
ARRIVA PLC

Annual report and financial statements
for the year ended 31 December 2010

MONDAY



A08Z0VCO

A12

27/06/2011

42

COMPANIES HOUSE

ARRIVA PLC

Company Information

Directors

M D Cooper
D T C Evans
R W Grube
M J Hibbert
R W Holland
U Homburg
R Lutz
D R Martin
M Rudhart

Company secretary

D P Turner

Company number

347103

Registered office

Admiral Way
Doxford International Business Park
Sunderland
Tyne and Wear
SR3 3XP

Independent auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
89 Sandyford Road
Newcastle upon Tyne
NE1 8HW

ARRIVA PLC

Contents

	Page
Directors' report	1 - 4
Independent auditors' report	5
Profit and loss account	6
Statement of total recognised gains and losses	7
Balance sheet	8 - 9
Notes to the financial statements	10 - 28

ARRIVA PLC

Directors' report for the year ended 31 December 2010

The directors present their annual report and the audited financial statements for the year ended 31 December 2010

Principal activities

The principal activities of the company continue to be that of a holding company and provider of central support services for its subsidiary companies, which operate bus and train services in the UK and mainland Europe

There have not been any significant changes in the company's principal activities in the year and the directors are not aware, at the date of this report, of any significant changes in the company's activities expected in the next year

Business review

On 27 August 2010, the entire share capital of the company was acquired by DB UK Holding Limited, a wholly-owned subsidiary of Deutsche Bahn AG, a company registered and based in Germany

The combination of Arriva and Deutsche Bahn creates one of the leading passenger transport groups in Europe and puts Arriva in a strong position as Deutsche Bahn's division for growth in regional passenger transport outside of Germany

The directors consider the state of the company's affairs to be satisfactory and there have been no material changes since the balance sheet date. The company's profit and loss account on page 6 shows a loss on ordinary activities before taxation of £47,413,000 (2009 profit £47,796,000) primarily due to exceptional costs of £43,306,000 being incurred in the year in relation to the acquisition of the company by Deutsche Bahn AG. Dividends received from group undertakings amounted to £14,109,000 (2009 £56,854,000)

The company is no longer listed and is itself a subsidiary company, therefore it is exempt from the requirement to prepare group accounts by virtue of section 400 of the Companies Act 2006. These financial statements, therefore, present information about the company as an individual undertaking and not about its group.

Results and dividends

The loss for the financial year, after taxation, amounted to £35,447,000 (2009 profit £51,094,000)

The company paid a dividend of £37,460,000 during the year (2009 £48,507,000) prior to the acquisition by DB UK Holding Limited

ARRIVA PLC

Directors' report for the year ended 31 December 2010

Directors

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

S G Batey (resigned 27 August 2010)
R J Broadbent (resigned 27 August 2010)
N P Buckles (resigned 27 August 2010)
M D Cooper (appointed 19 October 2010)
D T C Evans (appointed 19 October 2010)
R W Grube (appointed 27 August 2010)
M J Hibbert (appointed 1 January 2011)
R W Holland (appointed 19 October 2010)
U Homburg (appointed 27 August 2010)
S P Lonsdale (resigned 16 December 2010)
R Lutz (appointed 27 August 2010)
D R Martin
A S Risley (resigned 27 August 2010)
M Rudhart (appointed 27 August 2010)
S G Williams (resigned 27 August 2010)

Principal risks and uncertainties

An annual assessment is performed to review the scale and probability of the principal risks faced by Arriva plc and its subsidiaries. As part of our 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 faced by the group. In particular the list excludes generic risks common to many companies such as terrorism, pandemics and succession planning.

1 Market risks

1a Changes in national public sector 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 where possible, and react in a timely fashion.

1b Changes in public transport legislation or regulation

Our UK and mainland European management actively engage with local authorities, national governments and EU institutions regarding the formulation and implementation of transport-related legislation, and we continue to work with industry partners to represent the best long-term interests of the industry and its customers.

2 Operational risks

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. Related legislation, best practice and working circumstances are continually changing. The group needs to ensure its related policies are complied with and appropriately reduce its exposure to related penalties and bad publicity. The safety committee reports to the group executive committee and oversees the group's health and safety policy and the arrangements for its implementation and reporting. 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 executive committee. The Arriva environmental management system holds a senior manager in each business accountable for compliance with group policy and local legislation.

ARRIVA PLC

Directors' report for the year ended 31 December 2010

3 Commercial risks

3a. Uncertainty over the ongoing impact of economic volatility

The impact of ongoing economic uncertainty to the group is likely to be in the area of patronage/ financial performance. Arriva's balanced portfolio of operations, between bus and rail, and between different countries, reduces its exposure to any downturn in individual market sectors.

