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ARRIVA

Press Release

3 March 2010

Arriva plc

PRELIMINARY RESULTS FOR THE YEAR ENDED 31 DECEMBER 2009

Highlights

- Strong run of contract wins and renewals: growing emphasis on rail in mainland Europe
- Mainland Europe order book up 29 per cent in euro
- UK Trains passenger revenue growth continuing to strengthen
- Tight management control mitigates £60 million fuel hit and effects of recession
  - Commercial mileage reduced by 3.4 per cent in UK regional bus operations
  - More than £15 million annualised cost savings achieved in UK Trains
  - Targeted savings and mileage reductions in mainland Europe
  - Pension and tax savings realised in 2009, and locked in for future years
- Profit before taxation down 19 per cent to £121.7 million
- Basic earnings per share up four per cent to 54.5 pence (2008: 52.6 pence)
- Adjusted earnings per share 58.8 pence (2008: 61.5 pence)
- Final dividend up five per cent to 18.80 pence per share

David Martin, chief executive, commented: "Arriva has come through a challenging year with resilient earnings. We have entered 2010 with improved efficiency which is contributing to current trading in all three divisions.

"Throughout the year we worked on business improvement measures to counteract the effects of a deep recession throughout Europe, and the legacy of unusually high fuel costs. Decisive management action has bolstered our already strong underlying performance, and will continue to deliver benefits in 2010 and beyond. Cost reductions have not been at the expense of operational performance, with reliability, punctuality and customer satisfaction at high levels throughout the group. Our tight focus on cost control and a disciplined approach to investment opportunities will continue.

"We have continued to build our long-term business in mainland Europe with a series of contract wins for work starting between 2010 and 2012, and the pipeline of attractive tender opportunities remains open. The exciting growth in our mainland Europe order book reflects continuing strong demand for the benefits the private sector can bring to transport in an era of tightening public spending, and a favourable competitive landscape.

"Trading is healthy in most mainland European countries, our UK bus business is showing continuing strength, and the acceleration of passenger revenue growth in our UK rail franchises is encouraging. Passenger revenue in CrossCountry is up by 8.8 per cent in the first seven weeks of 2010, helping to offset the lower franchise support payments it will receive in 2010. With a £30 million reduction in fuel costs in 2010, new contracts already secured, and passenger revenue support available to CrossCountry late next year, I am confident that the group has excellent prospects for substantial progress. That confidence is reflected in the Board's recommendation of a further five per cent increase in the final dividend."

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Notes to editors:

- Arriva is one of the largest private sector providers of passenger transport in Europe, employing more than 42,300 people (including share of associate companies) and providing more than one billion passenger journeys every year.

- Arriva provides transport services including buses, trains, commuter coaches and water buses, and operates in 12 European countries: Czech Republic, Denmark, Germany, Hungary, Italy, the Netherlands, Poland, Portugal, Slovakia, Spain, Sweden and the UK.

  High resolution images are available for the media to view and download free of charge from www.vismedia.co.uk

Chairman's statement

Meeting the challenges of uncertainty

We anticipated that 2009 would be a challenging year for Arriva, with the group facing the effect of recession on passenger revenues alongside a £60 million increase in the cost of our fuel.

In a highly uncertain economic environment, the focus of management needed to move quickly at times, while maintaining a decisive emphasis on cost control, cash generation and business operations. It is to their credit that management and staff at all levels responded effectively and tirelessly allowing us to report resilient results.

In this environment, the group's strategy was also tested and it too proved resilient, with our geographical diversification, broad spread of contracts and limited exposure to passenger revenue underpinning group performance. These qualities, developed through many years' pursuit of a consistent strategic vision, served us well.

While it is pleasing that our business continued to grow, with revenue rising by three per cent to £3,147.8 million (2008: £3,042.2 million), the business environment inevitably affected operating profit which at £160.3 million, was lower by seven per cent (2008: £171.8 million). Profit before taxation was down 19 per cent to £121.7 million (2008: £150.0 million).

During the year, an important management initiative to bring pension costs within long-term sustainable levels came to fruition, and will produce ongoing benefits in terms of future pension obligations. The resolution of a number of outstanding tax issues contributed to the year's results and will also produce future benefits. Earnings per share before goodwill impairment, intangible asset amortisation and exceptional items, our preferred measure, was 58.8 pence (2008: 61.5 pence).

The success of our UK Bus division in absorbing much of its £30 million fuel cost increase was reflected in a much smaller £8.1 million reduction in operating profit. The business has positioned itself well to benefit from the lower fuel costs that will flow through in the second half of 2010.

The CrossCountry rail franchise suffered materially lower passenger revenue growth than we had hoped, reducing the profitability of our UK Trains division from last year's record level. Yet both our rail franchises increased their passenger revenues over the year as a whole, and through determined cost reductions were able to limit the impact on profitability. The CrossCountry contract includes provision for passenger revenue support, effective from November 2011.

Operationally, both UK rail franchises are amongst the highest performers in the UK, having improved consistently over recent years. Both experienced encouraging improvements in passenger revenue growth in late 2009, which have so far followed through into 2010.

In mainland Europe too, there has been a strong focus on controlling costs, including the restructuring of parts of the business in response to changing market conditions. Encouragingly, significant growth in our mainland Europe order book has been a prominent feature of the year, reflecting success in winning new contracts and renewing many expiring ones.

In April 2009 it was heartening to see Arriva's long-term European growth strategy recognised by a Queen's Award for Enterprise for International Trade, marking the group's achievement in trebling the size of its bus and rail business in mainland Europe over six years.

Our long-term strategic vision, of being acknowledged as Europe's leading transport operator, remains unchanged. Although the business environment remains volatile we continue to bid for, and win, new business. As we do so, it is important that we drive returns from our investments which reflect changed economic realities.

With efficient and effective transport remaining a priority for governments, we are encouraged by the scale of interest emerging across the continent in the potential benefits we can offer through the contracting out of service provision. Public sector deficits across Europe provide

governments and transport authorities with additional motivation to improve value for money in public service provision, and Arriva has an excellent track record of providing exactly that.

Supporting the opportunities presented by economic realities, the regulatory framework is also evolving, enabling markets to develop with clarity. December saw the introduction of a significant piece of EU regulation on Public Service Requirements (PSR) governing the provision of most local bus and light rail operations, which represents another stage in the introduction of transparent contracting regimes across Europe.

