responsibility of the committee which is required, after appropriate review, research and interview, to make recommendations to the Board for approval.

D3. Remuneration Committee

The committee comprises exclusively non-executive directors and is chaired by Nick Buckles. The other members of the committee are Sir Richard Broadbent and Simon Batey. From 22 April 2009, subject to her election at the Annual General Meeting, Angie Risley will be appointed a member of the committee.

A full review of the work of the committee appears in the directors' remuneration report on pages 54 to 61.

D4. Safety Committee

Given the nature of the group's businesses, the Board recognises the fundamental importance of safety and related issues. The Safety Committee was established a number of years ago to address these matters.

The key responsibilities of the committee are to monitor and provide assurance to the Board on the company's safety policy and the arrangements for its implementation and reporting. The committee receives reports and reviews the safety related key performance indicators.

The committee is chaired by Veronica Palmer. The other members of the committee are Steve Williams and Steve Clayton. From 22 April 2009 the committee will be chaired by Steve Williams and the other members will be Nick Buckles and Simon Batey. David Martin also attends the committee; from 22 April 2009 he will also be the nominated director for safety.

The company's safety policy statement can be viewed on the website at www.arriva.co.uk.

E. Board and Board committee attendance information

Number of meetings/attendance	Board 9	Audit 3	Nomination 3	Remuneration 5	Safety 4
Sir Richard Broadbent	9		3	5	
D R Martin	8				
S J Clayton	9				4
S P Lonsdale	9				
S G Batey	9	3	3	5	
N P Buckles	9		3	5	
A V M Palmer	9	3	3		4
S G Williams	9	3	3		4

F. Relations with shareholders

The company has an established programme of communication with shareholders and the corporate communications department organises a regular series of presentations to analysts and investors. It remains the Board's intention that these arrangements should continue as they represent an important feature of the process of facilitating helpful and constructive dialogue between the company and its major investors, subject of course to continuing to meet all regulatory and statutory requirements.

A procedure exists for the Board as a whole to receive direct feedback from the company's brokers of the investing community's perception of the company's performance and strategy.

G. Annual General Meeting

The Annual General Meeting is an opportunity for the Board to communicate with shareholders, particularly private shareholders. A presentation on the progress and performance of the business is made by the chief executive following the formal business of the meeting, and the chairmen of the Audit, Nomination, Remuneration and Safety committees are available to answer questions relating to their particular areas of responsibility.

Following each resolution, the meeting is informed of the number of proxy votes submitted in respect of each resolution; this information is also published on the company's website following the meeting.

H. Group policies

The Board has approved and circulated across all the group's businesses a set of policies which are designed to strengthen and support the group's corporate governance and internal controls and to address key risks identified through the risk assessment and control process. As part of the internal control process, businesses are required to certify their continued compliance with these policies. The policies are kept under review to ensure compliance with best practice and any changes to the regulatory and statutory regimes. All companies within the group are required to follow group policies, although it is recognised that in the case of newly acquired businesses there may be a period of time before full implementation can be achieved. Businesses are required to report to the chief executive on an annual basis on any departures from, or non-compliance with group policies.

I. Conflicts of interest

The statutory duties for directors set out in the Companies Act 2006 ('The 2006 Act') relating to conflicts of interest came into force on 1 October 2008. Under Section 175 of The 2006 Act, from 1 October 2008, a director has a statutory duty to avoid a situation where he has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the company's interests.

The 2006 Act allows directors of public companies to authorise conflicts and potential conflicts, where appropriate, if the company's Articles of Association contain a provision to this effect. At the company's 2008 Annual General Meeting a resolution was passed to amend the Articles to enable this and other provisions for dealing with the directors' conflicts of interest.

The Board has introduced procedures to ensure that authorisation of conflicts is operated effectively. At the October 2008 Board meeting, all potential conflicts of interest were disclosed by the directors and approved by the Board. Any new conflict situations will be dealt with by the Board as they arise or on appointment of a director and all conflicts will be reviewed annually as will be the effectiveness of the procedures for authorisation of conflicts.

In January 2009 the directors were invited to review each of their disclosures (which had been authorised by the Board in October 2008) and report any amendments that were relevant. The amendments made were authorised by the Board (the directors involved taking no part in the discussions relating to their disclosures) at its meeting on 4 March 2009.

J. Whistleblowing

The group operates a whistleblowing policy and procedure whereby employees can, in confidence, report on matters where they feel a malpractice is taking place. Areas that are addressed by this procedure cover financial malpractice, criminal activities, dangers to health and safety or the environment or improper or unethical behaviour.

The procedures allow for employees to raise their concerns with line management or, if this is inappropriate, to raise them on a confidential basis. A confidential telephone mailbox and confidential e-mail facility are provided to protect the identity of employees in these circumstances. The complaint will be investigated in a confidential manner and, after a decision is made as to what further steps should be taken, feedback is given to the person making the complaint. An official written record is kept of each stage of the procedure.

The whistleblowing policy and its operation is subject to periodic review by the Audit Committee; the last review was in February 2009 and the Audit Committee concluded that no amendments needed to be made to the policy.

K. Internal control

Companies are required to report to shareholders that they have conducted an annual review of the effectiveness of the system of internal control. The review extends beyond financial controls to encompass operational and compliance control and risk management.

The directors are responsible for the group's system of internal control. Whilst no system can provide absolute guarantees and protection against material loss, the systems are designed to give the directors reasonable assurance that problems can be identified promptly and remedial action taken as appropriate.

The Board has reviewed the effectiveness on an ongoing basis of the system of internal control for the accounting period under review.

The key features of the internal control system are:

(a) Organisation structure

The structure of the organisation is so designed to minimise, as far as possible, the complexity of the reporting arrangements commensurate with the commercial demands made on the group. The structure focuses on the core businesses of the group and stringent reporting procedures are applied to ensure that performance is closely monitored so that effective and prompt action can be taken if the need arises. Certain of the group's functions including company secretarial, legal, taxation, internal audit, treasury and insurance are undertaken centrally.

(b) Financial reporting

The group operates a comprehensive financial control system with each operating division's performance being closely monitored against budget, forecast and prior year performance. Monthly management accounts are prepared for consideration by the Board as a whole, and are issued in a timely manner to ensure proper consideration can be given to the information.

(c) Group internal audit

The internal control systems are comprehensively supported by the group internal audit department. Group internal audit is responsible for advising all levels of management, and the Board of directors through the Audit Committee, on the quality of the financial and operational systems of control for all parts of the group. This review and appraisal function does not relieve line management of its responsibility for effective control.