3b. Acquisitions, franchise/tender bid 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. In accordance with delegated authority limits, the board approves all significant business acquisitions, disposals and tenders. 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 of businesses is an important part of Arriva's growth strategy. It could be damaging financially to Arriva if material new acquisitions were made at excessive values or with material hidden liabilities. Arriva has clearly defined guidelines for due diligence work and approval of potential acquisitions, which require the monitoring of such items by the executive directors subject to delegated authority limits. Sale and purchase agreements generally include price adjustment mechanisms and warranties, as appropriate.

4 Financial risks

Following the acquisition of Arriva by Deutsche Bahn, the Deutsche Bahn ("DB") group has now become the principal source of funding for Arriva and its subsidiaries. The group's financial risks, including liquidity risks and those arising from interest rates, commodity prices and currency fluctuations are managed by the DB treasury function. For further details relating to financial risk management please refer to the Deutsche Bahn 2010 Annual Report.

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. The company undertakes regular pension strategy reviews with the group's pension advisors, and monitor developments in group pension schemes and local governments/state schemes where we operate.

Key performance indicators

The executive committee manages the group's operations on a divisional basis. The company's directors have determined key performance indicators for the group which are reported monthly to enable an understanding of the development, performance or position of the business of the group.

Political and charitable contributions

During the year the company made charitable donations, for a variety of charitable purposes, amounting to £17,247 (2009 £17,645). There were no political donations (2009 £nil).

Company's policy for payment of suppliers

The company'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 group's standard payment terms, and in either case to pay in accordance with its contractual or other legal obligations. At 31 December 2010, the company's trade creditors outstanding represented approximately 34 days' purchases (2009 34 days).

ARRIVA PLC

Directors' report for the year ended 31 December 2010

Statement of directors' responsibilities

The directors are responsible for preparing the Directors' report and the audited financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare audited financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these audited financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and accounting estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the audited financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the audited financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Provision of information to auditors

Each of the persons who are directors at the time when this Directors' report is approved has confirmed that

- so far as that director is aware, there is no relevant audit information of which the company's auditors are unaware, and
- that director has taken all the steps that ought to have been taken as a director in order to be aware of any information needed by the company's auditors in connection with preparing their report and to establish that the company's auditors are aware of that information.

This report was approved by the board on 20 June 2011 and signed on its behalf



D P Turner
Company Secretary

ARRIVA PLC

Independent auditors' report to the members of Arriva plc

We have audited the financial statements of Arriva plc for the year ended 31 December 2010 which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2010 and of its loss for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.



Bill MacLeod (Senior statutory auditor)

for and on behalf of

PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

89 Sandyford Road
Newcastle upon Tyne
NE1 8HW

21 June 2011

ARRIVA PLC

**Profit and loss account
for the year ended 31 December 2010**

	Note	2010 £000	2009 £000
Administrative expenses		(19,994)	(24,559)
Other operating income		<u>8,620</u>	<u>6,766</u>
OPERATING LOSS	2	(11,374)	(17,793)
EXCEPTIONAL ITEMS			
Other exceptional costs	10	<u>(43,306)</u>	<u>-</u>
LOSS ON ORDINARY ACTIVITIES BEFORE INTEREST		(54,680)	(17,793)
Income from shares in group undertakings		14,109	56,854
Interest receivable and similar income	7	11,202	10,725
Interest payable and similar charges	8	(18,467)	(1,873)
Other finance income/(costs)	9	<u>423</u>	<u>(117)</u>
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		(47,413)	47,796
Tax on (loss)/profit on ordinary activities	11	<u>11,966</u>	<u>3,298</u>
(LOSS)/PROFIT FOR THE FINANCIAL YEAR	19	<u><u>(35,447)</u></u>	<u><u>51,094</u></u>

All amounts relate to continuing operations

There is no material difference between the (loss)/profit on ordinary activities before taxation and the (loss)/profit for the financial year stated above and their historical costs equivalents

The notes on pages 10 to 28 form part of these financial statements

ARRIVA PLC

**Statement of total recognised gains and losses
for the year ended 31 December 2010**

	Note	2010 £000	2009 £000
(LOSS)/PROFIT FOR THE FINANCIAL YEAR		(35,447)	51,094
Actuarial (loss)/gain related to pension scheme	22	(361)	2,066
Deferred tax attributable to actuarial (loss)/gain	17	110	(578)
Other movements in profit and loss reserve		11,414	1,824
TOTAL RECOGNISED GAINS AND LOSSES RELATING TO THE YEAR		(24,284)	54,406

