ARRIVA TRAINS WALES/TRENAU ARRIVA CYMRU LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2010

ARRIVA TRAINS WALES/TRENAU ARRIVA CYMRU LIMITED

FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2010

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ARRIVA TRAINS WALES/TRENAU ARRIVA CYMRU LIMITED

OFFICERS AND PROFESSIONAL ADVISERS

The board of directors	R W Holland D C J Applegarth A Furlong T S Bell I P Bullock M D Bagshaw D H Baker P J Leppard P North L M Milligan
Company secretary	E A Thorpe
Registered office	St Mary's House 47 Penarth Road Cardiff CF10 5DJ
Independent auditors	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors 89 Sandyford Road Newcastle upon Tyne NE1 8HW

COMPANY REGISTRATION NUMBER 04337645

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

Principal activities

The principal activity of the company during the year was the operation of passenger railway services.

Results and dividends

Details of the results for the year are set out on page 6. The profit for the financial year ended 31 December 2010 was £12,621,000 (2009: £10,189,000).

The company paid a dividend of £11,000,000 during the year (2009: £10,000,000).

On 27 August 2010, the company's ultimate parent company changed from Arriva Plc to Deutsche Bahn AG.

Business review and future developments

The directors believe that the company continues to be in an excellent position to continually develop and improve the rail services in Wales. During 2010 the company continued to secure investment in stations, fleet and services through partnerships and liaison with its stakeholders.

The company's aim is to meet or exceed expectations of all stakeholders without detriment to service quality and levels. The company has a strong track record and will continue to demonstrate its determination and ability to deliver.

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.

Financial risk management objectives and policies

Details of financial risk management objectives and policies are shown in the annual report of the UK intermediate parent company, Arriva Plc, which does not form part of this report.

Principal risks and uncertainties

The management of the business and the execution of the company's strategy are subject to a number of risks.

Major incidents

As with any operator of public transportation there is the risk that the company is involved in a major incident, which could result in injuries to the public or staff. Resulting risks include damage to the company's reputation and possible claims against the company.

Turnover

Risks and uncertainties affecting the company are considered to relate to local and national competition and factors which could cause a decline in the market.

Breach of franchise

The company is required to comply with certain conditions as part of its franchise agreement. If it fails to comply with these conditions it may be liable to penalties or the potential termination of the franchise. Compliance with franchise conditions are closely managed to minimise the risk of non compliance.

Further discussion of these risks and uncertainties in the context of the group as a whole, is provided in the annual report of Arriva Plc which does not form part of this report.

Key performance indicators

The directors of Deutsche Bahn AG manage the group's operations on a divisional basis. For this reason, the company's directors believe that analysis using key performance indicators for the company is not necessary or appropriate for an understanding of the development, performance or position of the business of Arriva Trains Wales/Trenau Arriva Cymru Limited. The development performance and position of the group, including this company, is discussed in the group's annual report which does not form part of this report.

Directors

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

D C J Applegarth	
R W Holland	
A Furlong	
T S Bell	
I P Bullock	
M D Bagshaw	
D H Baker	
P J Leppard	
P North	
L M Milligan	appointed 1 October 2010

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the 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 financial statements, the directors are required to:

• select suitable accounting policies and then apply them consistently;
• make judgements 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 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 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.

Policy on the payment of creditors

The company's policy regarding the payment of suppliers is to agree terms of payment at the start of business with each supplier to ensure that the supplier is made aware of the payment terms, and to pay in accordance with its contractual or legal obligations. At 31 December 2010 the company's trade creditors outstanding represented approximately 56 days' purchases (2009: 44 days).