Group internal audit functions by conducting independent appraisals leading to reports detailing findings and agreed actions. Group internal audit undertakes annual financial reviews of the balance sheets of all of the group's material trading subsidiaries and engages in a cycle of operational and risk reviews both on scheduled and random bases. The head of group internal audit reports directly to the chairman of the Audit Committee.

Group internal audit is staffed by appropriately qualified and experienced auditors.

(d) Risk assessment and risk control
An ongoing process for identifying, evaluating and managing the significant risks facing the group has been in place throughout the year under review and continues to remain in place.

An essential element of good internal control is the continual process of risk assessment and the implementation of appropriate controls designed to eliminate or mitigate the effects of the crystallisation of identified major risks.

The approach adopted by the Board involves a process which requires divisional operational staff to critically examine their responsibilities and identify those risks which are of such a nature that their crystallisation would have a material impact on their business. In order for this process to succeed, it is essential that 'ownership' of risk awareness, risk identification and risk control is fully embraced by line management as an essential ingredient of its normal responsibilities.

In implementing its risk assessment programme the Board has devolved to the Audit Committee the task of implementing and maintaining an appropriate risk assessment and control programme and it works closely with the head of group internal audit in engaging in a formal review of the key business risks to the group.

In the development of this programme there are a number of fundamental issues identified as being absolutely critical to the success and effectiveness of the risk management and control programme. In formulating its approach the committee has structured the programme around the key areas of:

- Clear leadership from the Board
- The need for risk management to be seen as part of everyday activity and to be embedded in the line management culture
- Clear communication of the principles involved
- Active support and involvement of the group internal audit function
- Regular review of the process and continual assessment of the changing nature of the risks presenting themselves to the business
- Updating of the group policy manual following the identification of new significant risks

The Board recognises that, as in any business, the company must manage a range of risks in the course of its activities, and that failure adequately to manage these risks could adversely impact the business.

As part of the ongoing risk assessment and management programme the principal risks facing the business have been identified and are reported on separately on pages 34 to 35.

L. Going concern
In accordance with the guidance issued in November 2008 by the Financial Reporting Council *'An update for directors of listed companies: going concern and liquidity risk'*, a comprehensive going concern review was undertaken by the group. Following that review the directors confirm that, after having made appropriate enquiries, they have reasonable expectation that the group and the company have adequate resources to continue in operational existence for the foreseeable future. Accordingly the directors continue to adopt the going concern basis in the preparation of the Accounts. This approach was endorsed by the Audit Committee at its meeting held on 25 February 2009.

Independent Auditors' Report to the Members of Arriva plc

We have audited the group financial statements of Arriva plc for the year ended 31 December 2008 which comprise the Group income statement, the Group balance sheet, the Group cash flow statement, the Group statement of recognised income and expense and the related notes. These group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent company financial statements of Arriva plc for the year ended 31 December 2008 and on the information in the Directors' remuneration report that is described as having been audited.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of directors' responsibilities.

Our responsibility is to audit the group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the group financial statements give a true and fair view and whether the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' report is consistent with the group financial statements. The information given in the Directors' report includes that specific information presented in the Business review that is cross referred from the Business review section of the Directors' report.

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate governance statement reflects the company's compliance with the nine provisions of the Combined Code (2006) specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited group financial statements. The other information comprises only the Chairman's statement, the Chief executive's review, the Financial review, Principal risks and uncertainties, Corporate responsibility, the Directors' report, the unaudited part of the Directors' remuneration report, Corporate governance and other reports on pages 2 to 17. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the group financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the group financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the group financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the group financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the group financial statements.

Opinion

In our opinion:

- The group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 December 2008 and of its profit and cash flows for the year then ended;
- The group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- The information given in the Directors' report is consistent with the group financial statements.

PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Newcastle upon Tyne
13 March 2009

Group income statement

for the year ended 31 December 2008

	notes	2008 £m	2007 £m
Revenue	1	3,042.2	2,000.7
Net operating expenses	3(a)	(2,870.4)	(1,872.7)
Group operating profit		171.8	128.0
Share of post tax profits from associates		4.4	4.3
Net finance costs	2	(26.2)	(16.5)
Profit on ordinary activities before taxation	3	150.0	115.8
Tax on profit on ordinary activities	5	(38.8)	(25.8)
Profit for the year		111.2	90.0
Attributable to:			
Equity holders of the parent		104.5	86.4
Minority interests		6.7	3.6
		111.2	90.0
Dividends per ordinary share	6	24.06p	22.65p
Earnings per share	7(a)		
Basic earnings per share		52.6p	43.5p
Diluted earnings per share		52.3p	43.4p
Basic earnings per share before goodwill impairment, intangible asset amortisation and exceptional items	7(b)	61.5p	46.5p

Group balance sheet

at 31 December 2008

	notes	2008 £m	2007 £m
Non-current assets			
Goodwill	8	509.9	328.2
Other intangible assets	9	75.7	43.2
Property, plant and equipment	10	1,559.9	1,164.4
Investments	11	141.9	63.6
Derivative financial instruments	19	51.8	39.6
		2,339.2	1,639.0
Current assets			
Inventories	12	52.3	41.1
Trade and other receivables	13	430.4	360.3
Cash and cash equivalents	14	147.7	95.7
Derivative financial instruments	19	10.0	21.8
		640.4	518.9
Total assets		2,979.6	2,157.9
Current liabilities			
Trade and other payables	15	707.8	546.5
Tax liabilities	16	51.2	34.5
Borrowings	17	174.1	128.4
Derivative financial instruments	19	98.8	10.4
		1,031.9	719.8
Non-current liabilities			
Borrowings	17	797.0	415.8
Retirement benefit obligations	20	120.1	73.7
Deferred tax liabilities	21	95.4	87.6
Other non-current liabilities	18	133.0	114.3
Derivative financial instruments	19	84.0	12.7
		1,229.5	704.1
Total liabilities		2,261.4	1,423.9
Net assets		718.2	734.0
Equity			
Share capital	22	9.9	9.9
Share premium account	25	24.4	24.2
Other reserves	24	38.5	105.0
Retained earnings	25	609.7	571.1
Total shareholders' equity	25	682.5	710.2
Minority interest in equity	25	35.7	23.8
Total equity		718.2	734.0

D R Martin | Directors
S P Lonsdale |

These financial statements on pages 70 to 107 were approved by the Board on 4 March 2009.