Our underlying business performance and confidence in the medium-term outlook have enabled the Board to propose a 2009 final dividend of 18.80 pence per share. This is an increase of five per cent, continuing our record of sustained dividend growth over many years. Combined with the interim dividend of 6.46 pence per share the proposed total dividend will be 25.26 pence per share. The final dividend will be paid on 10 May 2010 to all shareholders on the register at close of business on 9 April 2010.

Sir Richard Broadbent
Chairman

Chief executive's review

2009 was a year of continual external challenge and management response for Arriva, but also one in which we were able to make further progress towards our long-term goals.

At the start of the year we were already highly focused on managing cost in the business, in part because of the high fuel prices we knew we had to defray. That sensitivity was heightened further by the need to respond quickly and decisively to changes in market conditions, caused by the recession. The necessary action was effective, as can be seen in the results.

In some cases we slowed development activity, in some cases we reduced services whilst maintaining the capability to expand again when the time is right. We also restructured and repositioned our businesses where markets had materially changed. However, we continued some activities, which we could have cut to flatter short-term returns. We invested £288 million in the future of the business, using our buying power to achieve attractive prices in weak markets, and importantly, we continued to win substantial new long-term business, with a series of contract wins in London and mainland Europe.

Throughout the year Arriva has continued to deliver on its promises. We have maintained and improved our credibility with our passengers and with transport authorities across Europe, who have appreciated the continuing excellence of our operational performance, resulting in growing levels of satisfaction reported by our passengers.

Divisional Results
(before goodwill impairment, intangible asset amortisation and exceptional item)

	Revenue		Operating profit	
	2009	2008	**2009**	2008
	£m	£m	**£m**	£m
Mainland Europe*	**1,604.2**	1,394.6	**83.9**	78.5
UK Bus	**961.5**	922.4	**91.2**	99.3
UK Trains	**702.6**	837.8	**12.1**	33.7
Central	**-**	-	**(18.8)**	(18.8)
	3,268.3	3,154.8	**168.4**	192.7
Associated companies				
- Mainland Europe	**(120.5)**	(112.6)	**(10.1)**	(8.9)
Group revenue and operating profit	**3,147.8**	3,042.2	**158.3**	183.8

* Including share of associated companies' revenue and operating profit

The following commentary refers to the divisional performance disclosed in the table above.

Mainland Europe

Operating profit for the division increased seven per cent to £83.9 million (2008: £78.5 million) on revenue up 15.0 per cent to £1,604.2 million (2008: £1,394.6 million), despite challenging conditions, particularly in Portugal and the Netherlands. Our businesses delivered consistently good operational performance, with particular focus on cost control.

The division substantially absorbed the £22 million fuel cost headwind, benefiting from the full year effect of 2008 acquisitions. The exchange rate used to translate euro results into sterling was £0.89 to the euro (2008: £0.81), offsetting the small underlying fall in local currency operating profits.

A significant regulatory milestone was passed during the year, signalling a step change in liberalisation. The EU Public Service Requirements (PSR) regulations, implemented in December, set out the procedure under which clear, transparent and time-limited contracts must be in place where public authorities provide support payments for bus and light rail services. Member States must progressively adapt their organisational and contractual arrangements in line with the rules set out in the regulation, and have contracts in place, by December 2019.

In 2009, we were pleased with the business we secured. Bid successes during the year included the largest rail tender won by the private sector in Germany, via a 50/50 joint venture

with our share of lifetime revenue at approximately €500 million; a Danish rail contract with revenues of around €475 million; a Dutch bus and rail contract with future revenues of approximately €600 million, and an extension in our contracted Madrid business with anticipated lifetime revenue of €650 million.

Reflecting these and other contract wins and retentions, our mainland Europe order book was up by 29 per cent in euro terms, with estimated future revenue over the life of contracted business based on prices at the 2009 year end, rising to €7 billion. Our future rail business in mainland Europe is growing more quickly than future bus business, having grown from 46 per cent of future revenue at the end of 2008 order book to 49 per cent by December 2009.

	2009 **€m**	2008 €m
Mainland Europe bus	**3,527.6**	2,898.3
Mainland Europe rail	**3,428.9**	2,490.0
Total order book	**6,956.5**	5,388.3

In addition, in Spain we were able to extend our concessions in Galicia and Mallorca, for between eight and 16 years.

Scandinavia

Revenue in Scandinavia was £455.8 million (2008: £404.0 million). In local currency, revenue was up five per cent as a result of new contracts started in Sweden.

In Denmark, we re-won the Jutland rail contract, which was due to expire at the end of 2010. The new contract, which adds 12 new trains, is expected to generate revenue of around €475 million up to 2018, and has a possible extension to 2020. Our rail operating performance in Denmark continues to be excellent, with market-leading punctuality contributing to a record level of customer satisfaction throughout 2009.

Many loss-making contracts which came to us via our acquisition of Veolia's Danish operations in 2007 expired during the year. We re-bid for all at realistic returns and were pleased to retain around half the contracts by value. We also restructured our Danish business to reduce overheads.

In March 2009, we started operating a fleet of around 170 buses in the Swedish capital, Stockhölm, with two five-year contracts with combined revenues of around €164 million, with optional extensions for a further five years. We finished 2009 as the best performing operator in the capital, topping the client body performance league table which measures punctuality and customer satisfaction. In June 2009, we won an eight-year €138 million contract, with a two-year extension option, to operate more than 80 buses in the Halland region of southern Sweden, starting in June 2010.

More opportunities are emerging in Swedish rail. In June 2009 our second Swedish rail contract got off to a successful start. The small seven-year contract, which has a two-year extension option, runs services between Göteborg and Örebro.

Germany

Revenue at our German operations was £416.7 million (2008: £365.0 million). In local currency, revenue was up three per cent. Our credibility and growing market share in Germany is demonstrated by the new contracts won in 2009, which will start over the next three years.

Our rail interests in Germany are growing significantly. In July 2009, we were delighted to be awarded the largest rail tender won by the private sector in Germany to date, with a new contract in the north east of Germany, via the ODEG 50/50 joint venture. Local services around Berlin start in December 2011, and regional express services start in December 2012, with both running until December 2022. Total revenues are more than €1 billion over the life of the contract, of which our share is half. In the same package we also re-won a smaller rail contract around Berlin, extending our existing operations until 2014. In December 2009 we started operating a 12-year rail contract, won in 2006, as part of a consortium with Austrian operator Salzburg AG, in Bavaria, southern Germany. In January we re-won, subject to appeal, a substantial part of the Metronom rail network in the densely-populated Hamburg

and Hannover regions. The eight-year contract, which starts in December 2010, has revenue of approximately €640 million, of which our economic interest is around 37 per cent. Also in December 2010, we will start operating a small 10-year rail contract linking the Czech Republic and Germany. The 56 kilometre line also passes through Poland, where an additional stop is due to be added at a later date.

