A Journey in Time
Annual Report & Accounts 2007

ARRIVA

347103

highlights

Group

Revenue up 16 per cent to £2 0 billion

Operating profit up 7 per cent at £128 0 million

Adjusted EPS[†] up 5 per cent to 46 5 pence

Final dividend up 10 per cent to 17 06 pence, giving a total dividend for the year of 22 65 pence

Group order book up 79 per cent to £12 0 billion

EBITDA up 7 per cent to £249 2 million

Divisional

- Strong UK Bus performance despite fuel price rises, operating profit up 16 per cent, customer satisfaction improved
- Smooth CrossCountry start, Arriva established as a leading UK rail operator
- Excellent improvements in operational performance and customer satisfaction at Arriva Trains Wales
- Double-digit mainland European growth driven by new contracts, acquisitions and investments 23 per cent revenue growth, and 15 per cent operating profit growth[††]

* From continuing operations
† From continuing operations and before goodwill impairment, intangible asset amortisation and exceptional items
†† Before goodwill impairment and intangible asset amortisation and including share of associated companies revenue and operating profit

a journey in time

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ARRIVA

Hold on tight

Arriva is a fast-moving business on an exciting journey

Already carrying people on more than one billion passenger journeys every year on buses, trains, commuter coaches and water buses, we have the vision of being recognised as the leading transport services provider in Europe We want that recognition in the eyes of our customers, ranging from private individuals to public authorities and commercial businesses, and in the eyes of our many and varied stakeholders

To our passengers, we aim to provide safe, reliable and comfortable services that deliver an attractive alternative to other modes of transport, including car use, for at least some of the journeys they make

To the public authorities which bear political accountability for transport, and which understand the benefits of private sector delivery, we aim to provide value for money for the services their communities require, affording the public body the freedom to choose the right blend of improved services and/or lower public spending

To our employees, we aim to provide worthwhile long-term employment, running services which are important to their own communities, in a safe, supportive working environment which encourages learning

To the wider community, in every city, region or country where we operate, we aim to provide the social and economic benefits of affordable, accessible travel, and responsible management of the environmental impact that inevitably comes from moving large numbers of people

To our investors, we aim to provide growth in earnings based on a varied portfolio of business models, a mixture of contract sizes, types and durations, a range of transport modes and a broad range of operating territories

Our commercial focus is on winning and retaining contracts, by utilising the expertise and experience gained from 10 years of operating across Europe, generating organic growth and making acquisitions, underpinned by excellent operational performance

We aim to improve our performance and our reputation, year-on-year, by delivering better services and by trying new things

Arriva's operations include a mixture of cash-generative businesses in mature markets, and growth businesses in liberalising markets Individually, each of the divisions - mainland Europe, UK Trains and UK Bus - has attractive features Taken together, they form a blend of resilient market positions and exciting growth opportunities which is arguably unique amongst UK-based passenger transport operators

With its experience of providing high quality transport, its unrivalled network of relationships across Europe, and a wealth of opportunity in all its divisions, Arriva is building on its past, delivering in the present and is well positioned for the future

UK

In the UK, where our administrative headquarters are located and where our shares are listed, we are well known as one of the leaders of the urban and inter-urban bus industry, and a substantial, high quality operator in the UK rail industry

UK Bus

Having experienced long-term losses of patronage before its privatisation in the mid 1980s, the UK commercial bus market has recently shown encouraging signs of patronage growth In Arriva's case, this has come as a result of customer focused marketing and service delivery We have had to maintain a tight control on costs despite the inexorable increase in fuel costs and widespread traffic congestion In part this has been achieved by creative thinking about how best to use, and invest in, our employees and our depot infrastructure

Within the deregulated UK Regions business, which is about two-thirds of the division, our strategy is to listen to our customers, to design and operate services that they most value, and work closely with local Government to achieve our shared agenda of reducing society's reliance on the motor car

London Bus, which represents around a third of the division, is more similar to the many mainland European markets we operate in It is a mature, competitive, tendered market which the transport authority, Transport for London (TfL), expects to grow steadily in real terms, expanding 40 per cent on 2007 levels, by 2025 (TfL 2025 Vision) Our market share has been consistently close to 20 per cent for many years and our strategy is to continue to compete successfully to maintain and, where possible, improve that share in a growing market

UK Trains

The UK rail industry is characterised by small numbers of large franchises - much larger than typical rail contracts in mainland Europe Arriva now holds two UK franchises, operating as Arriva Trains Wales, and CrossCountry In both cases good operational performance is key to delivering a sound financial performance

Arriva Trains Wales, which holds its franchise until 2018, is aiming for steady development The potential revenue impact of strong passenger demand is limited by the substantial Government support payments which form around 70 per cent of the revenues for the franchise, which is unable to cover its costs on a fully commercial basis on the services it is contracted to run