The notes on pages 10 to 28 form part of these financial statements

ARRIVA PLC
Registered number: 347103

Balance sheet
as at 31 December 2010

	Note	£000	2010 £000	£000	2009 £000
FIXED ASSETS					
Tangible assets	12		7,295		7,552
Investments	13		622,005		622,005
			<u>629,300</u>		<u>629,557</u>
CURRENT ASSETS					
Debtors amounts falling due after more than one year	14	462,474		239,271	
Debtors amounts falling due within one year	14	17,756		5,667	
Cash at bank		11		197,137	
		<u>480,241</u>		<u>442,075</u>	
CREDITORS amounts falling due within one year	15	(190,324)		(16,278)	
NET CURRENT ASSETS			<u>289,917</u>		<u>425,797</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			<u>919,217</u>		<u>1,055,354</u>
CREDITORS amounts falling due after more than one year	16		(290,286)		(372,835)
NET ASSETS EXCLUDING PENSION SCHEME ASSETS/(LIABILITIES)			<u>628,931</u>		<u>682,519</u>
Defined benefit pension scheme asset/(liability)	22		658		(1,813)
NET ASSETS INCLUDING PENSION SCHEME ASSETS/(LIABILITIES)			<u><u>629,589</u></u>		<u><u>680,706</u></u>

ARRIVA PLC

Balance sheet (continued)
as at 31 December 2010

	Note	£000	2010 £000	£000	2009 £000
CAPITAL AND RESERVES					
Called up share capital	18		10,220		9,958
Share premium account	19		34,861		24,496
Other reserves	19		60,882		60,882
Profit and loss account	19		523,626		585,370
TOTAL SHAREHOLDERS' FUNDS	20		<u>629,589</u>		<u>680,706</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 20 June 2011


M J Hibbert
Director

The notes on pages 10 to 28 form part of these financial statements

ARRIVA PLC

Notes to the financial statements for the year ended 31 December 2010

1 ACCOUNTING POLICIES

1.1 Basis of preparation of financial statements

The financial statements, have been prepared on a going concern basis, under the historical cost convention, other than the revaluation of certain tangible fixed assets, pensions and share-based payments which are measured at fair value, and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom. The principal accounting policies, which have been applied consistently throughout the year, are set out below.

The company is itself a subsidiary company and is exempt from the requirement to prepare group accounts by virtue of section 400 of the Companies Act 2006. These financial statements, therefore, present information about the company as an individual undertaking and not about its group.

1.2 Cash flow

The company, being a subsidiary undertaking where 90% or more of the voting rights are controlled within the group whose consolidated financial statements are publicly available, is exempt from the requirement to present a cash flow statement in accordance with FRS 1 revised (1996) 'Cash Flow Statements'.

1.3 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less accumulated depreciation. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Depreciation is provided at rates calculated to write off the cost of fixed assets, less their estimated residual value, over their expected useful lives on the following bases:

Freehold property	-	straight line over 50 years
Plant and machinery	-	straight line over 3 to 10 years

1.4 Investments

Investments held as fixed assets are shown at cost less provision for impairment.

1.5 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.

1.6 Deferred taxation

Full provision is made for deferred tax assets and liabilities arising from all timing differences between the recognition of gains and losses in the financial statements and recognition in the tax computation.

A net deferred tax asset is recognised only if it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax assets and liabilities are calculated at the tax rates expected to be effective at the time the timing differences are expected to reverse.

Deferred tax assets and liabilities are not discounted.

ARRIVA PLC

Notes to the financial statements for the year ended 31 December 2010

1. ACCOUNTING POLICIES (continued)

1.7 Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at rates of exchange ruling at the balance sheet date

Transactions in foreign currencies are translated into sterling at the rate ruling on the date of the transaction

Exchange gains and losses are recognised in the profit and loss account

1.8 Pensions

The company operates a defined contribution pension scheme and the pension charge represents the amounts payable by the company to the fund in respect of the year

The company operates a defined benefits pension scheme. The surplus recognised in the balance sheet in respect of the company's defined benefit pension plan is the fair value of the plan assets at the balance sheet date less the present value of the defined obligation, 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 the statement of total recognised gains and losses in the period they arise.

The assets of the scheme are held separately from those of the company in an independently administered fund

1.9 Share-based payments

Prior to the acquisition by Deutsche Bahn the company issued equity settled share-based payments to certain employees, which were 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 and is adjusted for the effects of non-market based vesting conditions. The impact of revising original estimates, if any, is included in the profit and loss account, 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.

No further equity settled share-based payments will be granted under DB ownership.

1.10 Related party transactions

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

There were no significant transactions with associates during the year.