We have been working closely with municipal authorities in Germany. In August 2009 our Neißeverkehr business started operating a small new eight-year bus contract, which was jointly awarded with the incumbent city-owned operator, and in December 2009 we extended our existing 300 bus operation in the north for eight years.

The Netherlands

Revenue was £249.0 million (2008: £221.9 million). In local currency, revenue was up 1.4 per cent in a difficult year for the business.

While our rail operations are going well, trading conditions in the bus market continue to be difficult for the major operators with losses being sustained in this sector. Disappointingly, the settlement agreed with the Dutch authorities on indexation relating to fuel costs, following a national dispute in 2008, has not been received, despite local authorities being funded by central government. We are also very disappointed that a new working agreement, the subject of an outline agreement between operators and unions in June 2008, has been revoked before implementation. The failure of the Dutch authorities to deliver on their promises is disturbing and we will pursue the matter further.

Operationally, our services in the Netherlands are still performing well - in the annual independent customer satisfaction survey carried out for the government, Arriva's bus and rail operations ranked above the national average. Our train operations in the north of the country had the biggest improvement in satisfaction following the successful introduction of new trains on the MerwedeLingelijn line, with seven further diesel trains due for delivery in 2010. Services in Dordrecht and Waterland were also highly ranked. We have ordered three new electric trains to be added to our DAV fleet in 2011 to fulfil a new expanded timetable.

Our Netherlands order book grew by 31 per cent in local currency, even though we were disappointed not to re-win the 350 bus Groningen-Drenthe contract, which ended in December 2009. In December it was announced that Arriva had won the eight-year Achterhoek Rivierenland bus and rail tender in Gelderland, which has anticipated lifetime revenue of approximately €600 million, with a possible €400 million five-year extension. The bus element of the contract is due to start in December 2010 with 130 buses, and 24 trains will enter service in December 2012.

Italy

Revenue was £215.1 million (2008: £190.5 million). In local currency, revenue was up three per cent.

We have continued to trade well in Italy. The contracted nature of our bus business and prompt cost control action by the local management offset some reduction in patronage.

In partnership with local authorities we have developed and introduced new technology, helping us to improve operating efficiency and customer satisfaction. New satellite bus tracking was introduced in Piemonte and Friuli-Venezia Giulia, which enabled us to redesign networks in response to customer demand. We also launched online booking systems for our major airport connection services and now offer web-based journey mapping in some regions.

We have submitted a tender proposal to renew our 150 bus operation in the Piemonte area for a further six years, and hope for a positive outcome in the near future. In 2010 we are well placed to explore substantial emerging rail opportunities, as some regions consider market testing, and continue to explore additional opportunities in the bus market.

Iberia

Operations in Portugal and Spain, including share of associate companies, reported revenue up 19 per cent to £207.9 million (2008: £175.3 million) reflecting a strong contribution from our July 2008 Empresa de Blas y Cia S.L. (De Blas) acquisition. In local currency, revenue was up by eight per cent.

In Spain the majority of our operations in the contracted Madrid transport market are protected from revenue risk, and are performing well. In December our contract was extended until 2024. The integration of De Blas went exceptionally well and won an award from a city-based trade association reflecting excellent relations with our workforce. Also in December, our concession-based businesses in Mallorca and Galicia benefited from extended expiry dates, ranging between 2017 and 2026.

Portugal has been particularly adversely affected by the economic downturn, with a reduction in public transport patronage overall. Management teams have focused on stringent cost control, including reducing kilometres operated, fleet and staffing levels, to minimise the impact on our businesses. The bus market continues to be challenging, with no fare rises approved by the government. In light of these factors, and the likely continued abstraction of revenue by the recently extended light rail system south of Lisbon, we have scaled back our Portuguese bus operation to a level commensurate with the changed environment.

In January 2010, we were pleased to be awarded a five-year contract with anticipated lifetime revenue of €200 million, which is due to start in April, to operate and maintain the Metro do Porto, the city of Porto's tram network, as part of a consortium in which we have an effective economic stake of 35 per cent.

<u>Eastern Europe</u>

Revenue rose 58 per cent to £59.8 million (2008: £37.9 million), reflecting the first full year of operations in Hungary and Slovakia. In local currency, revenue was up 43 per cent.

The integration and consolidation of our Eastern European businesses is continuing as planned. With operations in the Czech Republic, Hungary, Poland and Slovakia, Arriva is well placed to benefit from future liberalisation of the public transport markets in Eastern Europe.

In November 2009, we acquired the remaining 20 per cent stake in Eurobus Invest, for HUF 125 million, securing full control and preparing the business for future growth as opportunities arise. In Hungary, our credentials as a good value for money, high performing operator saw us grow our market share in sub-contracting work for the municipal operator in Budapest. In Slovakia we are reviewing and removing underperforming commercial routes, and have extended concessions in the Nove Zamky region in the west of the country.

UK Bus

Our UK Bus division has continued to grow, and delivered a good performance. Management attention to cost control and swift reaction to changes in demand substantially offset the division's £30 million fuel cost increase for the year, around half of which will be recovered in the second half of 2010.

The business made good use of the lead time provided by forward fuel purchasing, controlling costs tightly across its operations to absorb much of the fuel price increase. Operating profit was £91.2 million (2008: £99.3 million), on revenue up four per cent to £961.5 million (2008: £922.4 million). Increased passenger revenues and higher London contracted mileage contributed to revenue growth. Efficiency savings included more effective employee scheduling, reduced fuel consumption, overhead reductions and improved engineering efficiency.

The commercial UK regional business implemented targeted network revisions, reducing commercially operated mileage by 3.4 per cent year-on-year to control costs whilst maintaining the viability of the network for future growth in the medium and longer term. This mileage reduction is reflected in reduced revenue growth but yield per mile improved.

Investment in new vehicles reduced the average age of the fleet to 7.6 years, helping to maintain the quality and attractiveness of our services. Investment in technology and training also continued. Around 3,000 buses have now been fitted with the 'EcoManager' system, which delivers overall improvements in fuel consumption. Further roll-out is planned for 2010.