Group cash flow statement

for the year ended 31 December 2008

	notes	2008 £m	2007 £m
Cash flows from operating activities			
Cash generated from operations	26(b)	334.0	248.2
Interest and finance charges paid		(27.7)	(16.5)
Tax received/(paid)		16.9	(5.4)
Net cash inflow from operating activities		323.2	226.3
Cash flows from investing activities			
Acquisitions of businesses		(132.6)	(35.5)
Net cash assumed on acquisitions		1.2	12.3
Investment in associates		(39.4)	(2.8)
Purchase of property, plant and equipment		(263.8)	(232.6)
Disposal of property, plant and equipment		19.0	87.4
Net cash used in investing activities		(415.6)	(171.2)
Cash flows from financing activities			
Proceeds from issuing ordinary share capital		0.2	1.3
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)
Dividends paid to the company's shareholders		(46.1)	(41.9)
Dividends paid to minority interests		(4.3)	(1.0)
Net cash generated/(used) in financing activities		136.8	(60.2)
Net increase/(decrease) in cash, cash equivalents and overdrafts	26(c)	44.4	(5.1)
Cash, cash equivalents and overdrafts at the beginning of the year	26(c)	62.4	71.1
Exchange gains/(losses) on cash, cash equivalents and overdrafts	26(c)	6.5	(3.6)
Cash, cash equivalents and overdrafts at the end of the year	26(c)	113.3	62.4

Group statement of recognised income and expense

for the year ended 31 December 2008

	2008 £m	2007 £m
Net foreign exchange adjustments offset in reserves, net of tax	37.2	4.1
Cash flow hedges, net of tax	(66.5)	47.0
Actuarial (losses)/gains on employment benefits, net of tax	(51.2)	70.6
Tax relief on share option schemes	-	0.5
Net (expense)/income recognised directly in equity	(80.5)	122.2
Profit for the year	111.2	90.0
Total recognised income and expense	30.7	212.2
Attributable to:		
Equity holders of the parent	16.1	206.7
Minority interests	14.6	5.5
	30.7	212.2

Basis of preparation

As a UK listed company, Arriva plc is required to prepare its group accounts in accordance with EU endorsed International Financial Reporting Standards (IFRS), International Financial Reporting Interpretations Committee (IFRIC) interpretations and the Companies Act 1985 and 2006 applicable to companies reporting under IFRS. These financial statements have been prepared in accordance with EU endorsed IFRS, IFRIC interpretations and the Companies Act 1985 and 2006 applicable to companies reporting under IFRS for periods ending 31 December 2008.

The financial statements are prepared on the historical cost basis of accounting, other than for certain items of property, plant and equipment that have been stated at deemed cost under the transitional rules of IFRS, share-based payment charges, pensions, and derivative financial instruments which are measured at fair value. The functional and presentational currency of the group is pounds sterling.

The principal accounting policies of the group are set out below:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of Arriva plc and its subsidiaries made up to 31 December each year. Subsidiaries are entities over which the group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the group and de-consolidated from the date control ceases. The group's interests in jointly controlled entities are accounted for by proportional consolidation, combining its share of the joint ventures' profits, assets, liabilities and cash flows on a line-by-line basis with those of the group. Associates are those entities over which the group can exercise significant influence, but not control or joint control. Associates are accounted for using the equity method.

All business combinations are accounted for by applying the purchase method. On acquisition, the assets, liabilities and contingent liabilities are measured at their fair values at the date of acquisition. The excess of the cost of acquisition over the fair value of the group's share of net assets acquired is recorded as an intangible asset or goodwill. If the cost of acquisition is less than the fair value of the group's share of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Intra-group transactions, balances, income and expenses are eliminated on consolidation.

Revenue recognition

Revenue represents the fair value of consideration received or receivable in respect of the provision of public transport services and related activities in the UK and mainland Europe. Generally, revenue is recognised by reference to the stage of completion method, principally with respect to the percentage of services rendered to fare-paying customers, or the percentage of services provided under contractual arrangements. For contractual arrangements where significant timing differences may arise between the timing of cash revenues and cash costs, revenue is recognised with respect to the proportion of the total costs incurred to date.

Revenue includes amounts attributed to UK train operating companies based principally on agreed models of route usage in respect of passenger receipts. In addition, franchise agreement receipts from the Welsh Assembly Government and the Department for Transport are treated as revenue.

Proceeds from the disposal of non-current assets are excluded from revenue.

Use of estimates and accounting assumptions

The preparation of financial statements requires management to make estimates and assumptions that affect the group's reported results. Although these estimates are based on management's best knowledge at the time, actual results could differ from those estimates. The key areas of judgment or estimation which could impact the results in the next financial year were they to change include the economic useful lives of property, plant and equipment (disclosed below), the use of actuarial assumptions for measurement of retirement benefit obligations (see note 20), the measurement of insurance provisions, tax assets and liabilities, and the use of forecasts in respect of the annual testing for impairment of goodwill.

Exceptional items

Exceptional items are those items which, because of their nature and materiality, merit separate presentation to allow a better understanding of the group's financial performance.

Segment reporting

The group's primary risks and rates of return are determined by both the business and geographical areas in which it operates. Disclosure of results by business segment is used as the basis for primary segment disclosures, in line with the group's internal management reporting structure.

Government grants

Government grants relating to capital expenditure are included as deferred income and are credited to the income statement over the expected useful economic life of the assets concerned. Grants provided in connection with the award of rail contracts are included in deferred income, and released over the period corresponding to the performance conditions specified in the grant. Revenue related grants are credited to the income statement when the related expenditure is expensed.

Foreign currency translation

The trading results of overseas subsidiary undertakings are translated into sterling using average rates of exchange. Foreign currency assets and liabilities are translated into sterling at the rates of exchange ruling at the balance sheet date.

Differences on exchange arising from the retranslation of the opening investment in subsidiary undertakings and the associated borrowings or hedging instruments, where hedge accounting is permitted, are taken to the statement of recognised income and expense. Cumulative currency gains and losses in reserves are recycled to the income statement on disposal of operations.

Property, plant and equipment

Land and buildings held for use in the delivery of passenger transport services and for administration purposes are stated in the balance sheet at cost or deemed cost.

Depreciation is calculated using the straight-line method to allocate the cost or valuation of each asset less its residual value over its estimated useful life as follows:

Buildings	50 years
Fixtures, fittings, plant and machinery	3 - 10 years
Motor vehicles - buses and coaches	up to 15 years
Rail rolling stock	up to 35 years

Asset useful lives and residual values are reviewed annually. Major refurbishment work on rail rolling stock is capitalised and depreciated over the interval to the subsequent related major refurbishment. Interest costs incurred in financing the construction of certain assets are capitalised where they are considered significant in relation to the asset being constructed and the asset necessarily takes a substantial period of time to be prepared for its intended use. Rail rolling stock undergoing post construction acceptance testing is not depreciated until the commencement of full operational service.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the group's share of the net identifiable assets, liabilities and contingent liabilities at the date of acquisition. Goodwill on acquisition of subsidiaries and joint ventures is disclosed separately in non-current assets. Goodwill on acquisition of associates is included in investments.