ARRIVA PLC

**Notes to the financial statements
for the year ended 31 December 2010**

1. ACCOUNTING POLICIES (continued)

1.11 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

1.12 Deferred income

Deferred income, which relates to licenses issued by the company to subsidiaries for the use of the Arriva brand name, is recognised in the profit and loss account over the licence period of up to 15 years

2 OPERATING LOSS

The operating loss is stated after charging

	2010	2009
	£000	£000
Depreciation of tangible fixed assets		
- owned by the company	294	303

3. AUDITORS' REMUNERATION

	2010	2009
	£000	£000
Fees payable to the company's auditor for the audit of the company's annual accounts	90	95
Fees payable to the company's auditor and its associates in respect of All other services	240	-

ARRIVA PLC

**Notes to the financial statements
for the year ended 31 December 2010**

4 STAFF COSTS

Staff costs, including directors' remuneration, were as follows

	2010	2009
	£000	£000
Wages and salaries	10,039	11,657
Social security costs	674	655
Other pension costs (Note 22)	(1,921)	585
	8,792	12,897

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

	2010	2009
	Number	Number
Administrative	127	132

The charge to the group in respect of share-based payments relating to senior employees is included in note 6

5 DIRECTORS' REMUNERATION

	2010	2009
	£000	£000
Emoluments	1,835	2,186

During the year retirement benefits were accruing to 3 directors (2009 2) in respect of defined benefit pension schemes

The highest paid director received remuneration of £803,000 (2009 £897,000)

4 directors, including the highest paid director, (2009 2) exercised share options during the year

6. SHARE-BASED PAYMENTS

During the year, Arriva plc operated the following share option schemes

- the 1994 Executive Share Option Scheme (the 'ESOS')
- the 1996 Share Incentive Scheme (the 'SIS')
- the Company Share Option Plan 2006 (Part A) (the 'ESOS')
- the Company Share Option Plan 2006 (Part B) (the 'SIS')

On 27 August 2010 Arriva plc was acquired by Deutsche Bahn AG by means of a scheme of arrangement under part 26 of the Companies Act 2006. Prior to the scheme of arrangement becoming effective, the unvested options vested in full and became exercisable.

During the year, Arriva plc also operated the Long Term Incentive Plan 2000 (the LTIP). The Arriva plc shares, subject to the conditional awards made under the LTIP, became subject to the scheme of arrangement.

ARRIVA PLC

Notes to the financial statements
for the year ended 31 December 2010

6. SHARE-BASED PAYMENTS (continued)

The ESOS is a HM Revenue and Customs 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 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

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

ESOS

	March 2010	March 2009
Share price at grant date	£5 68	£3 92
Exercise price	£5 68	£3 92
Number of employees	9	9
Shares under option	18,650	42,363
Vesting period (years)	3	3
Expected volatility	35%	35%
Option life (years)	10	10
Expected life (years)	3	3
Risk free rate	1.7%	1.7%
Expected dividends expressed as a dividend yield	4.0%	4.0%
Expectations of meeting performance criteria	100%	100%
Fair value per option	£1 070	£0 739

SIS

	March 2010	March 2009
Share price at grant date	£5 68	£3 92
Exercise price	£5 68	£3 92
Number of employees	83	77
Shares under option	255,850	382,637
Vesting period (years)	3	3
Expected volatility	35%	35%
Option life (years)	7	7
Expected life (years)	3	3
Risk free rate	1.7%	1.7%
Expected dividends expressed as a dividend yield	4.0%	4.0%
Expectations of meeting performance criteria	100%	100%
Fair value per option	£1 070	£0 739

ARRIVA PLC

Notes to the financial statements for the year ended 31 December 2010

6. SHARE-BASED PAYMENTS (continued)

LTIP

	March 2009(1)	March 2009(2)	March 2009(2)
Share price at grant date	£3 82	£3 82	£3 82
Exercise price	£0 00	£0 00	£0 00
Number of employees	19	2	17
Shares under option	975,526	209,560	312,860
Vesting period (years)	3	3	3
Expected volatility	35%	35%	35%
Option life (years)	3	3	3
Expected life (years)	3	3	3
Risk free rate	1 7%	1 7%	1 7%
Expected dividends expressed as a dividend yield	4 0%	4 0%	4 0%
Expectations of meeting performance criteria	100%	100%	100%
Fair value per option	£3 410	£0 920	£1 010
	March 2010(1)	March 2010(2)	March 2010(2)
Share price at grant date	£5 80	£5 80	£5 80
Exercise price	£0 00	£0 00	£0 00
Number of employees	19	2	17
Shares under option	691,359	150,678	220,841
Vesting period (years)	3	3	3
Expected volatility	35%	35%	35%
Option life (years)	3	3	3
Expected life (years)	3	3	3
Risk free rate	1 7%	1 7%	1 7%
Expected dividends expressed as a dividend yield	4 0%	4 0%	4 0%
Expectations of meeting performance criteria	100%	100%	100%
Fair value per option	£5 180	£3 230	£3 410