Disabled employees

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

Employee involvement

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

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

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

Disclosure of information to auditors

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

By order of the board

Thorpe

E A Thorpe
Company secretary

20 April 2011

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ARRIVA TRAINS WALES/TRENAU ARRIVA CYMRU LIMITED

YEAR ENDED 31 DECEMBER 2010

We have audited the financial statements of Arriva Trains Wales/Trenau Arriva Cymru Limited 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 3, 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 profit 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

Bill MacLeod (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Newcastle Upon Tyne
21 April 2011

ARRIVA TRAINS WALES/TRENAU ARRIVA CYMRU LIMITED

PROFIT AND LOSS ACCOUNT

YEAR ENDED 31 DECEMBER 2010

	Note	2010 £000	2009 £000
Turnover			
Passenger income		95,515	87,577
Franchise payments		136,901	134,783
Other income		25,947	23,911
Total Turnover	2	258,363	246,271
Cost of sales		(225,548)	(219,897)
Gross profit		32,815	26,374
Administrative expenses		(17,478)	(12,547)
Operating profit	3	15,337	13,827
Interest receivable and similar income	6	572	418
Other finance income/(charge)	17	1,600	(180)
Profit on ordinary activities before taxation		17,509	14,065
Tax on profit on ordinary activities	7	(4,888)	(3,876)
Profit for the financial year	19	12,621	10,189

All amounts relate to continuing operations.

There is no difference between the profit on ordinary activities before taxation and the profit for the financial year stated above, and their historical cost equivalents.

The notes on pages 9 to 19 form part of these financial statements

ARRIVA TRAINS WALES/TRENAU ARRIVA CYMRU LIMITED

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

YEAR ENDED 31 DECEMBER 2010

	Note	2010 £000	2009 £000
Profit for the financial year	19	12,621	10,189
Actuarial (loss)/gain on pension scheme	17	(4,307)	4,541
Movement on deferred tax relating to actuarial (loss)/gain	16	1,107	(1,271)
Total recognised gains relating to the year		9,421	13,459

The notes on pages 9 to 19 form part of these financial statements

ARRIVA TRAINS WALES/TRENAU ARRIVA CYMRU LIMITED

BALANCE SHEET

AS AT 31 DECEMBER 2010

	Note	2010 £000	2009 £000
Fixed assets			
Intangible assets	10	6,400	7,200
Tangible assets	11	15,876	14,994
		22,276	22,194
Current assets			
Stocks	12	1,389	1,226
Debtors	13	28,125	28,539
Cash at bank and in hand		54,749	39,662
		84,263	69,427
Creditors: Amounts falling due within one year	14	(76,042)	(67,533)
Net current assets		8,221	1,894
Total assets less current liabilities		30,497	24,088
Creditors: Amounts falling due after more than one year	15	(8,340)	(2,859)
Provisions for liabilities			
Deferred taxation	16	-	(39)
Net assets excluding pension deficit		22,157	21,190
Pension deficit	17	(7,208)	(4,662)
Net assets including pension deficit		14,949	16,528
Capital and reserves			
Called up share capital	18	5,000	5,000
Profit and loss account	19	9,949	11,528
Total shareholders' funds	20	14,949	16,528

These financial statements were approved by the directors on 20 April 2011 and were signed on their behalf by:

A Furlong
Director

The notes on pages 9 to 19 form part of these financial statements

1. Accounting policies

Basis of accounting

These financial statements are prepared on the going concern basis, under the historical cost convention, 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.

Cash flow statement

The company is a wholly-owned subsidiary of Deutsche Bahn AG and the ultimate parent company has prepared a group cash flow statement. Accordingly, under Financial Reporting Standard 1 (Revised 1996) 'Cash Flow Statements', the company is exempt from preparing a cash flow statement.

Turnover

Passenger income represents amounts agreed as attributable to the company by the income allocation systems of Rail Settlement Plan Limited mainly in respect of passenger receipts. Income is attributed based principally on models of certain aspects of passengers' travel patterns and to a lesser extent from allocations agreed for specific revenue flows. The attributed share of season ticket income is deferred within creditors and released to the profit and loss account over the period of the relevant season ticket.

Franchise payments relate to amounts receivable from the Welsh Assembly Government and the Department for Transport. Income is accrued where it is earned in an earlier period to that in which it is billed or received in cash. Income is deferred where it is received in an earlier period than that to which it relates.