Our success in winning CrossCountry, the UK's most extensive rail franchise, which we began operating in November 2007, will approximately treble the size of the division in a full financial year Our stakeholder research has helped us to pinpoint important areas where we can improve the passenger experience, make the business more efficient, market more effectively and support growth in passenger numbers by increasing seating capacity We plan to increase seating capacity by 35 per cent in the critical evening peak on principal routes by June 2009

Mainland Europe

Mainland Europe is Arriva's long-term growth engine The total passenger transport market for the EU27 countries is believed to exceed €200 billion in annual revenue Historically, surface transport services in most of Europe have been delivered predominantly by the public sector and the industry is in the early stages of a major transformation towards private-sector delivery Against this backdrop we are confident of meeting our medium-term objective of doubling mainland Europe revenue from 2006 levels by 2011

A decade of building Arriva's presence, extending to towns and cities in nine mainland European countries, has established an invaluable network of contacts and relationships, a rich portfolio of depots and businesses, and above all a depth of market understanding and knowledge that simply cannot be replicated easily or quickly

In some countries we are amongst the market leaders, in others we are growing from a small base We always enter a national market with the aim of becoming one of the leading operators in that country, when conditions are right

Many of the organisations that have become part of Arriva have long histories of their own Arriva frequently spends months or years developing relationships and dialogues with such organisations, building their confidence and comfort with the benefits of becoming part of a larger whole

A firm plank of our mainland European strategy is to have every business headed by a management team drawn from the community it serves with access to a wider pool of opportunities than they could realise on their own - for investing in their business, for sharing and developing innovation and best practice, and for seeing their best ideas influence their fellow Arriva managers across the rest of the business

How we work

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

Deregulated services

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

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

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

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

Contracted services

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

The main variations include

Gross cost contracts

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

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

The UK London bus business, some of the rail operations in Germany and bus contracts in Denmark, are examples of where Arriva operates gross cost contracts

Net cost contracts

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

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

UK rail franchises and bus and rail contracts in the Netherlands are examples of where Arriva operates within this form of business model

A new day, a new journey

Our sources of competitive advantage are not easy for others to replicate Our broad footprint in mainland Europe gives us deep market understanding and practical experience of operating successfully in many different commercial and regulatory regimes Bringing together experts from many regions and city-scale operations into one group supports innovation and helps us to spread best practice and identify economies of scale Our wealth of local contacts and our network of operating and maintenance bases help us to develop existing businesses and to develop new opportunities for the future

Thomas Becken, 40, is managing director of operations for Arriva in Germany Thomas joined Arriva in 2004 when we acquired the Prignitzer Eisenbahn (PEG) train company which he founded

"I was introduced to Arriva when I heard they were looking to enter the German transport market I was impressed with their approach of developing existing local management, whilst providing investment support to enable growth This, and the open way of working, convinced me to offer my company to Arriva By working with Arriva, PEG has been able to grow further, and now benefits from being part of the second largest private transport group in Germany"

Mr Ioan Evans and his wife Janet from Cwmcelyn in Blaenau Gwent, who are retired, were travelling on the new Arriva Trains Wales Ebbw Valley service to Cardiff

"We are impressed with the new train service from the Ebbw Valley, and plan to use it regularly It means we can get to Cardiff to go shopping so much more quickly than before"

Sergio Cecotti is the Mayor of Udine in Italy Arriva owns a 60 per cent stake in Italian bus company SAF, with the Municipality of Udine holding 21 per cent via its subsidiary Udine Servizi SpA

"The reason for this partnership was the need to improve and develop our transport services by working with a major player in the local public transport business, both from a structural point of view and in terms of know-how We were looking for a public transport partner with an international vision and experienced approach in dealing with both operational and market issues, and we found this in Arriva Arriva has brought innovation and an effective approach in managing the company"

Tony Hewkin, 45, is a bus driver based at Arriva's Selby depot He was winner of the Arriva Yorkshire 'bus driver with the X-factor' competition after local customers voted him their number one driver

"After working in engineering and logistics, I fancied a change of direction and applied to Arriva for a job as a driver Eight years on, I still enjoy providing a valuable service for the public and meeting new people every day It's great to do a job where you can bring a smile to customers' faces, and it was a lovely reward to be voted their favourite driver"

Daniela Torres, 27, is a baker's assistant She lives in Portugal and travels on an Arriva bus from Famalicão to Guimarães each day for work

"Travelling by bus is the only affordable way for me to get to work everyday I don't mind getting the bus - the standard of the buses is good, the staff are nice and friendly, and the services reliable"

Spreading our net

A leading pan-European transport services provider

10 years in mainland Europe

Transport networks across 10 countries

More than a billion passenger journeys each year

15,000 buses*

Almost 500 train sets*

40,000 employees*

Transport markets across Europe are at varying stages of liberalisation As transport markets open up to competitive tendering across mainland Europe we have a host of opportunities to establish and grow our operations As governments see the growing appeal of the money-saving and service enhancing benefits of private passenger transport operators, the future looks bright for spreading our network further across mainland Europe