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

(1) Relates to the EPS element of the award

(2) Relates to the TSR element of the award

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

a) ESOS

	2010	2010 Weighted average exercise price (£)
	Number ('000)	
Outstanding at 1 January	297	6 06
Granted	19	5 68
Forfeited	(17)	6 15
Exercised	(299)	6 03
Outstanding at 31 December	-	-
Exercisable at 31 December	-	-

ARRIVA PLC

Notes to the financial statements
for the year ended 31 December 2010

6. SHARE-BASED PAYMENTS (continued)

	2009	2009 Weighted average exercise price (£)
	Number ('000)	
Outstanding at 1 January	258	6 45
Granted	42	3 92
Forfeited	(11)	7 30
Exercised	-	-
Outstanding at 31 December	297	6 06
Exercisable at 31 December	61	3 70

The range of exercise prices for options outstanding at the end of the prior year was £2 83 to £7 45. The weighted average remaining life for options outstanding at 31 December 2009 was expected years 1 and contractual years 7. There were no options outstanding at 31 December 2010.

The weighted average share price during the year for options in the ESOS exercised over the year was 768 6 pence (2009 720 1 pence). The total charge for the year relating to the scheme was £0 1 million (2009 £0 1 million).

b) SIS

	2010	2010 Weighted average exercise price (£)
	Number ('000)	
Outstanding at 1 January	1,457	5 64
Granted	256	5 68
Forfeited	(175)	5 70
Exercised	(1,538)	5 96
Outstanding at 31 December	-	-
Exercisable at 31 December	-	-

	2009	2009 Weighted average exercise price (£)
	Number ('000)	
Outstanding at 1 January	1,252	6 17
Granted	383	3 92
Forfeited	(168)	5 84
Exercised	(10)	2 83
Outstanding at 31 December	1,457	5 64
Exercisable at 31 December	599	5 53

The range of exercise prices for options outstanding at the end of the prior year was £2 83 to £7 45. The weighted average remaining life for options outstanding at 31 December 2009 was expected years 0 7 and contractual years 4. There were no options outstanding at 31 December 2010.

The weighted average share price during the year for options exercised in the SIS over the year was 771 4 pence (2009 473 3 pence). The total charge for the year relating to the scheme was £0 5 million (2009 £0 2 million), all of which related to equity-settled share-based payment transactions. After deferred tax, the total charge was £0 4 million (2009 £0 1 million).

ARRIVA PLC

Notes to the financial statements for the year ended 31 December 2010

6 SHARE-BASED PAYMENTS (continued)

c) LTIP

	2010	2010
	Number ('000)	Weighted average exercise price (£)
Outstanding at 1 January	2,972	-
Granted	1,063	-
Forfeited	(640)	-
Exercised	(3,395)	-
Outstanding at 31 December	-	-
Exercisable at 31 December	-	-
	2009	2009
	Number ('000)	Weighted average exercise price (£)
Outstanding at 1 January	2,163	-
Granted	1,498	-
Forfeited	(220)	-
Exercised	(469)	-
Outstanding at 31 December	2,972	-
Exercisable at 31 December	46	-

The exercise price for options outstanding at the end of the prior year was £0.00. The weighted average remaining life for options outstanding at 31 December 2009 was expected years 1.3 and contractual years 1.3. There were no options outstanding at 31 December 2010.

The weighted average share price for the LTIP awards exercised in the year was 769.1 pence (2009: 412.1 pence). The total charge for the year relating to the scheme was £11.0 million (2009: £1.5 million), all of which related to equity-settled share-based payment transactions. After deferred tax, the total charge was £8.0 million (2009: £1.1 million).

7. INTEREST RECEIVABLE AND SIMILAR INCOME

	2010	2009
	£000	£000
Other interest receivable	11,202	10,725

ARRIVA PLC

**Notes to the financial statements
for the year ended 31 December 2010**

8. INTEREST PAYABLE AND SIMILAR CHARGES

	2010 £000	2009 £000
On bank loans and overdrafts	16,929	1,446
On other loans	1,538	427
	<u>18,467</u>	<u>1,873</u>

Interest payable on bank loans and overdrafts includes £12,318,000 in relation to the early settlement of €100 million US private placement loan notes

9. OTHER FINANCE INCOME/(COSTS)

	2010 £000	2009 £000
Expected return on pension scheme assets	3,136	2,777
Interest on pension scheme liabilities	(2,713)	(2,894)
	<u>423</u>	<u>(117)</u>

10. EXCEPTIONAL ITEMS

	2010 £000	2009 £000
Transaction costs	28,388	-
Share and incentive costs	14,918	-
	<u>43,306</u>	<u>-</u>