Other income is derived from commissions, rental income, train maintenance and sub-leasing, and other services excluding value added tax. It is recognised in the profit and loss account on an accruals basis.

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 on a straight-line basis to write off the cost of fixed assets, less their residual values, over their expected useful economic lives as follows:

Plant and machinery, fixtures and fittings	-	1 to 5 years
Rolling stock	-	up to 35 years

Intangible assets

Intangible assets relate to the right to operate the Arriva Trains Wales Franchise. The assets are capitalised at cost at the start of the franchise and are amortised on a straight-line basis over 15 years, that being the life of the franchise agreement.

Capital grants

Capital grants are credited to deferred income on the balance sheet and released to the profit and loss account over the estimated useful economic lives of the related assets.

Leases

Rentals under operating leases are charged to the profit and loss account as they are incurred.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

A net deferred tax asset is recognised as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted.

1. Accounting policies (continued)

Deferred taxation (continued)

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on an undiscounted basis.

Stock

Stocks are valued at the lower of cost and net realisable value. Where necessary, provision is made for obsolete, slow moving and defective stocks.

Pensions

Certain employees of Arriva Trains Wales/Trenau Arriva Cymru Limited participate in funded defined benefit schemes, which form part of the overall Railways Pension Scheme ('RPS'). Employees also participate in a defined contribution scheme operated by the intermediate parent company, Arriva Plc.

The liability recognised in the balance sheet in respect of the defined benefit pension scheme is the present value of the defined benefit obligation at the balance sheet date less the fair value of the plan assets, together with adjustments for unrecognised past service costs. The deficit disclosed for the RPS represents 60 per cent of the full liability of the relevant sections of the RPS, in accordance with trustee guidelines which detail how the scheme surpluses and shortfalls are shared between the employer and scheme members. Only the net deficit or net surplus that the company expects to fund or recover over the life of the franchise is recognised. The defined benefit obligation is calculated using the projected unit credit method. Formal actuarial valuations are carried out on a triennial basis, with updated calculations being prepared at each balance sheet date 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 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. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are credited or charged to reserves in the period they arise.

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

Dividends

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

2. Turnover

The turnover was derived from the company's principal activity which was carried out wholly in the UK, and includes £16,474,000 of Rail Passenger Partnership Funding (2009: £16,453,000).

3. Operating profit

Operating profit is stated after charging/(crediting):

	2010	2009
	£000	£000
Amortisation of intangible fixed assets	800	800
Amortisation of fixed assets grants	(1,186)	(844)
Depreciation of tangible fixed assets	3,039	2,882
Auditors' remuneration		
- audit fees	9	16
- other services	121	11
Operating lease rentals:		
- rolling stock charges	36,650	36,426
- land and building charges	12,335	11,158
- track access charges payable to Network Rail Infrastructure Limited	47,884	52,879

4. Staff costs

The average monthly number of staff employed by the company during the financial year by activity amounted to:

	2010 Number	2009 Number
Drivers	619	632
Engineering	210	214
Administration	284	303
Operations	896	905
	2,009	2,054

The aggregate payroll costs of the above were:

	2010 £000	2009 £000
Wages and salaries	68,313	67,051
Social security costs	4,808	4,861
Other pension costs	5,120	5,444
	78,241	77,356

5. Directors' emoluments

The directors' aggregate emoluments in respect of qualifying services were:

	2010 £000	2009 £000
Aggregate emoluments	816	861
Employers' pension contributions	86	86
	902	947

Retirement benefits are accruing to 7 directors (2009: 7) under defined benefit schemes.

Emoluments of highest paid director:

	2010 £000	2009 £000
Aggregate emoluments	182	175
Employers' pension contributions	19	19
	201	194

Benefits are accruing under a defined benefit pension scheme and, at the year end, the accrued pension amounted to £62,466 (2009: £66,164).