Our different networks work in different ways, according to whether we operate contracted, or non-contracted business As a result, revenue across the group is derived from a combination of passenger revenue, and non-passenger revenue, which can include support payments from governments
The table below highlights the 2007 revenue split for different parts of the group

	Total revenue £m	Passenger revenue %	Non-passenger revenue %
UK Bus	814 7	51	49
UK Trains - ATW	249 7	30	70
UK Trains - CC	72 7	52	48
Mainland Europe - Bus	608 2	25	75
Mainland Europe - Train	255 4	29	71
Total	2,000 7	38*	62*

* Weighted average

Calling all stations

Arriva now runs public transport services in 10 countries, and spans a wide range of operating environments in locations with varying market characteristics Our experience of bus and rail operations, and our strong local roots across Europe, give us unrivalled expertise and market knowledge as a leading pan-European operator

United Kingdom

Revenue	£1,137 1 million (2006 £1,016 7 million)
Order book	£8 0 billion (2006 £3 3 billion)
Buses	7,000
Train sets	211
Employees	22,550
Entered bus market	1980
Entered rail market	2000
Population	60 5 million
Liberalisation stage	Mature

Bus

We operate approximately 20 per cent of the London market under contract to Transport for London Outside of London we run a predominantly commercial business, with more than 5,000 buses and an approximate market share of 15 per cent

Rail

The UK rail market is competitively tendered, with companies bidding for franchises for set timescales and service provision In November 2007 we started operating the UK's most geographically extensive rail franchise, CrossCountry We also run virtually all trains in Wales

Future

In both the UK regions and London, we aim to maintain our bus market share, whilst working to improve operational performance In rail, we will be concentrating on maintaining and improving the excellent operational performance of our two franchises, as well as putting plans into action at our new CrossCountry business to add capacity and improve the customer experience

Germany

Revenue
£219 2 million (2006 £121 7 million)

Order book
£1 2 billion (2006 £0 9 billion)

Buses
820

Train sets
148

Employees
2,650

Entered rail market
2004

Entered bus market
2005

Population
82 3 million

Liberalisation stage
Emerging

Germany is the largest European transport market

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

Bus

The highly regulated bus market is almost three times as big as the UK's bus market It is hugely fragmented and dominated by state-owned Deutsche Bahn (DB) A substantial proportion of the market is still closed and conditions differ widely between the regions, with the exception of Hesse which has decided on a programme to tender all bus services between now and 2010

Rail

The rail market is also dominated by DB, however 20 per cent of the regional rail network has now been competitively tendered by regional authorities

Future

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

The Netherlands

Revenue
£178.5 million (2006 £172.1 million)

Order book
£1.2 billion (2006 £1.0 billion)

Buses
920

Train sets
50

Employees
2,150

Entered bus market
1998

Entered rail market
1999

Population
16.4 million

Liberalisation stage
Bus mature
Rail emerging

Cross border service to Germany

Italy*

Revenue
£146.8 million (2006 £137.8 million)

Order book
£0.4 billion (2006 £0.4 billion)

Buses
1,950

Employees
2,600

Entered bus market
2002

Population
59.1 million

Liberalisation stage
Bus emerging
Rail yet to liberalise

* including share of associates

Bus

Arriva is one of the top three private sector public transport operators in the Netherlands, with approximately 20 per cent of the regional bus market. The regional bus market is dominated by Connexxion, which was privatised in July 2007, with the government retaining a 33 per cent stake. The four big cities in the Netherlands, Amsterdam, Rotterdam, the Hague and Utrecht, are yet to put concessions out to tender.

Rail

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

Future

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

Bus

The public transport system in Italy is highly subsidised with low fares. With competitive tendering yet to emerge, local and regional authorities in the north of Italy have set up special intermediate arrangements between the public and private sector bus companies, and we are part of this in the Friuli Venezia Giulia region. Arriva is the largest wholly privately owned public transport operator in Italy, with approximately five per cent of the Italian bus market.

Rail

The responsibility for regional rail networks is devolved to local authorities, however early attempts at competitive tendering have failed. The state-owned passenger rail operator, Trenitalia, has an 83 per cent market share, with 26 region-owned operators sharing the remaining 17 per cent.

Future

Liberalisation in Italy is expected to accelerate as the market moves towards competitive tendering. This is an exciting market for us, with much potential.