These exceptional items represent costs associated with the acquisition of Arriva plc by DB UK Holding Limited

ARRIVA PLC

Notes to the financial statements for the year ended 31 December 2010

11 TAX ON (LOSS)/PROFIT ON ORDINARY ACTIVITIES

	2010 £000	2009 £000
Analysis of tax credit in the year		
Current tax (see note below)		
UK corporation tax credit on (loss)/profit for the year	(13,850)	(3,348)
Adjustments in respect of prior years	632	486
Total current tax	<u>(13,218)</u>	<u>(2,862)</u>
Deferred tax		
Origination and reversal of timing differences	1,506	21
Adjustments in respect of prior years	(254)	(457)
Total deferred tax (see note 17)	<u>1,252</u>	<u>(436)</u>
Tax on (loss)/profit on ordinary activities	<u>(11,966)</u>	<u>(3,298)</u>

Factors affecting tax charge for the year

The tax credit assessed for the year is higher than (2009 lower than) the standard rate of corporation tax in the UK of 28% (2009 28%). The differences are explained below

	2010 £000	2009 £000
(Loss)/profit on ordinary activities before taxation	<u>(47,413)</u>	<u>47,796</u>
(Loss)/profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 28% (2009 28%)	(13,276)	13,383
Effects of:		
Expenses not deductible for tax purposes, other than goodwill amortisation and impairment	4,530	48
Capital allowances for year more than depreciation	(3)	(8)
Adjustments to tax charge in respect of prior years	632	486
Non-taxable income	(4,838)	(16,757)
Other differences leading to a decrease in the tax charge	(263)	(14)
Current tax credit for the year (see note above)	<u>(13,218)</u>	<u>(2,862)</u>

Factors that may affect future tax charges

On 23 March 2011 the Chancellor announced that the UK Corporation Tax rate applicable from 1 April 2011 would be 26% (as opposed to 27% which was substantively enacted on 20 July 2010) and that the previously announced 1% increments would result in the UK Corporation Tax rate reducing to 23% (as opposed to 24%) with effect from 1 April 2014

ARRIVA PLC

Notes to the financial statements for the year ended 31 December 2010

12. TANGIBLE FIXED ASSETS

	Freehold property £000	Plant and machinery £000	Total £000
Cost			
At 1 January 2010	9,277	1,849	11,126
Additions	-	37	37
At 31 December 2010	9,277	1,886	11,163
Accumulated depreciation			
At 1 January 2010	2,039	1,535	3,574
Charge for the year	172	122	294
At 31 December 2010	2,211	1,657	3,868
Net book value			
At 31 December 2010	7,066	229	7,295
At 31 December 2009	7,238	314	7,552

13. FIXED ASSET INVESTMENTS

	Investments in subsidiary companies £000
Cost or valuation	
At 1 January 2010 and 31 December 2010	636,705
Impairment	
At 1 January 2010 and 31 December 2010	14,700
Net book value	
At 31 December 2010	622,005
At 31 December 2009	622,005

ARRIVA PLC

Notes to the financial statements for the year ended 31 December 2010

13. FIXED ASSET INVESTMENTS (continued)

Subsidiary undertakings

The following are the principal subsidiary undertakings of the company

Name	Class of shares	Holding
Tellings Golden Miller Group Limited	Ordinary	100 %
Arriva Passenger Services Limited	Ordinary	100 %
Arriva Motor Holdings Limited	Ordinary	100 %
MTL Services Limited	Ordinary	100 %
Arriva International Limited	Ordinary	100 %
Arriva Insurance Company (Gibraltar) Limited	Ordinary	100 %

Name	Business	Registered office
Tellings Golden Miller Group Limited	Bus and coach services	England and Wales
Arriva Passenger Services Limited	Bus and coach services	England and Wales
Arriva Motor Holdings Limited	Holding company	England and Wales
MTL Services Limited	Investment company	England and Wales
Arriva International Limited	Investment company	England and Wales
Arriva Insurance Company (Gibraltar) Limited	Insurance services	Gibraltar

The directors believe that the carrying value of the investments is supported by their underlying assets

A full list of investments held indirectly in subsidiary companies can be found in the annual report of the ultimate parent company, Deutsche Bahn AG, a company registered in Germany

14. DEBTORS

	2010 £000	2009 £000
Due after more than one year		
Amounts owed by group undertakings	462,474	239,271
	2010 £000	2009 £000
Due within one year		
Trade debtors	2,225	415
Group relief receivable	13,732	3,330
Other debtors	972	855
Prepayments and accrued income	281	325
Deferred tax asset (see note 17)	546	742
	17,756	5,667