Goodwill is not amortised but is tested annually for impairment and carried at cost less accumulated impairment losses.
Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill previously eliminated against reserves has not been reinstated.

Intangible assets

Intangible assets are recognised when acquired as part of business combinations where customer related contractual cash flows exist, and their fair value can therefore be measured reliably. Intangible assets purchased separately are measured at cost. Intangible assets that have a finite life are amortised annually over their expected useful lives.

Impairment

At each balance sheet date the group reviews the carrying amount of its tangible and intangible assets to determine whether there are any indicators of impairment. If indicators of impairment exist then the recoverable amount of an asset or cash generating unit is estimated based on pre-tax discounted future cash flows.

Where individual assets do not generate cash flows independent from other assets, the group reviews the carrying value and recoverable amount of a cash generating unit. This is the smallest group of assets where independent cash flows are produced.

If the recoverable amount of an asset or cash generating unit is less than its carrying amount, the difference is recognised in the income statement as an impairment loss.

Inventories

Inventories are stated at the lower of cost and net realisable value after making allowances for slow moving or obsolete items.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the initial carrying value and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

Taxation

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to taxation authorities using the tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax is not recognised if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax is determined using the tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and which are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Deferred tax liabilities are recognised on taxable temporary differences associated with investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future.

Pensions

The group operates both defined benefit and defined contribution retirement benefit schemes. The group also participates in a number of multi-employer retirement benefit schemes and a number of state-managed retirement benefit schemes.

The liability recognised in the balance sheet in respect of the group's defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of the plan assets, together with adjustments for unrecognised past service costs. The defined benefit obligation is calculated using the projected unit credit method.
Formal actuarial valuations are carried out on a triennial basis, with updated calculations being prepared at each balance sheet date. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

The cost of providing future benefits (service cost) is charged to the income statement in net operating expenses. The return on scheme assets and interest obligation on scheme liabilities comprise a pension finance adjustment which is included in net operating expenses. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity and shown in the statement of recognised income and expense in the period in which they arise.

Certain overseas defined benefit schemes, where the employer's underlying assets and liabilities are not separately identifiable within the scheme, are accounted for as defined contribution schemes under IAS19. Contributions to these schemes, and the group's defined contribution schemes, are charged to the income statement as they arise.

Share-based payments

The group issues equity settled share-based payments to certain employees, which are measured at fair value at the date of grant. The fair value is expensed on a straight-line basis over the vesting period, based on the group's estimate of shares that will eventually vest. The impact of revising original estimates, if any, is included in the income statement, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

Provisions

Provisions are recognised when the group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

Leases

Leases of property, plant and equipment where the group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased asset and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other payables. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate of interest costs charged to the income statement on the outstanding balance. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the asset's useful life and the lease term.

Leases where the lessor retains a significant portion of the risks and rewards of ownership are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

Cash and cash equivalents

Cash comprises cash in hand and demand deposits. Cash equivalents are short-term highly liquid investments with a maturity of less than 90 days that are readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

Derivative financial instruments

The group uses derivative financial instruments to reduce exposures to foreign currency exchange risk, interest rate risk and changes in fuel prices to acceptable levels. All derivatives are initially recognised at fair value, and are subsequently remeasured to fair value at each reporting date.

Derivatives designated as hedging instruments are accounted for in line with the nature of the hedging arrangement. Derivatives are intended to be highly effective in mitigating the above risks, and hedge accounting is adopted where the required hedge documentation is in place and the relevant test criteria are met. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement.

Foreign currency exchange risk

Derivatives are entered into in order to hedge exposure to foreign currency exchange risk. The group also uses foreign currency debt to hedge foreign currency exposures. Both the derivatives and debt are designated as hedges of net investments in overseas subsidiaries.

Interest rate and fuel price risk

Derivative instruments are used to manage the group's exposure to changes in cash flows arising from movements in interest rates and fuel prices. The derivatives are designated as cash flow hedges, and hedge accounting is used where it has been shown that the hedge relationship is highly effective.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Dividend distribution

Dividend distributions to the company's shareholders are recognised in the group's financial statements in the period in which the dividends are paid.

New standards and interpretations

The following standards and interpretations have been issued by the International Accounting Standards Board (IASB) and IFRIC with an effective date that impacts on these financial statements.

International accounting standards and interpretations		Effective date
IFRIC11	IFRS2: Group and Treasury Share Transactions	1 March 2007
IFRIC12	Service Concession Arrangements	1 January 2008
IFRIC14	IAS19 - The Limit on a Defined Benefit Asset, Minimum Funding requirements and their Interaction	1 January 2008

IFRIC12 has not been adopted by the group as it has not yet been endorsed by the European Union. The adoption of IFRIC11 and disclosure requirements of IFRIC14 has not had a material impact on the group's financial statements.

The following standards and interpretations have been issued by the IASB and IFRIC with an effective date that does not impact on these financial statements.

International accounting standards and interpretations		Effective date
IFRS various	Annual improvements 2008	1 January 2009
IFRS2	Share-based Payment - Amendment relating to vesting conditions and cancellations	1 January 2009
IFRS3	Business Combinations - Comprehensive revision on applying the acquisition method	1 July 2009
IFRS8	Operating Segments	1 January 2009
IAS1	Presentation of Financial Statements - Comprehensive revision including requiring a statement of comprehensive income	1 January 2009
IAS1	Presentation of Financial Statements - Amendments relating to disclosure of puttable instruments and obligations arising on liquidation	1 January 2009
IAS23	Borrowing Costs - Comprehensive revision to prohibit immediate expensing	1 January 2009
IAS27	Consolidated and Separate Financial Statements - Consequential amendments arising from amendments to IFRS3	1 July 2009
IAS28	Investments in Associates - Consequential amendments arising from amendments to IFRS3	1 July 2009
IAS31	Interests in Joint Ventures - Consequential amendments arising from amendments to IFRS3	1 July 2009
IAS32	Financial Instruments: Presentation - Amendments relating to puttable instruments and obligations arising on liquidation	1 January 2009
IAS39	Financial Instruments: Recognition and measurement - amendments for eligible hedged items	1 July 2009
IFRIC13	Customer Loyalty Programmes	1 July 2008
IFRIC15	Agreements for the construction of real estate	1 January 2009
IFRIC16	Hedges of a net investment in a foreign operation	1 October 2008
IFRIC17	Distribution of non-cash assets to owners	1 July 2009
IFRIC18	Transfer of assets from customers	1 July 2009

The directors are currently reviewing the requirements of the above standards and interpretations to determine whether there will be a material impact on the group's financial statements.