Czech Republic

Revenue
£7 1 million

Buses
300

Employees
430

Entered bus market
2006

Population
10 2 million

Liberalisation stage
Emerging

Poland

Train sets
7

Employees
60

Entered rail market
2007

Population
38 2 million

Liberalisation stage
Emerging

Bus

Regional government controls route licensing and maximum fares, and individual cities are responsible for urban public transport and its funding There is currently little competitive tendering, and direct award of concessions is not uncommon There are 251 bus companies operating in the market, many of which are the inter-urban CSAD companies that were formed in the 1990s as part of the original privatisation process

Rail

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

Future

There is a gradual move towards competitive bus tendering, particularly in cities such as Prague where the market is growing We have established a base around Prague and are well placed to grow as the market opens up The government has committed to enhancing the role of the private sector in the Czech Republic rail market Regional routes are being transferred to local government and there has been some market testing of passenger concessions by regional and central government

Bus

Since 2003 the regional authorities have had the option of freely selecting transport companies, using invitation to tender procedures, and there are increasing instances of bus tendering and subcontracting in he larger towns and cities The bus market is divided between 167 former state-owned companies providing rural, inter-urban and long-distance transport, and around 140 municipal bus operators operating in towns and cities

Rail

PKP SA (PKP), the state-owned railway company, maintains and invests in infrastructure, hauls 85 per cent of the freight market and operates long distance and regional passenger transport services After entering the market in December 2007, with the start of a three-year rail franchise in the north of the country, the Arriva-PCC joint venture is the only other company currently operating passenger rail services in Poland

Future

As a business experienced in turning around former public sector companies to become successful commercial operations, we expect to grow in this country over coming years

Iberia*

Revenue
£105 4 million (2006 £85 8 million)

Iberia is similar to the UK regional bus market in that it operates on a commercial rather than a contracted basis

Portugal

Buses	1 550
Train sets	6
Employees	3 150
Entered bus market	2000
Population	10 6 million
Liberalisation stage	Bus emerging Rail yet to liberalise

*Including share of associates
Barraqueiro operating area shown in yellow

Spain

Buses	200
Employees	350
Entered bus market	1999
Population	43 7 million
Liberalisation stage	Bus emerging Rail yet to liberalise

Bus
The Portuguese bus market is a regulated market in transition The municipalities are responsible for allocating routes or transport service networks through awarding exclusive concessions to independent operators, or by delivering the services directly Barraqueiro, in which Arriva has a 31 5 per cent interest, is the largest operator, with Arriva third largest

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

Future
Work is under way to alter the legislation in force for bus public transport provision at a regional and national level, and a market changing trial may soon be started with the creation of metropolitan transport authorities in the Lisbon and Oporto metropolitan areas There are no early signs of a move to competitive tendering in the rail market, but when changes do occur, we are well-placed to benefit through the established good reputation of Fertagus

Bus
The urban bus market is operated by private and city-owned companies, whilst the inter-urban and long distance concessions are operated by private companies The market remains fragmented as the 4,000-plus small operators, including a large number of family businesses, between them account for approximately 70 per cent of the market

Rail
The rail market is yet to liberalise, and is dominated by state-owned railway companies RENFE and FEVE State funding is provided for loss-making regional and urban services, and there are no immediate plans to implement competitive tendering

Future
Many bus concessions with exclusive rights over long periods will expire over the next five years, and there is a gradual move towards competitive tendering in some cities, such as Madrid where we have established a position A process of tendering for private operators is planned for future rail services which are now being built, including underground, light rail and tram services

Scandinavia

Revenue
£270 2 million (2006 £234 9 million)

Order book
£1 2 billion (2006 £1 1 billion)

Denmark

Buses	1,900
Train sets	47
Employees	5,150
Entered bus market	1997
Entered rail market	2003
Population	5 4 million
Liberalisation stage	Bus mature Rail mid-liberalisation

Bus
Arriva is the largest private sector public transport operator in Denmark Having acquired Veolia's bus operations in Denmark, the second largest bus operator, in August 2007, Arriva has a market share of approximately 60 per cent in Copenhagen and 50 per cent of the overall market Five passenger transport authorities have the general responsibility for public transport services, including the responsibility for ticket prices, timetables and contract duration in their regions

Rail
Arriva was the first private company to be awarded a rail franchise, and now operates 15 per cent of the regional network The national rail market is dominated by state-owned DSB, accounting for approximately 85 per cent of train kilometres in Denmark

Future
We anticipate improved profitability in the bus market following the exit of Veolia As the top-performing rail operator, with total reliability of 99 0 per cent in 2007, and a good record of passenger satisfaction, we are well-placed to benefit from enhanced levels of rail tendering in this market

Sweden

Buses	370
Train sets	26
Employees	1,050
Entered bus market	1999
Entered rail market	2007
Population	9 1 million
Liberalisation stage	Bus mature Rail mid-liberalisation

Bus
Competitive tendering is well established in the Swedish bus market, after deregulation commenced in the 1980s Arriva has secured a market share of around four per cent, mainly in the south of the country This will increase in late 2008 when Arriva, as the first new entrant into Stockholm in 10 years, begins operating 164 buses in the Swedish capital

Rail
After entering the rail market in June 2007 with the nine-year Pågatåg contract in the Skåne region, we now have approximately a nine per cent share of the short distance train market, by kilometres operated The rail market is dominated by the state-owned operator, Swedish Railways (SJ)

Future
There has been much economic growth in southern Sweden, and the transport markets are benefiting from significant passenger growth We will be working hard to ensure our operations make the most of this passenger growth in both bus and rail In addition, we will be looking to expand our bus operations and build upon our rail presence in Sweden from the platform established with the start of the Pågatåg contract