Overall customer satisfaction in the UK regional business has risen every year since the start of annual surveys in 2002, and in December 2009 reached a record level of 93 per cent. This is a result our management and employees can be proud of. We will continue to strive for further improvements.

Around a third of the UK Bus division's revenue is derived from contracted operations in London where Arriva maintained its position as one of the largest operators with a market share of around 20 per cent. Mileage operated for Transport for London (TfL) increased by two per cent to around 66 million miles. The high quality of our operational performance and management continues to be recognised. For the second year in a row, an Arriva depot has been named 'London Bus Garage of the Year' by TfL. The business also performed best in the TfL excess waiting time league table, with the highest number of services running on time.

We retained 99 per cent of contracted mileage due for renewal in 2009, and won new work, growing the London bus order book by 27 per cent to £984 million. To date in 2010, we have retained 100 per cent of re-tendered contracts, with contract mileage expected to increase by at least a further two per cent in 2010 on the basis of work already won.

Tellings Golden Miller (TGM), which we acquired in 2008, had a challenging year as its airport business suffered in the recession. We cut back on a number of services and restructured the business, and were pleased to secure new contracted work at Heathrow and Gatwick airports.

The Original Tour sightseeing business continues to perform well, with a good summer season in 2009, and our Bus & Coach distribution business maintained profitability.

A change to the benefit structure of the Arriva Passenger Services Pension Plan, the largest defined-benefit scheme in Arriva, was implemented with effect from 1 December 2009. This change significantly moderates the risk from retirement benefit obligations in the business, and mitigates against future pension cost increases that would otherwise have arisen.

UK Trains

As anticipated, our UK Trains division, which operates the Arriva Trains Wales and CrossCountry franchises, was significantly affected by the UK recession, mainly through weaker passenger growth in CrossCountry than envisaged in our bid. The division made an operating profit of £12.1 million, compared to a 2008 operating profit of £33.7 million.

Passenger revenue grew by 3.5 per cent to £416 million but overall revenue fell by 16.1 per cent to £702.6 million (2008: £837.8 million), due to the effect of the Office of Rail Regulation's Control Period 4 review which reduced both revenue and costs by approximately £150 million in the year, with a broadly neutral economic impact.

Determined management action delivered substantial cost savings in both franchises, amounting to some £15 million in annualised savings for the division with approximately £10 million actually realised during 2009.

<u>CrossCountry</u>

We started 2009 in the expectation that CrossCountry would need around 10 per cent passenger revenue growth for the year in order to maintain the profitability of the UK Trains division against the planned reduction in CrossCountry franchise support payments. The final figure for the year was an increase of 2.6 per cent, with a weak spring and flat summer lifted by the later months of the year. Actual passenger revenue for the franchise was £328 million, compared with revenue of £371 million anticipated in our 2007 franchise bid (as adjusted for inflation). During the first seven weeks of 2010 passenger revenue growth has been 8.8 per cent, continuing the recovery of late 2009.

From November 2011, 80 per cent of any shortfall in passenger revenue below 94 per cent, and 50 per cent of the shortfall between 98 and 94 per cent, against the annual franchise target, is recovered through the risk sharing mechanism with the Department for Transport (DfT). This arrangement continues to the end of the franchise in March 2016. Had revenue support been in place in 2009, we estimate the impact of additional revenue and operating profit would have been approximately £23 million.

The franchise has further improved its operational performance over the year. The Public Performance Measure (PPM) for the year ended 31 December 2009, based on the percentage of franchised passenger trains arriving at their destination within 10 minutes of schedule, increased to 90.5 per cent, from 89.6 per cent in 2008 and 86.3 per cent in 2007.

This is a very satisfying improvement given the complexities of running such a geographically extensive operation, which crosses the boundaries of every rail region in the UK.

During the year the franchise benefited from the successful roll-out of e-ticketing, enabling customers to purchase and print tickets at home, by 6.00 pm the day before departure. In September we introduced 'Train Search', an iPhone application available as a free download, which helps CrossCountry customers find train times and stopping details for any UK rail journey.

In January 2010 the DfT announced proposals for timetable changes which envisage certain East Coast services being replaced by CrossCountry services. We are in consultation with the DfT about the opportunities created by the proposed changes, which are anticipated to come into effect in May 2011.

<u>Arriva Trains Wales</u>

Arriva Trains Wales (ATW) continues to perform well, delivering strong passenger revenue growth, up 7.2 per cent for the year ended 31 December 2009, and has begun 2010 well with growth of 8.7 per cent for the first seven weeks. Its excellent operational record also continued, with 94.7 per cent of services arriving at their destination within five minutes of schedule, up from 92.5 per cent in 2008 confirming the franchise as one of the top performing train operators in the UK.

Building on the success of a new timetable started at the end of 2008, ATW introduced significant new services, particularly in mid and north Wales with the extension of services to Birmingham International Airport, and from May 2009, the addition of a new half hourly service between Merthyr Tydfil and Cardiff.

During 2010 ATW will continue to work with the Welsh Assembly Government to explore additional opportunities for further developing rail services in Wales and the border regions.

Outlook

Consistent pursuit of our vision and our strategy has created a positive outlook for the business. The volume of our contracted business in mainland Europe has increased substantially, further establishing our ever stronger presence in the liberalising markets of the EU.

Cost saving measures have been implemented across the group and, where desirable and possible, operating mileage revised to match demand. We anticipate a reduction of around £30 million in our fuel costs in 2010 as a result of our forward fixing policy. Action has been taken to reduce the cost of pension benefit accrual in our UK Bus division, while recent tax settlements will have significant medium to long-term benefit.

In addition, healthier passenger revenue growth has returned in our UK Trains division. Whilst this revenue is still short of the levels anticipated when we bid for the CrossCountry franchise, improved growth will mitigate against the recessionary impact on the business until revenue support for the franchise comes in next year.

We recognise that we must drive returns from our existing and future business. We are working on numerous contract and tendering opportunities and see no sign of the recession limiting interest from tendering authorities across mainland Europe, further boosted by the new EU PSR regulations. In 2010 so far, we have won more than a billion of additional long-term contract work.

Arriva continues to be highly cash generative, diversified and focused on its long-term goal of being Europe's leading transport operator. We have a continuing opportunity for future profitable growth and the skills, experience and management resources to exploit that opportunity.