6. Interest receivable and similar income

	2010 £000	2009 £000
Bank interest receivable	572	418

7. Tax on profit on ordinary activities

(a) Analysis of charge in the year

	2010 £000	2009 £000
Current tax:		
In respect of the year:		
UK corporation tax	**4,896**	3,967
Adjustment in respect of prior years	**(41)**	(381)
Total current tax (note 7 (b))	**4,855**	3,586
Deferred tax:		
Origination and reversal of timing differences	**12**	(29)
Adjustment in respect of prior years	**21**	319
Total deferred tax (note 16)	**33**	290
Tax on profit on ordinary activities	**4,888**	3,876

(b) Factors affecting current tax (credit)/charge

The tax assessed for the year is lower (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
Profit on ordinary activities before taxation	**17,509**	14,065
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 28% (2009: 28%)	**4,903**	3,938
Effects of:		
Capital allowances less than depreciation	**248**	213
Other short term timing differences	**(254)**	(184)
Adjustment in respect of prior years	**(41)**	(381)
Other	**(1)**	-
Total current tax (note 7 (a))	**4,855**	3,586

(c) 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.

8. Operating lease and similar commitments

The company has signed contracts with Network Rail Infrastructure Limited for access to the railway infrastructure (track, stations and depots).

At 31 December 2010, the company has the following annual commitments due under operating leases and similar commitments, including access to the railway infrastructure, which expire as follows:

	Land and buildings £000	Rolling stock £000	Track access charges £000	**Total £000**
Within one year	7	-	-	**7**
5 years and over	11,450	38,068	48,227	**97,745**
	11,457	38,068	48,227	**97,752**

At 31 December 2009, the company has the following annual commitments due under operating leases and similar commitments, including access to the railway infrastructure, which expire as follows:

	Land and buildings £000	Rolling stock £000	Track access charges £000	**Total £000**
Within one year	6	-	-	**6**
5 years and over	10,976	36,464	48,953	**96,393**
	10,982	36,464	48,953	**96,399**

9. Dividends

The following dividends have been paid in respect of the year:

	2010 £000	2009 £000
Final dividend on £1 ordinary shares of £2.20 per share (2009: £2.00 per share)	**11,000**	10,000

10. Intangible assets

	Intangibles £000
Cost	
At 1 January 2010 and at 31 December 2010	**12,000**
Accumulated amortisation	
At 1 January 2010	4,800
Charge for the year	800
At 31 December 2010	**5,600**
Net book value	
At 31 December 2010	**6,400**
At 31 December 2009	7,200

Intangible assets relate to the right to operate the Arriva Trains Wales Franchise.

11. Tangible assets

	Rolling stock £000	Plant and machinery, fixtures and fittings £000	Total £000
Cost			
At 1 January 2010	1,135	27,583	28,718
Additions	1,633	2,294	3,927
Disposals	(25)	(217)	(242)
At 31 December 2010	**2,743**	**29,660**	**32,403**
Accumulated depreciation			
At 1 January 2010	521	13,203	13,724
Charge for the year	223	2,816	3,039
Disposals	(18)	(218)	(236)
At 31 December 2010	**726**	**15,801**	**16,527**
Net book value			
At 31 December 2010	**2,017**	**13,859**	**15,876**
At 31 December 2009	614	14,380	14,994

12. Stocks

	2010 £000	2009 £000
Raw materials and consumables	**1,389**	1,226

13. Debtors

	2010 £000	2009 £000
Trade debtors	**13,584**	14,505
Amounts owed by group undertakings	**99**	99
Other debtors	**2,227**	2,250
Deferred taxation (note 16)	**182**	-
Prepayments and accrued income	**12,033**	11,685
	28,125	28,539

14. Creditors: Amounts falling due within one year

	2010 £000	2009 £000
Trade creditors	**23,067**	18,200
Amounts owed to group undertakings	**4,166**	643
Other taxation and social security	**2,483**	2,856
Other creditors	**4,014**	4,039
Corporation tax	**4,896**	3,967
Accruals and deferred income	**37,416**	37,828
	76,042	67,533