Acquisitions & investments

January 2008 - acquired a further 10 per cent of Barraqueiro, the leading Portuguese passenger transport operator

January 2008 - announced the acquisition of UK AIM-listed bus, coach and airside passenger transport operator Tellings Golden Miller Group

January 2008 - increased our shareholding in SAIA Trasporti Capital, in the Brescia area of Italy, by acquiring the remaining 12 per cent required to reach 100 per cent ownership of the company

November 2007 - acquired a small Spanish bus operation Autocares Fray Escoba, near Madrid

November 2007 - acquired a small Czech bus company Osnado Spol s r o , with operations near Prague

September 2007 - acquired 49 per cent of SPT Linea in the Lombardy region of northern Italy, as part of a 50/50 joint venture with FMN SpA

August 2007 - acquired the Veolia bus division in Denmark the second largest operator in the market

August 2007 - completed the acquisition of Stagecoach s operations in Darlington UK

March 2007 - acquired an 85 per cent stake (as part of an 86 per cent owned joint venture) of German bus rail and freight operator Osthannoversche Eisenbahnen AG (OHE)

February 2007 - acquired Chase Coaches Limited, based in Staffordshire, UK

January 2007 - announced the acquisition of Spanish bus company Esfera with operations in the Madrid area

January 2007 - acquired our second business in the Czech Republic, Bosak Bus s r o to the south-west of Prague

On track for the future

The order book represents the expected future revenue from public transport contracts already won by the group It tracks estimated revenue over the life of contracted business, based on prices at each year end

The principal areas of the group where contractual arrangements prevail are the bus operations in London, Italy, the Netherlands and Scandinavia, and the rail operations in the UK, Germany, the Netherlands and Scandinavia The other parts of the group, principally UK Regions and Iberia, operate under concessions, licences or other commercial arrangements and are not included in the order book The value of the order book is a key measure for demonstrating the underlying strength and stability of the business

Group order book

Between 2006 and 2007, the group order book has grown 79 per cent, to £12 0 billion These figures are estimates of future revenue from contracted business, over a year in duration, rolled forward to reflect contract variations and updated to current prices at each year end Changes, year-on-year, principally represent future revenue from contract wins or acquired businesses in the year, less the revenue included in the year's results from the contract base

Mainland Europe order book split 2007

Growth in mainland Europe continues to be pleasing The 18 per cent growth in the order book to £4 0 billion is consistent with our target of doubling revenue from 2006 levels in five years Acquisitions, contract wins and contract extensions in the year substantially offset the erosion, over time, of the contracted revenue from contracts in operation

Growth in the bus order book in the mainland Europe division rose 11 per cent to £2 1 billion, whilst growth in the rail order book was up 25 per cent to £1 9 billion

UK Trains order book 2007

The order book increased to £7 3 billion, reflecting the anticipated lifetime revenue for CrossCountry of almost £5 billion in real terms

UK Bus order book - London 2007

The UK Bus order book consists solely of London, as the regional business is not contracted The London order book rose three per cent to £749 million, with growth reflecting four new contracts started in 2007, and three further new contracts due to start in 2008

New contracts

January 2008 - started operating the seven-year Hoeksche Waard and Goeree Overflakkee (HWGO) bus contract to the south of Rotterdam, won in July 2007

December 2007 - began rail operations in Poland as part of the PCC Arriva 50/50 joint venture with a three-year contract in the Kujawsko-Pomorskie Voidvodship region in the north-west of the country

December 2007 - rail subsidiary Metronom began two new franchises in Germany We also began operation of two 10-year rail contracts in southern Germany, and the ODEG operation in which we have a 50 per cent interest, started a two-year rail contract in the centre of the country

December 2007 - started a seven-year bus contract in the Vordertaunus area near Frankfurt Germany

November 2007 - began the transformational CrossCountry rail franchise serving 131 stations across England and Scotland with services extending over 1 650 route miles

June 2007 - started our first Swedish rail contract in the Skåne region in the south of the country

January 2007 - started operating an eight-year bus contract in the East Brabant region of Holland

Contracts yet to start in 2008

June 2008 - our existing operations in the Jonköping area in Sweden have been secured for another eight years with a bus tender won in October 2007 The contract adds extra routes starting in June

December 2008 - the ODEG joint venture will start operating the 10-year Spree-Neisse rail contract in eastern Germany

December 2008 - expanding our footprint in the Frankfurt area we will start operating two five-year bus contracts and a six-year contract

Also in 2008 - in December 2007 we were awarded two five-year bus contracts in Stockholm, Sweden starting later this year

Looking forward

Arriva today, like any business, reflects the strategic choices we have made in the past And while we need to keep a firm grasp on the realities of the present, the future is where we keep our focus on behalf of our passengers, investors and other stakeholders

Population growth, congestion and rising mobility driven by economic growth are combining to create social, political and environmental challenges Public transport is increasingly an important part of the response to these challenges across Europe With expansion into the changing markets of mainland Europe at the heart of our strategy, our future lies in our ability to engage with stakeholders and develop appropriate solutions to their growing needs