David Martin
Chief executive

Financial review

Following the group's record financial results and substantial growth in 2008, the trading environment entering 2009 was one of general economic uncertainty, financial volatility and distress in the banking markets. Against that backdrop, the group's financial performance and capital structure have been resilient, absorbing increased fuel costs and the recessionary impact on passenger revenue growth, whilst allowing the group to continue to win business and invest in the future.

The group has remained attractive to lenders throughout the recession. We agreed a €100 million euro facility expiring in August 2012 with a new lender, to supplement the £615 million revolving credit facility expiring on the same date, and raised £218 million in asset-backed finance in the year. To diversify its funding sources, the group re-entered the US private placement market in February 2010, raising €100 million repayable in 2017. This is an important transaction for Arriva, establishing the principle that the group can continue to access asset-backed finance markets whilst diversifying some financing risk away from the banking sector.

Group income statement

Revenue increased to £3,147.8 million (2008: £3,042.2 million), reflecting growth in both the UK Bus and Mainland Europe divisions, the latter also including the impact of the strengthening of the euro against sterling. The UK Rail Regulator's review of charges reduced headline revenue and costs in UK Trains by approximately £150 million, with the overall economic impact of the review broadly neutral.

In December 2009, agreement was reached to cap future benefit accrual in the Arriva Passenger Services Pension Plan, the largest of the group's defined benefit schemes. The change in benefits is required to be treated as a curtailment, resulting in the recognition of a £46.8 million exceptional credit in the income statement in 2009. The ongoing saving to the group's pension charge will be around £5 million per annum.

The group has made an impairment charge of £32.9 million (2008: £2.5 million) against the carrying value of goodwill. The increase primarily relates to a £24 million charge in respect of our operations in Portugal, which, in light of the conditions affecting the Portuguese bus market and the likely continued abstraction of revenue by the recently extended light rail systems south of Lisbon, have been de-scaled to a level commensurate with the changed environment.

Operating profit before goodwill impairment, intangible asset amortisation and exceptional items, our preferred internal measure, was £158.3 million (2008: £183.8 million), the reduction primarily reflecting increased fuel costs of approximately £60 million compared to 2008, and the impact of the challenging economic conditions on the CrossCountry franchise. Operating profit in mainland Europe benefited from a stronger average euro to sterling exchange rate of £0.89 to the euro compared to £0.81 to the euro last year.

Net finance costs increased to £43.8 million from £26.2 million, due to the full year impact of increased debt levels since July 2008, and higher margins paid on new debt, partially mitigated by the benefit of lower interbank borrowing rates.

After taking into account the profit from associates of £5.2 million (2008: £4.4 million), profit before tax decreased to £121.7 million (2008: £150.0 million).

The group has recently resolved a number of historical matters with tax authorities. These included one settlement giving rise to a benefit of approximately £68 million, of which £22 million has been included in this year's results, £15 million relating to previous years. The remaining £46 million relating to this settlement is expected to be recognised over the next few years. The total taxation charge also includes the £13.1 million impact on deferred tax of the exceptional credit arising on changes to pension benefits noted above. The resulting tax charge is £2.5 million, a decrease of £36.3 million compared with 2008.

After taking account of minority interests, principally in our Italian and German subsidiaries, earnings per share, excluding goodwill impairment, intangible asset amortisation and exceptional items, reduced by four per cent to 58.8 pence (2008: 61.5 pence). The net impact of the year-on-year change in the average euro/ sterling exchange rate was a benefit of 0.8

pence per share. Basic earnings per share increased by four per cent to 54.5 pence (2008: 52.6 pence).

Cash flow

The movement in net debt is summarised in the following table:

	2009 £m	2008 £m
EBITDA (before exceptional item)	**324.1**	330.4
Difference between pension contributions paid and amounts recognised in the income statement	**(18.5)**	(18.3)
Working capital	**3.8**	49.5
Cash generated from operations	**309.4**	361.6
Net capital expenditure	**(263.4)**	(244.8)
Cash flow before servicing costs	**46.0**	116.8
Proceeds from issuing ordinary share capital	**0.1**	0.2
Interest and finance charges paid	**(42.3)**	(27.7)
Dividends and tax	**(61.6)**	(33.5)
Acquisitions of businesses	**0.3**	(218.7)
Settlement of cross currency swaps	**(22.5)**	(27.6)
Increase in net debt before currency translation	**(80.0)**	(190.5)
Currency translation	**51.3**	(184.4)
Increase in net debt	**(28.7)**	(374.9)
Opening net debt	**(823.4)**	(448.5)
Closing net debt	**(852.1)**	(823.4)

EBITDA was broadly maintained at £324.1 million (2008: £330.4 million) despite fuel cost increases and recessionary impacts as the business delivered on past investment. There were outflows during the year of £18.5 million (2008: £18.3 million) in relation to retirement benefit obligations (pension scheme contributions exceeding costs), and a small working capital inflow of £3.8 million (2008: £49.5 million) leading to net cash generated from operations of £309.4 million (2008: £361.6 million).

Net capital expenditure was £263.4 million (2008: £244.8 million) principally reflecting investment in new buses in the UK and mobilisation of rail and bus contracts in mainland Europe. The group made no significant acquisitions in the year (2008: £218.7 million).

Interest and dividend payments absorbed £98.4 million (2008: £78.1 million). Tax paid during the year was £5.5 million (2008: receipts £16.9 million). It is anticipated that tax payable will continue to remain at lower levels than the tax charge in the income statement due to accelerated tax depreciation on new investment. New shares issued on exercise of share options generated £0.1 million (2008: £0.2 million). Settlement of cross currency swaps absorbed £22.5 million (2008: £27.6 million).

After a reduction of £51.3 million (2008: £184.4 million increase) arising from translating overseas debt into sterling at £0.89 to the euro (2008: £0.97), net debt increased to £852.1 million (2008: £823.4 million).