ARRIVA PLC

**Notes to the financial statements
for the year ended 31 December 2010**

15. CREDITORS:
Amounts falling due within one year

	2010 £000	2009 £000
Bank overdrafts	58,554	-
Trade creditors	592	815
Amounts owed to group undertakings	110,000	-
Social security and other taxes	988	-
Other creditors	3,848	3,064
Accruals and deferred income	16,342	12,399
	<u>190,324</u>	<u>16,278</u>

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

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

	2010 £000	2009 £000
Bank loans	-	65,000
Amounts owed to group undertakings	268,216	283,489
Accruals and deferred income	22,070	24,346
	<u>290,286</u>	<u>372,835</u>

Included within the above are amounts falling due as follows

	2010 £000	2009 £000
Between two and five years		
Bank loans	-	65,000
Over five years		
Amounts owed to group undertakings	<u>268,216</u>	<u>283,489</u>

Creditors include amounts not wholly repayable within 5 years as follows

	2010 £000	2009 £000
Repayable other than by instalments	<u>268,216</u>	<u>283,489</u>

ARRIVA PLC

**Notes to the financial statements
for the year ended 31 December 2010**

17. DEFERRED TAX ASSET

The movement in the deferred tax balance, excluding deferred tax balance on pension liability, during the year was

	2010 £000	2009 £000
At beginning of year	742	271
(Charge)/credit during the year	(196)	471
At end of year	<u>546</u>	<u>742</u>

The deferred tax asset is made up as follows

	2010 £000	2009 £000
Accelerated capital allowances	(1,488)	(1,538)
Other timing differences	2,034	2,280
	<u>546</u>	<u>742</u>

The deferred tax balance consists of the tax effect of timing differences in respect of

	2010 £000	2009 £000
Accelerated capital allowances	(1,488)	(1,538)
Other timing differences	2,034	2,280
Deferred tax excluding that relating to pension liability	<u>546</u>	<u>742</u>
Deferred tax relating to pension liability	(243)	703

Total deferred tax asset

<u>303</u>	<u>1,445</u>
------------	--------------

The movement in the deferred tax asset during the year was

	2010 £000	2009 £000
At 1 January	1,445	1,587
Deferred tax charged in the profit and loss account	(1,252)	436
Deferred tax credited/(charged) to the statement of total recognised gains and losses	<u>110</u>	<u>(578)</u>
At 31 December	<u>303</u>	<u>1,445</u>

18. CALLED UP SHARE CAPITAL

	2010 £000	2009 £000
Allotted, called up and fully paid		
204,390,900 (2009 199,159,195) Ordinary shares of £0.05 each	<u>10,220</u>	<u>9,958</u>

ARRIVA PLC

Notes to the financial statements for the year ended 31 December 2010

18. CALLED UP SHARE CAPITAL (continued)

During the year there were share allotments on the exercise of options, and on the conditional vesting of awards made under the LTIP, of 5,231,705 ordinary shares (2009 502,123 ordinary shares)

Consideration of £10,457,000 was received in respect of share allotments in the year ended 31 December 2010 (2009 £100,000)

At 25 August 2010, the date of the suspension of shares from the London Stock Exchange, the middle market quotation of the ordinary share was 773 0 pence. The highest price attained by the ordinary share in 2010 was 782 5 pence and the lowest level during 2010 was 460 1 pence

19. RESERVES

	Share premium account £000	Other reserves £000	Profit and loss account £000
At 1 January 2010	24,496	60,882	585,370
Loss for the financial year			(35,447)
Dividends			(37,460)
Actuarial loss related to pension scheme net of tax			(251)
Premium on shares issued during the year	10,365		
Share based payments			11,414
At 31 December 2010	<u>34,861</u>	<u>60,882</u>	<u>523,626</u>

OTHER RESERVES

Other reserves includes a capital redemption reserve of £1,757,000 which represents the cumulative par value of all shares bought back and cancelled by the group and is not distributable. There is also a special reserve of £59,125,000 which 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

20. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2010 £000	2009 £000
Opening shareholders' funds	680,706	674,707
(Loss)/profit for the financial year	(35,447)	51,094
Dividends (Note 21)	(37,460)	(48,507)
Shares issued during the year	262	25
Share premium on shares issued (net of expenses)	10,365	75
Other recognised gains and losses during the year	11,163	3,312
Closing shareholders' funds	<u>629,589</u>	<u>680,706</u>

ARRIVA PLC

**Notes to the financial statements
for the year ended 31 December 2010**

21. DIVIDENDS

	2010	2009
	£000	£000
Dividends paid on equity capital	37,460	48,507

22. PENSION COMMITMENTS

At 31 December 2010 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.