15. Creditors: Amounts falling due after more than one year

	2010 £000	2009 £000
Accruals and other deferred income	**8,340**	2,859

16. Deferred taxation

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

	2010 £000	2009 £000
Accelerated capital allowances	**(22)**	(225)
Other timing differences	**204**	186
Deferred tax asset/(liability) excluding that relating to pension liability	**182**	(39)
Deferred tax relating to pension liability	**2,666**	1,813
Total deferred tax asset	**2,848**	1,774

The movement in the deferred tax balance during the year was:	**Total** **£000**
At 1 January 2010	1,774
Deferred tax credited to the profit and loss account (note 7 (a))	(33)
Deferred tax charged to the statement of total recognised gains and losses	1,107
At 31 December 2010	**2,848**

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

	£000
Deferred tax liability at 1 January 2010 (note 13)	(39)
Charged to profit and loss account	221
Deferred tax provision at 31 December 2010	**182**

17. Pensions

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

The directors believe that separate consideration should be given to the RPS under FRS 17 'Retirement benefits' as the company has no rights or obligations in respect of the scheme following the expiry of the franchise. This is accounted for by way of a franchise adjustment, which increased from £29,340,000 at 31 December 2009 to £42,162,000 at 31 December 2010.

The calculations used to assess the FRS 17 'Retirement benefits' liabilities of the company's sections of the RPS are based on the most recent actuarial valuations, updated by qualified independent actuaries to 31 December 2010. The scheme's assets are stated at their market value at 31 December 2010.

The following financial assumptions have been used:

	2010	2009	2008	2007
	%	%	%	%
Rate of increase in salaries	**4.5**	4.5	3.8	4.2
Rate of increase in pensions in payment	**3.1**	3.1	2.7	3.0
Rate of increase in deferred pensions	**3.5**	3.5	2.8	3.2
Discount rate	**5.3**	5.7	6.6	5.9
Inflation assumption	**3.5**	3.5	2.8	3.2

The weighted average life expectancy for mortality tables to determine benefit obligations:

		2010	2009
		Years	Years
Member age 65 (current life expectancy)	- male	**17**	17
	-female	**19**	19
Member age 45 (life expectancy at age 65)	- male	**18**	18
	-female	**20**	20

The fair value of the assets in the RPS sections and the expected rate of return, the present value of the related liabilities and the resulting deficit are:

		2010		2009		2008
	Long-term rate of return expected	**Value**	Long-term rate of return expected	Value	Long-term rate of return expected	Value
	%	**£000**	%	£000	%	£000
Equities	**8.00**	**148,160**	8.25	111,900	7.75	93,000
Bonds	**5.10**	**7,800**	5.90	13,600	5.50	10,300
Other	**6.60**	**-**	6.50	10,900	6.40	11,500
Total market value of assets		**155,960**		136,400		114,800
Present value of scheme liabilities		**(242,687)**		(196,115)		(134,256)
Deficit in the scheme		**(86,727)**		(59,715)		(19,456)
Deficit relating to scheme members		**34,691**		23,900		7,782
Rail franchise adjustment		**42,162**		29,340		-
		(9,874)		(6,475)		(11,674)
Related deferred tax asset		**2,666**		1,813		3,269
Net pension deficit		**(7,208)**		(4,662)		(8,405)

The deficit disclosed for the RPS represents 60 per cent of the full liability of the relevant sections of the RPS, in accordance with trustee guidelines which detail how the scheme surpluses and shortfalls are shared between the employer and scheme members and is stated after the recognition of a franchise adjustment as detailed above.

17. Pensions (continued)

The directors' assessment of the expected returns is based on historical return trends, the forward looking views of financial markets (suggested by the yields available) and the views of investment organisations.