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 associates, for 2010 and 2011, at 1 March 2010, compared with 2009, was:

	2009 %	2010 %	2011 %
Protected by indexation arrangements	15.3	17.0	18.8
Forward purchased*	84.1	79.3	45.6
Subject to spot or future forward purchase	0.6	3.7	35.6
	100.0	**100.0**	**100.0**
*Average price per litre of forward purchased fuel, excluding fuel taxation and delivery	43.1 pence	35.9 pence	32.4 pence

Forward fuel prices were lower and less volatile during 2009 compared to 2008, and the group was able to forward hedge 2010 positions at an average price of 35.9 pence per litre, providing an anticipated fuel cost reduction of approximately £30 million compared to 2009. The total fuel consumption in 2009 was approximately 520 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 2009 was 79 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 progressively increased to around 50 per cent from the previous target of no balance sheet exposure. At 31 December 2009, the exposure was around 30 per cent of non-sterling net 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 2009 is a liability of £41.3 million (2008: £90.6 million).

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 2009, hedged debt maturity was 19 months

(2008: 22 months). Headroom on committed facilities was approximately £343 million (2008: £258 million) as set out in the table included in the borrowing facilities section below.

Capital risk

The group considers its capital to be the market value of equity shares, cash and borrowings, which it monitors 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. 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 £752.2 million (2008: £682.5 million) at the end of the year. Retained profits contributed £60.0 million to group distributable reserves. Actuarial losses on employment benefits reduced equity by £32.3 million whilst the fair value of derivatives caused an increase of £54.9 million. Gearing for the group at 31 December 2009 was 108 per cent (2008: 115 per cent). The 2009 interest cover (the ratio of EBITDA to net finance costs) was seven times (2008: 13 times). The ratio of year end net debt to EBITDA was 2.6 times (2008: 2.5 times).

The group 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. This was supplemented in August 2009 by an additional €100 million facility, on similar terms, expiring on the same date, and €100 million of new loan notes in February 2010.

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 £48 million. The rolling stock of the UK, Netherlands, Danish and German rail businesses that is provided through operating leases have annual commitments of approximately £122 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 2009 and their maturity and drawdown are set out in the table below:

Facilities	Maturity	Limit £m	Drawn £m	Headroom £m
Syndicated revolving credit facility	2012	615	414	201
Additional €100 million term facility	2012	89	-	89
Amortising facilities	To 2024	631	618	13
Other term facilities	To 2018	59	19	40
Committed facilities		**1,394**	**1,051**	**343**
Uncommitted facilities	2009	84	39	45
31 December 2009		**1,478**	**1,090**	**388**

Group net debt of £852 million comprises the drawdown of £1,090 million in the table above, net of cash balances of £238 million.

Historically, the principal sources of credit to the group have been the banking markets of the UK and mainland Europe. Whilst this remains an important source, the group has diversified its funding sources by re-entering the US private placement market with €100 million of loan notes repayable in 2017. The borrowings, agreed in February 2010, carry a fixed interest rate of 5.25 per cent, and, significantly, enable the group to continue to access the flexible and competitively priced asset-backed finance market. The terms of the borrowing are similar to the financial covenants in the revolving credit facility, with the addition of a priority debt covenant which sets a maximum limit on the level of priority debt compared to total assets of 30 per cent. Priority debt encompasses asset-backed debt and unsecured net borrowings of subsidiaries that are not obligors under the revolving credit facility.

Retirement benefit obligations

At 31 December 2009, retirement benefit obligations reduced to £99.8 million (2008: £120.1 million) after taking into account the £47 million reduction in liabilities arising from changes to the benefit structure in one of the group's schemes. The retirement benefit obligations in respect of the Arriva Trains Wales and CrossCountry sections of the Railways Pension Scheme are £6.5 million (2008: £11.7 million) and £5.6 million (2008: £19.3 million) respectively, net of a franchise adjustment that reflects the portion of liability arising after the rail franchises expire. The related deferred tax asset recognised in the balance sheet was £37.7 million (2008: £27.0 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, intangible asset amortisation and exceptional items (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 2009, reported in the group's December 2009 management accounts, was 13.0 per cent (2008: 17.9 per cent).

Financial summary

Despite considerable levels of uncertainty in the financial markets, and continued challenging macro-economic conditions, the group's financial performance has been resilient, and its cash flow generation continues to be strong.

The loan notes provide new, competitively priced and relatively flexible finance, by which the group can diversify its sources of funding, reducing its dependency on shorter term bank finance.

The benefit of fixing fuel prices in advance will be a reduction in fuel costs of approximately £30 million in 2010 compared to 2009, whilst the amendment to future benefit accrual in the group's largest pension scheme and tax settlements will add significant ongoing value to the group in future years. This provides a stronger base for our businesses, ahead of revenue support in our CrossCountry franchise from November next year.

Steve Lonsdale
Group finance director

Group Income Statement
for the year ended 31 December 2009

	notes	**2009 £m**	2008 £m
Revenue	**1**	**3,147.8**	3,042.2
Net operating expenses (before goodwill impairment, intangible asset amortisation and exceptional items)		**(2,989.5)**	(2,858.4)
Group operating profit (before goodwill impairment, intangible asset amortisation and exceptional items)	**1**	**158.3**	183.8
Goodwill impairment and intangible asset amortisation	**1**	**(44.8)**	(12.0)
Exceptional item	**1**	**46.8**	-
Group operating profit	**1**	**160.3**	171.8
Share of post tax profits from associates		**5.2**	4.4
Finance income		**2.0**	9.5
Finance costs		**(45.8)**	(35.7)
Profit on ordinary activities before taxation		**121.7**	150.0
Tax on profit on ordinary activities	**2**	**(2.5)**	(38.8)
Profit for the year		**119.2**	111.2
Attributable to:			
Equity holders of the parent company		**108.5**	104.5
Minority interests		**10.7**	6.7
		119.2	111.2
Dividends per ordinary share	**3**	**25.26p**	24.06p
Earnings per share			
Basic earnings per share	**4**	**54.5p**	52.6p
Diluted earnings per share	**4**	**54.4p**	52.3p
Basic earnings per share before goodwill impairment, intangible asset amortisation and exceptional items	**4**	**58.8p**	61.5p

Group Statement of Comprehensive Income
for the year ended 31 December 2009

	2009 £m	2008 £m
Profit for the year	**119.2**	111.2
Other comprehensive income		
Net foreign exchange adjustments offset in reserves, net of tax	**(16.2)**	37.2
Cash flow hedges, net of tax	**54.9**	(66.5)
Actuarial losses on employment benefits, net of tax	**(32.3)**	(51.2)
Total comprehensive income for the year	**125.6**	30.7
Total comprehensive income attributable to:		
Owners of the parent company	**116.3**	16.1
Minority interests	**9.3**	14.6
	125.6	30.7