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
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*	**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**

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

* 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
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

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
Total assets	642.1	1,227.4	114.3	17.0	2,157.9
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)
Total liabilities	(222.4)	(448.9)	(132.5)	(34.7)	(1,423.9)
Net assets					734.0
Other segment items					
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
	3,042.2	2,000.7	2,628.2	1,937.2	263.8	232.6
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	-	-
			2,979.6	2,157.9	263.8	232.6

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	35.7	23.2
Finance income:		
- Interest receivable on other financing items	(9.5)	(6.7)
Net finance costs	26.2	16.5

3. Profit on ordinary activities before taxation

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

(b) The following items have been included in arriving at operating profit (analysis by nature):	2008 £m	2007 £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 maintainance expenditure on property, plant and equipment	15.0	13.3

During the year the group (including its overseas subsidiaries) obtained the following services from the group's auditors and network firms as detailed below:	2008 £m	2007 £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
	1.8	1.5

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

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

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

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

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

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

Tax on items (credited)/charged to equity	2008 £m	2007 £m
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)
Total tax on items (credited)/charged to equity	(57.4)	44.7

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)
Total taxation	38.8	25.8

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
Amounts recognised as distributions to equity holders in the year	46.1	41.9

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

(a) Basic and diluted earnings per share	2008 Per share p	2008 Earnings £m	2008 Shares m	2007 Per share p	2007 Earnings £m	2007 Shares m
Profit attributable to ordinary shareholders		104.5			86.4	
Weighted average number of shares			198.6			198.4
Basic earnings per share	52.6	104.5	198.6	43.5	86.4	198.4
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)
Diluted earnings per share	52.3	104.5	199.7	43.4	86.4	199.1

(b) Basic earnings per share before goodwill impairment, intangible asset amortisation and exceptional items	2008 p	2007 p
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	-
Basic earnings per share before goodwill impairment, intangible asset amortisation and exceptional items	61.5	46.5

8. Goodwill

	2008 £m	2007 £m
Cost		
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
At 31 December	572.6	381.3
Impairment		
At 1 January	53.1	49.6
Impairment in the year	2.5	1.8
Currency translation adjustments	7.1	1.7
At 31 December	62.7	53.1
Net book amount at 31 December	509.9	328.2

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

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
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
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

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
Cost					
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
At 31 December 2007	341.0	228.1	1,281.2	156.5	2,006.8
Accumulated depreciation					
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
At 31 December 2007	64.0	138.7	602.6	37.1	842.4
Net book amounts					
At 31 December 2007	277.0	89.4	678.6	119.4	1,164.4

	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
Cost		
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
At 31 December	141.9	63.6

* 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.

The effective interest rates at the balance sheet date were as follows:	2008 %	2007 %
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

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

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 £m	Finance leases £m	2008 Total £m	Debt £m	Finance leases £m	2007 Total £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
	692.9	104.1	797.0	326.5	89.3	415.8

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

	2008 £m	2007 £m
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
	98.8	10.4

	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
	84.0	12.7

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:

At 31 December 2008	Less than one year £m	Between one and two years £m	Between two and five years £m	Over five years £m
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)	-

At 31 December 2007	Less than one year £m	Between one and two years £m	Between two and five years £m	Over five years £m
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 %
Category of assets at the year end		
Equities	7.75	8.25
Bonds	5.5	5.0
Other	6.4	6.9
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).

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

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

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

Movements in the present value of defined benefit obligations were as follows:	2008 £m	2007 £m
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)
At 31 December	908.7	1,062.1

Movements in the fair value of plan assets were as follows:	2008 £m	2007 £m
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)
At 31 December	768.8	981.5

* 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
At 31 December	58.9	123.6

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

The movement in deferred tax is shown below:	2008 £m	2007 £m
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
At 31 December	95.4	87.6

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 enforeceable 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 tax depreciation £m	Revaluation £m	Intangibles £m	Derivatives £m	Other £m	Total £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
At 31 December 2007	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 (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
At 31 December 2008	113.4	15.7	17.5	-	9.4	156.0

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

Deferred tax assets	Retirement benefit obligations £m	Provisions £m	Derivatives £m	Losses £m	Other £m	Total £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
Shares in issue 31 December	198,657,072	198,613,572

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[1]	May 2006[2]	Sept 2006[1]	Sept 2006[2]
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[1]	March 2007[2]	March 2007[2]	March 2008[1]	March 2008[2]	March 2008[2]
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.

[1] Relates to the EPS element of the award

[2] 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

	2008				2007			
			Weighted average remaining life				Weighted average remaining life	
Range of exercise prices (£)	Weighted average exercise price (£)	Number of shares ('000)	Expected (years)	Contractual (years)	Weighted average exercise price (£)	Number of shares ('000)	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 Weighted average exercise price (£)	Number of shares ('000)	Weighted average remaining life Expected (years)	Contractual (years)	2007 Weighted average exercise price (£)	Number of shares ('000)	Weighted average remaining life 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 Number ('000)	2008 Weighted average exercise price (£)	2007 Number ('000)	2007 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 Weighted average exercise price (£)	Number of shares ('000)	Weighted average remaining life Expected (years)	Contractual (years)	2007 Weighted average exercise price (£)	Number of shares ('000)	Weighted average remaining life 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)
At 31 December 2007	1.8	59.1	44.1	105.0
Cash flow hedges (net of tax):				
- Fair value losses in period	-	-	(123.0)	(123.0)
- Transfers to net profit	-	-	56.5	56.5
At 31 December 2008	1.8	59.1	(22.4)	38.5

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
At 31 December 2007	9.9	24.2	105.0	571.1	710.2	23.8	734.0
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
At 31 December 2008	9.9	24.4	38.5	609.7	682.5	35.7	718.2

26. Notes to the group cash flow statement

(a) Reconciliation of net debt	2008 £m	2007 £m
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
At 31 December	823.4	448.5

(b) Reconciliation of operating profit to cash generated from operations	2008 £m	2007 £m
Operating profit	171.8	128.0
Depreciation	146.6	113.8
Goodwill impairment and intangible asset amortisation	12.0	7.4
EBITDA	330.4	249.2
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
Cash generated from operations	334.0	248.2

(c) Analysis of net debt	1 January 2008 £m	Cash flow £m	Acquisitions (excluding cash & overdrafts) £m	Exchange differences £m	31 December 2008 £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