In this respect, progress in 2007 has been extremely encouraging We have continued our development through a combination of organic growth, acquisitions and investments throughout 2007 and early 2008 Further acquisitions and tenders are now being pursued actively The groundwork has been laid for further growth in the rest of 2008 and beyond

Arriva has developed a diverse portfolio of operations This diversity limits our dependence on any single market or contract for success and ensures we have excellent knowledge of, and access to, a range of new opportunities across most of Europe

We have reinforced our positions in the UK, Germany, Portugal, Sweden, Denmark, Italy and Spain, and have broken new ground in Poland via a joint venture in that country's first ever private-sector passenger rail contract

The smooth start in November 2007 of CrossCountry, the UK's most geographically extensive rail franchise, established Arriva as one of the UK's leading rail operators, alongside its position as a leading bus operator

The rising awareness of environmental issues goes to the heart of the public debate on the role of transport, on how it provides value for society, and how that society can reconcile mobility with sustainability Our recently-announced target for improving the carbon efficiency of our operations will be demanding, but will protect the long term interests of our investors as well as the communities in which we operate Many fuel efficiency and CO_2 reduction measures bring immediate cost savings, others require us to invest in technology and ways of working that protect and build long-term value

In financial terms, the full year effect of many of our recent successes has yet to be seen Nevertheless, for 2007 I am pleased to report strong growth in revenue, up 16 per cent to £2,000 7 million (2006 £1,729 0 million) and group operating profit up seven per cent to £128 0 million (2006 £119 5 million) Profit before taxation for continuing operations was up five per cent to £115 8 million (2006 £109 8 million), despite the headwinds of increased fuel costs and the significant costs incurred on bidding for three UK rail franchises

Basic earnings per share from continuing operations before goodwill impairment, intangible asset amortisation and exceptional items, our preferred measure, increased to 46 5 pence (2006 44 4 pence)

Even after a year of significant growth through acquisitions as well as contract wins, our financial position has strengthened further Having taken advantage of market conditions in early August by securing a £615 million, five-year, revolving credit facility agreement, on improved terms, the group has the financial capacity to meet its anticipated investment needs within existing cash and medium-term credit resources

Given the strength of the balance sheet, the cash generating power of the business and the prospects for continuing profitable growth, the Board is recommending a significantly higher dividend increase than in previous years We propose to raise the final dividend by 10 per cent, to 17 06 pence per share Together with the interim dividend of 5 59 pence per share paid in October 2007, this makes a proposed total dividend of 22 65 pence per share The final dividend will be paid on 1 May 2008 to all shareholders on the register at the close of business on 28 March 2008

Overall, we believe that the commercial progress achieved in 2007 will be reflected in results during 2008 and beyond In parallel, much work is underway to develop promising contract and acquisition opportunities for the medium term With robust finances, a diverse portfolio, and the momentum provided by our £12 0 billion group order book, Arriva is performing strongly and has built an attractive position for further success

Sir Richard Broadbent
Chairman

Delivery and development

It has been an exciting year of progress in all three divisions which has translated into a strong financial performance, particularly after absorbing increased fuel prices and substantial bidding costs for three UK rail franchises Demand for our services has grown strongly across Europe in 2007, as demonstrated by the growth in our order book

Higher demand goes hand in hand with increasing passenger expectations for safe, reliable and timely services That challenge, shared between operators and transport authorities, is best met by working together to improve delivery, a challenge we are happy to meet

As our transport networks spread across Europe, we are increasingly thinking and acting like a network organisation When we enter a new market the accumulated learning and experience of our new colleagues is connected, not just to a central UK corporate base, but to every Arriva business in every country where we operate Our passengers, our employees and our investors all now benefit from a web of relationships amongst our 40,000 people

The transfer of best practice, the spread of innovation and the achievement of scale economies are no longer piped thinly between small, far-away outposts and a dominant, central UK hub Today, a typical Arriva business development team, an engineering task force or a marketing project group speaks with many accents, is familiar with many European cultures, and can tap into a wealth of knowledge to respond to, and sometimes lead, a changing world

Innovative real-time information systems pioneered in Denmark helped us win a contract in Sweden by showing how we can maintain trains more effectively, and are now being considered for use in the UK, whilst train maintenance best practice in Portugal has influenced the spread of efficient overnight maintenance across the group Our experience using biodiesel in our Berlin bus and rail operations has increased our know-how for running buses in the UK and Portugal on biodiesel blends

Whether in the form of better services, lower prices, improved customer satisfaction or a quicker payback on investment, the benefits of such cross-fertilisation flow to our passengers and tendering authority customers, to our employees, and to our investors

We aim to be amongst the top three private operators wherever we work Our strong financial results are built on a year of excellent operational performance across the group, and there is much to be pleased about in all three divisions