Group Balance Sheet
at 31 December 2009

	notes	2009 £m	2008 £m
Non-current assets			
Goodwill	**5**	**447.8**	509.9
Other intangible assets	**6**	**59.1**	75.7
Property, plant and equipment	**7**	**1,580.3**	1,559.9
Investments	**8**	**134.9**	141.9
Derivative financial instruments	**10**	**55.7**	51.8
		2,277.8	2,339.2
Current assets			
Inventories		**54.0**	52.3
Trade and other receivables		**397.6**	430.4
Cash and cash equivalents		**238.4**	147.7
Derivative financial instruments	**10**	**17.2**	10.0
		707.2	640.4
Total assets		**2,985.0**	2,979.6
Current liabilities			
Trade and other payables		**694.4**	707.8
Tax liabilities		**41.2**	51.2
Borrowings	**9**	**232.5**	174.1
Derivative financial instruments	**10**	**52.1**	98.8
		1,020.2	1,031.9
Non-current liabilities			
Borrowings	**9**	**858.0**	797.0
Retirement benefit obligations	**11**	**99.8**	120.1
Deferred tax liabilities		**94.3**	95.4
Other non-current liabilities		**107.5**	133.0
Derivative financial instruments	**10**	**16.9**	84.0
		1,176.5	1,229.5
Total liabilities		**2,196.7**	2,261.4
Net assets		**788.3**	718.2
Equity			
Share capital		**9.9**	9.9
Share premium account		**24.5**	24.4
Other reserves		**93.4**	38.5
Retained earnings		**624.4**	609.7
Equity attributable to owners of the parent company		**752.2**	682.5
Minority interest in equity		**36.1**	35.7
Total equity		**788.3**	718.2

Group Cash Flow Statement
for the year ended 31 December 2009

	notes	2009 £m	2008 £m
Cash flows from operating activities			
Cash generated from operations	12(b)	309.4	361.6
Interest and finance charges paid		(42.3)	(27.7)
Tax (paid)/received		(5.5)	16.9
Net cash inflow from operating activities		261.6	350.8
Cash flows from investing activities			
Acquisitions of businesses		0.3	(132.6)
Net cash assumed on acquisitions		-	1.2
Investment in associates		-	(39.4)
Purchase of property, plant and equipment		(287.9)	(263.8)
Disposal of property, plant and equipment		24.5	19.0
Net cash used in investing activities		(263.1)	(415.6)
Cash flows from financing activities			
Proceeds from issuing ordinary share capital		0.1	0.2
Increase/(decrease) in loans due within one year		59.5	(4.3)
Increase in loans due after one year		64.2	215.3
Increase/(decrease) in finance lease obligations		43.0	(24.0)
Settlement of cross currency swaps		(22.5)	(27.6)
Dividends paid to the company's shareholders		(48.5)	(46.1)
Dividends paid to minority interests		(7.6)	(4.3)
Net cash generated in financing activities		88.2	109.2
Net increase in cash, cash equivalents and overdrafts	12(c)	86.7	44.4
Cash, cash equivalents and overdrafts at the beginning of the year	12(c)	113.3	62.4
Exchange (losses)/gains on cash, cash equivalents and overdrafts	12(c)	(2.3)	6.5
Cash, cash equivalents and overdrafts at the end of the year	12(c)	197.7	113.3

Group Statement of Changes in Equity
for the year ended 31 December 2009

	Attributable to owners of the parent company						
	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	**Total £m**	Minority interests £m	**Total equity £m**
At 1 January 2009	9.9	24.4	38.5	609.7	**682.5**	35.7	**718.2**
Profit for the year	-	-	-	108.5	**108.5**	10.7	**119.2**
Other comprehensive income:							
Net foreign exchange adjustments offset in reserves, net of tax	-	-	-	(14.8)	**(14.8)**	(1.4)	**(16.2)**
Cash flow hedges, net of tax	-	-	54.9	-	**54.9**	-	**54.9**
Actuarial losses on employment benefits, net of tax	-	-	-	(32.3)	**(32.3)**	-	**(32.3)**
Total comprehensive income for the year ended 31 December 2009	-	-	54.9	61.4	**116.3**	9.3	**125.6**
Transactions with owners:							
Arising on issue of shares	-	0.1	-	-	**0.1**	-	**0.1**
Share-based payments	-	-	-	1.8	**1.8**	-	**1.8**
Dividends	-	-	-	(48.5)	**(48.5)**	(7.6)	**(56.1)**
Minority interest acquired by the group	-	-	-	-	**-**	(1.3)	**(1.3)**
At 31 December 2009	**9.9**	**24.5**	**93.4**	**624.4**	**752.2**	**36.1**	**788.3**
At 1 January 2008	9.9	24.2	105.0	571.1	710.2	23.8	734.0
Profit for the year	-	-	-	104.5	104.5	6.7	111.2
Other comprehensive income:							
Net foreign exchange adjustments offset in reserves, net of tax	-	-	-	29.3	29.3	7.9	37.2
Cash flow hedges, net of tax	-	-	(66.5)	-	(66.5)	-	(66.5)
Actuarial losses on employment benefits, net of tax	-	-	-	(51.2)	(51.2)	-	(51.2)
Total comprehensive income for the year ended 31 December 2008	-	-	(66.5)	82.6	16.1	14.6	30.7
Transactions with owners:							
Arising on issue of shares	-	0.2	-	-	0.2	-	0.2
Share-based payments	-	-	-	2.1	2.1	-	2.1
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

Notes to the accounts

1. Segmental reporting

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

Year ended 31 December 2009

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

Goodwill impairment and intangible asset amortisation of £44.8 million includes an impairment charge of £29.6 million primarily in relation to Portugal (see note 5 for further details).

Exceptional item:

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

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

Year ended 31 December 2008

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

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.

2. Tax on profit on ordinary activities

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

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

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

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

3. Dividends

	2009 £m	2008 £m
Final dividend paid for the year ended 31 December 2008 of 17.91 pence (2008: final dividend paid for the year ended 31 December 2007 of 17.06 pence) per share	**35.6**	33.9
Interim dividend paid for the year ended 31 December 2009 of 6.46 pence (2008: interim dividend paid for the year ended 31 December 2008 of 6.15 pence) per share	**12.9**	12.2
	48.5	46.1

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

4. Earnings per share

Basic earnings per share is based on earnings of £108.5 million (2008: £104.5 million) and on the weighted average number of ordinary shares of 199.0 million (2008: 198.6 million).