(b) Current year acquisitions	Acquired book value £m	Provisional fair value adjustments £m	Net cost £m
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:

Passenger transport

Arriva Croydon and North Surrey Limited
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 Manchester Limited
Arriva Medway Towns Limited
Arriva Merseyside Limited
Arriva Midlands Limited
Arriva Midlands North Limited
Arriva Noroeste SL[2]
Arriva North East Limited
Arriva Northumbria Limited
Arriva North West Limited
APS (Leasing) Limited
Arriva Personenvervoer Nederland B.V.[3]
Arriva Portugal Transportes LDA[6]
Arriva Scotland West Limited[4]
Arriva Skandinavien A/S[1]
Arriva Southern Counties Limited
Arriva Sverige AB[5]
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 GmBH[8]
Empresa de Blas y Cia S.L.[2]
Eurobus-Invest Regionàlis Közlekedésfejlesztési[13]
London Pride Sightseeing Limited
MK Metro Limited
Osthannoversche Eisenbahnen AG[9]
Prignitzer Eisenbahn Gmbh[8]
Regentalbahn AG[8]
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 plc*
The Original London Sightseeing Tour Limited
Transportes Sul do Tejo S.A.[6]
Veolia Transport Danmark AS[1]
Verkehrsbetriebe Bils Gmbh[8]
XC Trains Limited

Rental and distribution of buses & coaches

Arriva Bus and Coach Rental (1) Limited
Arriva Bus and Coach Rental (2) Limited
Arriva Bus and Coach Rental (3) Limited
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*
British Bus Group Limited
MTL Services Limited*
Arriva Insurance Company (Gibraltar) Limited[12]*
Arriva International (Northern Europe) Limited
Arriva International (Southern Europe) 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 (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

Five-year financial summary

Assets employed	2004 £m	2005 £m	2006 £m	2007 £m	2008 £m
Goodwill	266.7	277.5	286.4	328.2	509.9
Other intangible assets	45.6	40.8	34.9	43.2	75.7
Property, plant and equipment	962.6	1,092.8	982.5	1,164.4	1,559.9
Other	(381.7)	(341.0)	(285.1)	(233.6)	(502.7)
Unquoted investments	6.2	7.9	51.4	63.6	141.9
	899.4	1,078.0	1,070.1	1,365.8	1,784.7
Financed by					
Share capital	9.8	9.8	9.9	9.9	9.9
Reserves	417.8	477.6	532.6	700.3	672.6
Minority interests	2.2	16.3	16.3	23.8	35.7
Bank overdrafts	5.1	22.5	16.5	33.3	34.4
Syndicated loans	82.6	203.8	108.7	203.2	434.7
Other loans	155.7	93.3	147.4	123.3	258.2
Short-term loans	126.2	122.9	115.0	84.6	110.6
Obligations under finance leases	62.1	87.5	78.4	99.8	133.2
Deferred tax liabilities	37.9	44.3	45.3	87.6	95.4
	899.4	1,078.0	1,070.1	1,365.8	1,784.7
Trading					
Revenue	1,759.0	1,571.2	1,729.0	2,000.7	3,042.2
Profit before taxation from continuing operations	109.3	103.1	109.8	115.8	150.0
Taxation	26.0	19.8	25.2	25.8	38.8
Profit after taxation from continuing operations	83.3	83.3	84.6	90.0	111.2
Profit after taxation from discontinued operations	-	3.0	20.1	-	-
Profit for the year	83.3	86.3	104.7	90.0	111.2
Statistics					
Funds attributable to shareholders	427.6	487.4	542.5	710.2	682.5
Equity shareholders' funds per ordinary share	218.4p	247.5p	273.9p	357.6p	343.6p
Basic earnings per share	42.6p	43.7p	51.8p	43.5p	52.6p
Dividends per ordinary share	18.9p	19.84p	20.83p	22.65p	24.06p

The discontinued operations relate to the vehicle rental operations.

Company balance sheet

at 31 December 2008

Prepared using UK generally accepted accounting practice (UK GAAP)

	notes	2008 £m	2007 £m
Fixed assets			
Tangible assets	2	7.8	7.9
Investments	3	622.0	611.2
		629.8	619.1
Current assets			
Debtors	4	82.0	137.3
Cash at bank and in hand		560.3	399.8
		642.3	537.1
Creditors			
Amounts falling due within one year	6	(23.9)	(16.7)
Net current assets		618.4	520.4
Total assets less current liabilities		1,248.2	1,139.5
Creditors			
Amounts falling due after more than one year	6	(570.2)	(428.8)
Net pension liability	11	(3.4)	(1.4)
		674.6	709.3
Represented by:			
Capital and reserves			
Called up equity share capital	7	9.9	9.9
Share premium account	9	24.4	24.2
Capital redemption reserve	9	1.8	1.8
Special reserve	9	59.1	59.1
Profit and loss account	9	579.4	614.3
Equity shareholders' funds	10	674.6	709.3

D R Martin
S P Lonsdale
Directors

These financial statements on pages 109 to 117 were approved by the Board on 4 March 2009.

Basis of preparation
The separate financial statements of the company are presented as required by the Companies Act 1985 and 2006. They have been prepared in accordance with applicable United Kingdom generally accepted accounting practice. The company prepares its financial statements on the historic cost basis of accounting other than the revaluation of certain tangible fixed assets, pensions, and share-based payment charges which are measured at fair value. No profit and loss account is presented by the company as permitted by Section 230 of the Companies Act 1985.

Cash flow statement
The company is the holding company of a group which prepares consolidated accounts, including the results of the company, which are publicly available. Consequently the company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS1 (revised).

Tangible fixed assets
Tangible fixed assets are stated at cost or valuation, net of depreciation and any provision for impairment.

Depreciation is calculated using the straight-line method to allocate the cost or valuation of each asset to its residual value over its estimated useful-life as follows:

Freehold properties	50 years
Plant, company vehicles, fixtures & fittings	3-10 years

Investments
Fixed asset investments in subsidiaries are shown at cost less provision for impairment.

Impairment
At each balance sheet date the company reviews the carrying amount of its tangible fixed assets to determine whether there are any indicators of impairment. If indicators of impairment exist then the recoverable amount of an asset is estimated and if this is less than its carrying amount, the difference is recognised in the profit and loss account as an impairment loss.

Pensions
The company operates retirement benefit schemes; both defined benefit and defined contribution schemes.