The total pension cost for the company was £1.9 million credit (2009: £0.6 million charge). The pension costs in respect of the company's defined contribution scheme was £0.3 million (2009: £0.3 million).

FRS 17 '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 2010 by qualified independent actuaries, KPMG LLP. The scheme's assets are stated at their market value at 31 December 2010.

From December 2010, the benefit structure of the Arriva Pension Scheme was changed. One of the principal changes is the capping of pensionable salary increases until the scheme returns to surplus on an uncapped basis. In accordance with FRS17, this capping of future benefits has been recognised immediately in the company's profit and loss account, giving rise to a curtailment gain of £2,073,000.

The amounts recognised in the Balance sheet are as follows:

	2010	2009
	£000	£000
Present value of funded obligations	(49,928)	(48,566)
Fair value of scheme assets	50,829	46,050
Surplus/(deficit) in scheme	901	(2,516)
Related deferred tax (liability)/asset	(243)	703
Net asset/(liability)	658	(1,813)

ARRIVA PLC

Notes to the financial statements for the year ended 31 December 2010

22. PENSION COMMITMENTS (continued)

The amounts recognised in profit or loss are as follows

	2010 £000	2009 £000
Current service cost	(301)	(162)
Interest on obligation	(2,713)	(2,894)
Expected return on scheme assets	3,136	2,777
Profits on curtailments and settlements	2,073	-
Total	2,195	(279)
Actual return on scheme assets	5,524	7,989

Changes in the present value of the defined benefit obligation are as follows

	2010 £000	2009 £000
Opening defined benefit obligation	48,566	45,136
Current service cost	301	162
Interest cost	2,713	2,894
Actuarial losses	2,749	3,146
Gains on curtailments	(2,073)	-
Benefits paid	(2,364)	(2,844)
Member contributions paid	36	72
Closing defined benefit obligation	49,928	48,566

Changes in the fair value of scheme assets are as follows

	2010 £000	2009 £000
Opening fair value of scheme assets	46,050	40,430
Expected return	3,136	2,777
Actuarial gains	2,388	5,212
Contributions by employer	1,619	475
Benefits paid	(2,364)	(2,844)
	50,829	46,050

The cumulative amount of actuarial gains and losses recognised in the statement of total recognised gains and losses was £9,635,000 gain (2009 - £9,996,000 gain)

The company expects to contribute £0.9 million to its defined benefit pension scheme in 2011

ARRIVA PLC

Notes to the financial statements for the year ended 31 December 2010

22. PENSION COMMITMENTS (continued)

The major categories of scheme assets as a percentage of total scheme assets are as follows

	2010	2009
Equities	72.00 %	72.00 %
Bonds	28.00 %	28.00 %

Principal actuarial assumptions at the Balance sheet date (expressed as weighted averages)

	2010	2009
Discount rate at 31 December	5.25 %	5.70 %
Expected return on scheme assets at 31 December	7.50 %	7.10 %
Future salary increases	4.50 %	4.50 %
Future pension increases	3.10 %	3.10 %
Inflation rate	3.50 %	3.50 %

The average life expectancy for members aged 65 are male 17 years (2009 17 years) and female 19 years (2009 19 years)

The average life expectancy at 65 for members aged 45 are male 18 years (2009 18 years) and female 20 years (2009 20 years)

Amounts in relation to defined benefit pension schemes for the current and previous four periods are as follows

	2010 £000	2009 £000	2008 £000	2007 £000	2006 £000
Defined benefit obligation	(49,928)	(48,566)	(45,136)	(55,409)	(60,075)
Scheme assets	50,829	46,050	40,430	53,541	51,320
Surplus/(deficit)	901	(2,516)	(4,706)	(1,868)	(8,755)
Experience adjustments on scheme liabilities	(2,749)	(3,146)	11,020	5,980	(87)
Experience adjustments on scheme assets	2,388	5,212	(14,518)	(1,003)	1,838

ARRIVA PLC

Notes to the financial statements for the year ended 31 December 2010

23 ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY

The ultimate parent company and ultimate controlling party is Deutsche Bahn AG, a company registered in Germany, which has prepared group accounts incorporating the results of Arriva Plc. Copies of these accounts can be obtained from Potsdamer Platz 2, 10785 Berlin.

Deutsche Bahn AG is the largest group to consolidate the financial statements and Deutsche Bahn Mobility Logistics AG is the smallest.

Information on Arriva plc can be obtained from their registered address Admiral Way, Doxford International Business Park, Sunderland, Tyne and Wear, SR3 3XP.

Transactions with other companies in the Deutsche Bahn Group are not specifically disclosed as the company has taken advantage of the exemption available under FRS 8 'Related party disclosures' for wholly-owned subsidiaries.