Diluted earnings per share is based on the same earnings for each of the years and on the weighted average number of ordinary shares of 199.5 million (2008: 199.7 million). The difference in the number of shares between the basic and the diluted calculation represents the weighted average number of dilutive potential ordinary shares.

	2009 p	2008 p
Basic earnings per share	**54.5**	52.6
Earnings per share relating to:		
Goodwill impairment and intangible asset amortisation	**21.2**	5.0
Exceptional item, net of tax (see note 1)	**(16.9)**	-
Exceptional deferred tax charge	**-**	3.9
Basic earnings per share before goodwill impairment, intangible asset amortisation and exceptional items	**58.8**	61.5
Diluted earnings per share	**54.4**	52.3

5. Goodwill

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

There have been no significant acquisitions during the year. The hindsight fair value adjustments in the year relate to the final determination of provisional fair value adjustments made in respect of 2008 acquisitions, as detailed in the group's Annual Report and Accounts 2008. Comparative amounts have not been restated following the final determination of fair value adjustments as the amounts included are not material.

Goodwill includes a net book value of £14.0 million in relation to deferred tax provided in respect of intangible assets arising from business combinations, which is being reduced over the life of the related intangible assets, resulting in an impairment charge of £3.3 million (2008: £2.5 million).

During the year, goodwill was reviewed for impairment in accordance with IAS36 'Impairment of Assets'. The review has resulted in a further impairment charge of £29.6 million primarily in relation to goodwill in Portugal. In light of the factors affecting the Portuguese bus market and the likely continued migration of revenue to the recently extended light-rail system south of Lisbon, the Portuguese operation has been de-scaled to a level commensurate with the changed environment.

6. Other intangible assets

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

Intangible assets relate to identifiable assets purchased as part of the group's business combinations, and the right to operate the Arriva Trains Wales and CrossCountry rail franchises. Intangible assets are amortised on a straight-line basis over their expected useful economic lives.

7. Property, plant and equipment

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

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

Capital amounts contracted for but not provided amount to £25.4 million (2008: £86.7 million).

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

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

8. Investments accounted for using the equity method

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

9. Financial liabilities - borrowings

	2009 £m	2008 £m
Current liabilities:		
- Short-term loans	**168.4**	110.6
- Bank overdrafts	**40.7**	34.4
- Finance leases	**23.4**	29.1
	232.5	174.1
Non-current liabilities:		
- Syndicated loans	**413.6**	434.7
- Other loans	**302.3**	258.2
- Finance leases	**142.1**	104.1
	858.0	797.0

10. 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.

	2009 £m	2008 £m
Non-current assets		
Fuel derivatives – cash flow hedge	**55.3**	51.8
Cross currency swaps – net investment hedge	**0.4**	-
	55.7	51.8

	2009 £m	2008 £m
Current assets		
Fuel derivatives – cash flow hedge	**17.2**	10.0

	2009 £m	2008 £m
Current liabilities		
Interest rate swaps – cash flow hedge	**2.9**	0.9
Forward foreign currency contracts – cash flow hedge	**-**	0.7
Fuel derivatives – cash flow hedge	**13.3**	65.9
Cross currency swaps – net investment hedge	**35.9**	31.3
	52.1	98.8

	2009 £m	2008 £m
Non-current liabilities		
Interest rate swaps – cash flow hedge	**10.7**	8.2
Fuel derivatives – cash flow hedge	**0.4**	17.2
Cross currency swaps – net investment hedge	**5.8**	58.6
	16.9	84.0

11. Retirement benefit obligations

The amounts recognised in the income statement, in relation to defined benefit pension schemes, are as follows:

	2009	2008
	£m	£m
Current service costs	**14.4**	24.3
Interest cost	**51.7**	54.7
Expected return on assets	**(50.4)**	(63.8)
Exceptional item – curtailment gain (see note 1)	**(46.8)**	-
Past service cost	**0.4**	-
	(30.7)	15.2

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

	Group Schemes 2009 £m	Railway Pension Scheme 2009 £m	**2009 £m**	2008 £m
Present value of funded obligations	(715.5)	(421.3)	**(1,136.8)**	(908.7)
Fair value of plan assets	627.8	292.6	**920.4**	768.8
Deficit	(87.7)	(128.7)	**(216.4)**	(139.9)
Deficit relating to scheme members	-	51.5	**51.5**	20.6
Rail franchise adjustment	-	65.1	**65.1**	-
Unrecognised asset	-	-	**-**	(0.8)
Net deficit recognised in the balance sheet	(87.7)	(12.1)	**(99.8)**	(120.1)

12. Notes to the group cash flow statement

(a) Reconciliation of net debt

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

(b) Reconciliation of operating profit to cash generated from operations

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

(c) Analysis of net debt

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

13. Financial information

The unaudited financial information set out above does not constitute the group's statutory accounts, within the meaning of section 434 of the Companies Act 2006, for the year ended 31 December 2009. While the financial information included in this preliminary announcement has been computed in accordance with EU endorsed International Financial Reporting Standards (IFRS), International Financial Reporting Interpretations Committee (IFRIC) interpretations and the Companies Act 2006 applicable to companies reporting under IFRS, this announcement itself does not contain sufficient information to comply with the above. The group expects to publish full financial statements that comply with EU endorsed IFRS, IFRIC interpretations and the Companies Act 2006 applicable to companies reporting under IFRS in March 2010.

The financial information for the year ended 31 December 2008 is derived from the latest statutory accounts which have been delivered to the Registrar of Companies. The report of the auditors on those filed accounts was unqualified and did not contain a statement under section 237(2) and (3) of the Companies Act 1985.

Except as detailed below, the accounting policies adopted are consistent with those set out on pages 73 to 77 in the group's Annual Report and Accounts 2008.

The following new standards, amendments to standards or interpretations are mandatory for the first time for the financial year beginning 1 January 2009 and have impacted on the preliminary announcement:

- IAS1 (Revised) 'Presentation of financial statements'. The group has adopted the two statement approach and presented separately the Group Income Statement and the Group Statement of Comprehensive Income. There was no impact on the financial position or performance of the group.

New standards, amendments to standards or interpretations that are mandatory for the first time for the financial year beginning 1 January 2009, which are not disclosed above, have no material impact on the preliminary announcement.

The preliminary announcement was approved by the Board of Directors on 2 March 2010.