The liability recognised in the balance sheet in respect of the company's defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of the plan assets, together with adjustments for unrecognised past service costs. The defined benefit obligation is calculated using the projected unit credit method. Formal actuarial valuations are carried out by an independent actuary on a triennial basis, with updated calculations being prepared at each balance sheet date by qualified independent actuaries. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

The cost of providing future benefits (service cost) is charged to the profit and loss account as required. The return on scheme assets and interest obligation on scheme liabilities comprise a pension finance adjustment which is included in interest costs. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in the period they arise.

Contributions payable under defined contribution schemes are charged to the profit and loss account as they arise.

Share-based payments
The company issues equity settled share-based payments to certain employees, which are measured at fair value at the date of grant. The fair value is expensed on a straight-line basis over the vesting period, based on the company's estimate of shares that will eventually vest. The impact of revising original estimates, if any, is included in the profit and loss account, with a corresponding adjustment to reserves. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

Dividend distribution
Dividend distributions to the company's shareholders are recognised in the company's financial statements in the period in which the dividends are paid.

Deferred taxation
The company accounting policy is to provide for deferred tax on all timing differences except those arising on the revaluation of fixed assets for which there is no binding agreement to sell or on the undistributed profits of overseas subsidiaries. Deferred tax is calculated at the rates at which it is estimated the tax will arise. The tax rates are those expected to arise based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. The deferred tax provision is not discounted to net present value.

Related party transactions
As permitted under FRS8, 'Related Party Transactions', the company has taken advantage of the exemption not to disclose transactions between group companies.

1. Arriva plc profit and loss account

Arriva plc has not presented its own profit and loss account as permitted by Section 230 of the Companies Act 1985. The profit for the financial year dealt with in the accounts of Arriva plc is £11.6 million (2007: profit of £423.0 million).

Company employee information is disclosed within the central component in note 4 to the group financial statements. Details of directors' remuneration are disclosed in the directors' remuneration report on pages 54 to 61.

2. Tangible fixed assets

	Freehold land & buildings £m	Plant, company vehicles, fixtures & fittings £m	Total £m
Cost or valuation			
At 1 January 2008	9.3	1.6	10.9
Additions	-	0.2	0.2
At 31 December 2008	**9.3**	**1.8**	**11.1**
Comprising:			
Cost	8.5	1.8	10.3
Valuation 1997	0.8	-	0.8
	9.3	**1.8**	**11.1**
Accumulated depreciation			
At 1 January 2008	1.8	1.2	3.0
Charge for the year	0.1	0.2	0.3
At 31 December 2008	**1.9**	**1.4**	**3.3**
Net book amounts			
At 31 December 2008	**7.4**	**0.4**	**7.8**
At 31 December 2007	7.5	0.4	7.9

3. Investments

Fixed asset investments	Shares in subsidiaries at cost £m	Impairment £m	Shares in subsidiaries net book amount £m
At 1 January 2008	625.9	(14.7)	611.2
Additions	10.8	-	10.8
At 31 December 2008	636.7	(14.7)	622.0

Particulars of fixed asset investments are detailed in note 28 to the group financial statements.

4. Debtors

	2008 £m	2007 £m
Amounts falling due within one year:		
Trade debtors	0.2	0.1
Deferred tax (note 5)	0.3	0.1
Other debtors	1.9	9.0
Prepayments and accrued income	0.8	0.5
	3.2	9.7
Amounts falling due after more than one year:		
Amounts owed by group undertakings	78.8	127.6
	82.0	137.3

The amounts owed by group undertakings are repayable on demand.

5. Deferred tax

	2008 £m	2007 £m
Accelerated capital allowances	1.5	1.6
Other timing differences	(1.8)	(1.7)
Deferred tax excluding that relating to pension liability	(0.3)	(0.1)
Deferred tax on pension liability	(1.3)	(0.5)
Deferred tax	(1.6)	(0.6)

Factors that may affect future tax charges

No deferred tax liability is provided in respect of the unremitted earnings of overseas subsidiaries unless a binding agreement exists at the balance sheet date to remit such earnings in the future.

6. Creditors

	2008 £m	2007 £m
Amounts falling due within one year:		
Short-term loans	7.2	-
Trade creditors	0.9	1.6
Creditors for taxation and social security	0.2	1.4
Other creditors	5.5	5.0
Accruals and deferred income	10.1	8.7
	23.9	16.7
Amounts falling due after more than one year:		
Syndicated loans	135.0	-
Amounts due to group companies	407.9	398.5
Accruals and deferred income	27.3	30.3
	570.2	428.8

	2008 £m	2007 £m
Loan capital and other borrowings repayment statement:		
- Within one year or on demand	7.2	-
- Between two and five years	135.0	-
	142.2	-

The company provides cross guarantees in respect of the bank borrowings of a number of the group's subsidiaries.

Fair value of non-current liabilities

The company considers there to be no material difference between the fair value of non-current liabilities and their carrying amount in the balance sheet.

Borrowing facilities

The company has the following undrawn committed floating rate 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	60.9	57.0
Expiring in more than two years	180.3	415.8
	241.2	472.8

7. 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
Shares in issue 31 December	198,657,072	198,613,572

Consideration of £0.2 million was received in respect of 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.

8. Share-based payments

The grants and related accounting treatment adopted by Arriva plc under FRS20, 'Share-based payments', are identical to that adopted by the group under IFRS2, 'Share-based payments'. For details please refer to note 23 in the group financial statements.

9. Reserves

	Capital redemption reserve £m	Share premium account £m	Special reserve £m	Profit and loss account £m	Total £m
At 1 January 2008	1.8	24.2	59.1	614.3	**699.4**
Arising on issue of shares	-	0.2	-	-	**0.2**
Profit for the year	-	-	-	11.6	**11.6**
Dividends	-	-	-	(46.1)	**(46.1)**
Actuarial loss on pension deficit	-	-	-	(3.5)	**(3.5)**
Movement on deferred tax relating to pension	-	-	-	1.0	**1.0**
Share-based payments	-	-	-	2.1	**2.1**
At 31 December 2008	**1.8**	**24.4**	**59.1**	**579.4**	**664.7**

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.

10. Reconciliation of movements in shareholders' funds

	2008 £m	2007 £m
Profit for the year	11.6	423.0
Dividends	(46.1)	(41.9)
	(34.5)	381.1
New share capital subscribed	0.2	1.3
Actuarial (loss)/gain on pension deficit	(3.5)	5.0
Movement on deferred tax relating to pension	1.0	(1.5)
Share-based payments	2.1	1.6
Tax relief on share option schemes	-	0.5
Net (reduction in)/addition to shareholders' funds	(34.7)	388.0
Opening shareholders' funds	709.3	321.3
Closing shareholders' funds	674.6	709.3

11. Pensions

The accounting treatment under FRS17 'Retirement Benefits' is in line with that adopted by the group under IAS19 'Employee Benefits'. For details, please refer to note 20 in the group financial statements.