A year of
exciting progress

Divisional results

	Revenue 2007 £m	Revenue 2006 £m	Operating Profit 2007 £m	Operating Profit 2006 £m
UK Bus	**814 7**	762 8	**87 9**	76 0
Mainland Europe*	**927 5**	752 3	**64 5**	56 1
UK Trains	**322 4**	253 9	**7 5**	12 3
Central	**-**	-	**(17 1)**	(13 6)
	2,064 6	1,769 0	**142 8**	130 8
Associated companies - Mainland Europe	**(63 9)**	(40 0)	**(7 4)**	(4 1)
Continuing operations	**2,000 7**	1,729 0	**135 4**	126 7
Goodwill impairment and intangible asset amortisation	**-**	-	**(7 4)**	(7 2)
Group revenue and operating profit	**2,000 7**	1,729 0	**128 0**	119 5

* Including share of associated companies' revenue and operating profit

Mainland Europe

As expected, mainland Europe is now the group's largest division, recording the seventh consecutive year of double-digit increase in revenue Operating profit* rose 15 per cent to £64 5 million (2006 £56 1 million), on revenue* up 23 per cent at £927 5 million (2006 £752 3 million)

The growth in revenue and operating profit in the year has come from acquisitions, investments, contract wins and start-ups The full year impact of investment in the associate company Barraqueiro SGPS SA (Barraqueiro) was positive, but the divisional operating profit margin was diluted by the low operating margin acquisitions of Osthannoversche Eisenbahnen AG (OHE) in Germany and Veolia's bus operations in Denmark, which have considerable scope for improvements Higher fuel costs and bid costs incurred in tendering for the Oresund rail contract in Scandinavia also had some impact The order book for mainland Europe, reflecting estimated revenue over the life of the contracted business, based on prices at the 2007 year end, has grown by 18 per cent, to £4 0 billion

Germany

Operations in Germany have delivered significant growth in 2007, with revenue up 80 per cent to £219 2 million (2006 £121 7 million) Included in these preliminary results is revenue of £81 1 million and operating profit of £2 2 million from OHE, which we acquired in March 2007 OHE operates more than 400 buses and passenger rail in Lower Saxony, as well as rail infrastructure, road and rail freight and port storage A break-even business on acquisition, OHE has integrated well and is performing as expected Through its passenger rail subsidiary, Metronom, OHE is entering the next phase of growth after commencing two new franchises in December 2007, with combined lifetime revenue of approximately €228 million (£166 million) OHE provides much potential for future growth in both passenger transport and rail freight

Tender successes in 2006 have resulted in mobilisation of a number of other contracts In December 2007, we began operation of two 10-year rail contracts in southern Germany, with combined expected lifetime revenue of approximately €370 million (£270 million) In the same month we started a seven-year bus contract near Frankfurt, and ODEG, in which we have a 50 per cent interest, started a small two-year rail contract

In December 2007 and January 2008 we won three further bus contracts, starting in the Frankfurt area later this year, with a combined lifetime revenue of approximately €38 million (£28 million) In December 2008, ODEG will start operating the 10-year Spree-Neisse rail contract, in the east of the country, and in December 2009, we are due to start operating a 12-year rail contract in southern Germany, as part of a 50/50 joint venture with Salzburger Lokalbahn

In 2007 we strengthened management capacity to facilitate our future growth in Germany We will continue to consolidate our businesses, mobilise new contracts, and bid for new work, in addition to pursuing a range of acquisition and investment opportunities

Netherlands

Revenue rose slightly by four per cent to £178 5 million (2006 £172 1 million), reflecting the net impact of won and lost contracts in the Dutch market

2007 was the first full year of the 12-year DAV bus and rail contract started in December 2006 in the central Dordrecht region A €30 million (£22 million) investment in these operations will see the introduction of seven new electric trains by December 2008 We have also invested €16 million (£11 million) in new buses for the eight-year bus contract we began operating in the East Brabant region in January 2007, and have increased patronage following the introduction of a new timetable

Over the course of 2006 and 2007 we started running 43 new trains as part of the 15-year contract to operate rail services in the provinces of Groningen and Friesland, significantly boosting passenger numbers, and as a result expect to receive further funding for the introduction of three more new trains this year

In January 2008, we started operating the Hoeksche Waard and Goeree Overflakkee bus contract to the south of Rotterdam, adjacent to our DAV operations The seven-year contract, won in July 2007, has a one-year extension option, and is expected to generate lifetime revenue of approximately €150 million (£110 million)

Scandinavia

Growth in our Swedish operations helped revenue rise three per cent in 2007, to £242 4 million (2006 £234 9 million), excluding Veolia Denmark The acquisition, in August, of Veolia's Danish business added a further £27 8 million to revenue

We are pleased with our growing presence in the Swedish market Our first Swedish rail contract started smoothly in June The nine-year contract, will generate lifetime revenue of approximately SEK 1 8 billion (£146 million) In December we were awarded two bus contracts in Stockholm, which are scheduled to start later this year Together the two five-year contracts, with five-year extension options, will have a total fleet of 164 buses, and lifetime revenue of approximately SEK 1 5 billion (£122 million) We have also retained and increased our existing operations in the Jonkoping area for another eight years, with a tender won in October 2007 The contract adds extra routes starting in June 2008, and lifetime revenue of approximately SEK 995 million (£81 million)