The costs of the scheme for the year were as follows:

Analysis of the amount charged to operating profit:

	2010 £000	2009 £000
Current service cost	(6,766)	(4,900)
Past service cost	-	(400)
Total operating charge	(6,766)	(5,300)

Analysis of the amount charged to other finance credit/(charge):

	2010 £000	2009 £000
Expected return on assets in the scheme	6,720	5,340
Interest on liabilities	(7,020)	(5,520)
Interest on rail franchise adjustment	1,900	-
Other finance income/(charge)	1,600	(180)

Analysis of the amount recognised in the statement of total recognised gains and losses:

	2010 £000	2009 £000
Difference between expected and actual return on assets	3,036	5,580
Effect of changing the financial assumptions	(18,265)	(30,379)
Rail franchise adjustment	10,922	29,340
Actuarial (loss)/gain	(4,307)	4,541

An analysis of the movements in the present value of defined benefit obligations for the year ended 31 December is as follows:

	2010 £000	2009 £000
At 1 January	(196,115)	(134,256)
Current service cost	(6,766)	(4,900)
Members contributions paid	(3,227)	(3,562)
Interest cost *	(11,700)	(9,200)
Benefits paid	6,000	6,300
Past service cost	-	(400)
Actuarial loss *	(30,879)	(50,097)
At 31 December	(242,687)	(196,115)

An analysis of the movements in the fair value of scheme assets for the year ended 31 December is as follows:

	2010 £000	2009 £000
At 1 January	136,400	114,800
Expected return on plan assets *	11,200	8,900
Total contributions	9,300	9,700
Benefits paid	(6,000)	(6,300)
Actuarial gain *	5,060	9,300
At 31 December	155,960	136,400

The actual gain on plan assets* was £16,260,000 (2009: gain of £18,200,000).

* Before RPS shared cost adjustment

17. Pensions (continued)

The movement in the present value of defined benefit obligations and in the fair value of the scheme assets do not take into account the shared cost nature of the RPS. The profit and loss account and the statement of recognised gains and losses include 60 per cent of the relevant RPS amounts.

Cumulative actuarial gains and losses recognised in equity:

	2010	2009
	£000	£000
At 1 January	**3,612**	(929)
Actuarial (loss)/gain recognised in the year	**(4,307)**	4,541
At 31 December	**(695)**	3,612

History of experience gains and losses:

	2010	2009	2008
Experience adjustments on scheme assets:			
- Amounts (£000)	**3,036**	5,580	(29,320)
- Percentage of scheme assets (%)	**3.2**	6.8	42.6
Experience adjustments on scheme liabilities:			
- Amounts (£000)	**(720)**	(240)	-
- Percentage of scheme liabilities (%)	**0.5**	0.2	-

The company expects to make contributions of approximately £6.5 million to the defined benefit scheme during the next financial year.

18. Called up share capital

Authorised share capital:

	2010	2009
	£000	£000
5,000,000 ordinary shares of £1 each	**5,000**	5,000

Allotted and fully paid:

	2010		2009	
	Number	**£000**	Number	£000
Ordinary shares of £1 each	**5,000,000**	**5,000**	5,000,000	5,000

19. Reserves

	Profit and loss account 2010 £000
Balance brought forward	11,528
Profit for the financial year	12,621
Dividends (note 9)	(11,000)
Actuarial loss on pension scheme	(4,307)
Deferred tax relating to actuarial loss	1,107
Balance carried forward	**9,949**

20. Reconciliation of movements in shareholders' funds

	2010 £000	2009 £000
Profit for the financial year	**12,621**	10,189
Dividends (note 9)	**(11,000)**	(10,000)
Actuarial (loss)/gain on pension scheme	**(4,307)**	4,541
Deferred tax relating to actuarial (loss)/gain	**1,107**	(1,271)
Net (decrease)/increase in shareholders' funds	**(1,579)**	3,459
Opening shareholders' funds	**16,528**	13,069
Closing shareholders' funds	**14,949**	16,528

21. Derivatives

The company had fuel hedges in place throughout the year and the fair value of these as at 31 December 2010, which has not been recognised in these financial statements, was an asset of £2,027,555 (2009: £681,405).

22. Ultimate parent company

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 Trains Wales/Trenau Arriva Cymru Limited. 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 Trains Wales/Trenau Arriva Cymru Limited can be found at their registered address St Mary's House, 47 Penarth Road, Cardiff, CF10 5DJ.

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.