At 31 December 2008 the company operated both defined benefit and defined contribution schemes, 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.

Total pension cost

The total pension cost for the company was £0.2 million (2007: £0.1 million). The pension costs in respect of the company's defined contribution scheme was £0.4 million (2007: £0.3 million).

FRS17 'Retirement Benefits'

The calculations used to assess the FRS17 liabilities of the retirement benefit scheme are based on the most recent actuarial valuations, updated to 31 December 2008 by qualified independent actuaries, KPMG LLP. The scheme's assets are stated at their market value at 31 December 2008. The assumptions used are identical to those used for determining the group charge under IAS19.

The amounts recognised in the balance sheet are determined as follows:	2008 £m	2007 £m	2006 £m	2005 £m	2004 £m
Equities	25.5	37.5	38.3	35.4	30.7
Bonds	14.9	15.9	12.7	12.6	11.9
Other	-	0.1	0.3	0.1	0.1
Total market value of assets	40.4	53.5	51.3	48.1	42.7
Present value of liabilities	(45.1)	(55.4)	(60.0)	(58.3)	(57.4)
Deficit	(4.7)	(1.9)	(8.7)	(10.2)	(14.7)
Related deferred tax asset	1.3	0.5	2.6	3.1	4.4
Net pension liability	(3.4)	(1.4)	(6.1)	(7.1)	(10.3)

The costs of the scheme for the year ended 31 December were as follows:	2008 £m	2007 £m
Analysis of the charge to operating profit:		
- Current service costs	0.3	0.4
Total operating charge	0.3	0.4
Analysis of the credit to finance income		
- Expected return on assets	(3.7)	(3.7)
- Interest on liabilities	3.2	3.1
Total finance credit	(0.5)	(0.6)
Total credit before tax	(0.2)	(0.2)

Analysis of movement in deficit in the scheme for the year ended 31 December:	2008 £m	2007 £m
Gross deficit in the scheme at 1 January	(1.9)	(8.7)
Contributions paid	0.5	1.6
Current service cost	(0.3)	(0.4)
Total finance credit	0.5	0.6
Actuarial (loss)/gain	(3.5)	5.0
Gross deficit in the scheme at 31 December	**(4.7)**	(1.9)

Analysis of amounts recognised in reserves:	2008 £m	2007 £m
Difference between expected and actual return on assets	(14.5)	(1.0)
Experience gains and losses arising on the scheme liabilities	11.0	0.8
Effect of changing the financial assumptions	-	5.2
Actuarial (loss)/gain recognised in reserves	(3.5)	5.0

Actuarial loss/gain as a percentage of scheme assets and liabilities at 31 December:	2008 %	2007 %	2006 %	2005 %	2004 %
Difference between expected and actual return on assets as a percentage of scheme assets	(35.9)	(1.9)	3.5	8.3	1.6
Experience gains arising on the scheme liabilities as a percentage of the present value of scheme liabilities	24.4	1.4	(3.5)	9.9	0.7
Total actuarial (loss)/gain recognised in the reserves as a percentage of the present value of scheme liabilities	(7.8)	9.0	2.7	7.5	0.5

We have audited the parent company financial statements of Arriva plc for the year ended 31 December 2008 which comprise the Company balance sheet and the related notes. These parent company financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' remuneration report that is described as having been audited.

We have reported separately on the group financial statements of Arriva plc for the year ended 31 December 2008.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report, the Directors' remuneration report and the parent company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of directors' responsibilities.

Our responsibility is to audit the parent company financial statements and the part of the Directors' remuneration report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the parent company financial statements give a true and fair view and whether the parent company financial statements and the part of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' report is consistent with the parent company financial statements. The information given in the Directors' report includes that specific information presented in the Business review that is cross referred from the Business review section of the Directors' report.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited parent company financial statements. The other information comprises only the Chairman's statement, the Chief executive's review, the Financial review, Principal risks and uncertainties, Corporate responsibility, the Directors' report, the unaudited part of the Directors' remuneration report, Corporate governance and other reports on pages 2 to 17. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent company financial statements and the part of the Directors' remuneration report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the parent company financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the parent company financial statements and the part of the Directors' remuneration report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the parent company financial statements and the part of the Directors' remuneration report to be audited.

Opinion

In our opinion:

- The parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2008;
- The parent company financial statements and the part of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- The information given in the Directors' report is consistent with the parent company financial statements.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Newcastle upon Tyne
13 March 2009

Financial calendar

Annual General Meeting	
Meeting date	22 April 2009
Final ordinary dividend	
Record date	27 March 2009
Payment date	1 May 2009
Results for the six months to 30 June 2009	
Announcement date	27 August 2009
Interim ordinary dividend	
Record date	11 September 2009
Payment date	2 October 2009
Results for the year ending 31 December 2009	
Announcement date	March 2010 - date to be confirmed

Contact information and registrar details

Secretary & registered office
David Turner BA, FCIS
Arriva plc
Admiral Way
Doxford International Business Park
Sunderland
SR3 3XP
Tel: 0191 520 4000
www.arriva.co.uk

Company no: 347103
Registered in England and Wales

Registrar and shareholder information
Computershare Investor Services PLC
PO Box 82
The Pavilions
Bridgwater Road
Bristol
BS99 7NH
Tel: 0870 889 3197
www.computershare.co.uk

Advisers

Auditors
PricewaterhouseCoopers LLP
89 Sandyford Road
Newcastle upon Tyne
NE1 8HW

Solicitors
Dickinson Dees
St Ann's Wharf
112 Quayside
Newcastle upon Tyne
NE99 1SB

Field Fisher Waterhouse
35 Vine Street
London
EC3N 2AA

Herbert Smith
Exchange House
Primrose Street
London
EC2A 2HS

Stockbrokers
RBS/Hoare Govett Limited
250 Bishopsgate
London
EC2M 4AA

Deutsche Bank
1 Great Winchester Street
London
EC2N 2DB

Merchant bankers
N M Rothschild & Sons Limited
New Court
St Swithin's Lane
London
EC4P 4DU

Financial public relations
Tulchan Communications
Sixth Floor
Kildare House
3 Dorset Rise
London
EC4Y 8EN

Notes

FSC
Mixed Sources

Arriva plc
Registered office:
Admiral Way
Doxford International Business Park
Sunderland
SR3 3XP
United Kingdom

Tel +44 (0)191 520 4000
Fax +44 (0)191 520 4001
www.arriva.co.uk

Designed and produced by Robson Brown
Printed by statexcolourprint