...seventh consecutive year of double-digit revenue growth in mainland Europe

The contracting environment in Denmark has been challenging for a number of years and there was an underlying decline in the scale of our activities in the Danish bus market as low margins persisted The acquisition of the loss-making Veolia bus division in Denmark, the second largest operator, has given us the opportunity to consolidate our operations, optimise the location of our facilities, implement synergies and improve efficiency Veolia's services, and 640 buses, are now fully integrated into Arriva Scandinavia creating the strongest and largest public transport group in the country Our market share is unlikely to remain at current levels, but we anticipate improved profitability in future as unprofitable contracts expire and margins improve as we bid for new contracts

There is a range of growth prospects in Scandinavia, and in particular we will continue to grow our bus operations in Sweden in 2008

Italy

Revenue, including share of associates, rose seven per cent to £146 8 million (2006 £137 8 million) at our Italian operations

In September 2007, Arriva strengthened its position as the largest wholly private bus operator in the Italian market with the acquisition of 49 per cent of SPT Linea, for €6 8 million (£4 6 million), as part of a 50/50 joint venture with Lombardy-based bus and rail operator Ferrovie Nord Milano Group (FNM SpA) SPT Linea which operates 317 buses in the Lombardy region of northern Italy, was previously wholly publicly owned In January 2008, we increased our shareholding in Brescia-based bus company SAIA Trasporti Capital to 100 per cent

The tender process in Italy is expected to accelerate as the market moves towards competitive tendering, and Arriva is well placed to use its strong network of relationships and growing credentials

Iberia

Operations in Spain and Portugal have reported revenue, including share of associates, up 23 per cent to £105 4 million (2006 £85 8 million), reflecting the full year effect of the 21 5 per cent stake in Barraqueiro acquired in May 2006

In January 2008, we acquired a further 10 per cent of Barraqueiro, the leading Portuguese passenger transport operator for €50 million (£37 million), taking our holding to 31 5 per cent This investment includes an option to re-integrate our Lisbon operation TST, laying a path for further developing Arriva's involvement in Portugal's evolving public transport market Arriva's share of post-tax profit of Barraqueiro in 2007 was £2 9 million

In Spain, we consolidated our strategic position around Madrid with the acquisition of two small bus operators in 2007

In Portugal we are reinforcing our position ahead of a potential market-changing move to tendering of routes in the metropolitan areas of Lisbon and Oporto In Spain, the expiry of concessions with exclusive rights accelerates into 2013, bringing new opportunity, in addition to the possibility of competitive tendering in cities like Madrid where we have established a position

Eastern Europe

Revenue from the Czech Republic and Poland was £7 4 million in 2007

After entering the Czech Republic in December 2006 with the acquisition of Transcentrum Bus s r o , we strengthened our position around Prague with the acquisition of Bosak Bus s r o and Osnado Spol s r o in January and November 2007 respectively Bosak operates 50 buses, and Osnado 106 buses

In December, Arriva began rail operations in Poland as part of the PCC Arriva 50/50 joint venture The small three-year contract in the Kujawsko-Pomorskie region in the north-west of Poland was the first to be awarded to a private company, and could signal the start of a significant market change in the country After some initial challenges, we are pleased with operations and the foothold we have secured in this emerging market The contract is expected to generate approximately PLN 105 million (£22 million) over its lifetime

We are sowing the seeds for future expansion in Eastern Europe, where investment is currently relatively modest, but we foresee excellent potential as these economies develop and market liberalisation proceeds

UK Bus

A strong trading performance from the UK bus business is reflected in an operating profit increase of 16 per cent to £87 9 million (2006 £76 0 million), on revenue of £814 7 million (2006 £762 8 million), up seven per cent Margins increased to 10 8 per cent, despite the impact of fuel price increases that cost £8 million in 2007

UK Regions

The regional bus business has benefited from rigorous and detailed network development By understanding the varying needs of different customer profiles we have sharpened our networks and services to match demand, stimulating passenger growth, and implementing targeted revisions to fares Over the course of the year, we invested some £30 million providing many easy-access buses for the comfort and convenience of our passengers In 2007 we carried 414 million passengers, demonstrating encouraging patronage growth of approximately two per cent

Overall customer satisfaction rose, with 91 per cent expressing themselves 'fairly satisfied' or better, with 59 per cent of those questioned 'very' or 'extremely satisfied', the highest rating achieved to date

Innovative partnership working continues to bring benefits for partners and customers The Fastrack scheme in conjunction with Kent County Council has seen patronage growth of 22 per cent, in its first year of operation with 19 per cent of this reflecting conversion from car users

A series of local marketing initiatives are currently on trial to increase passenger journeys further by boosting awareness of routes and services In Telford we are using smart-card technology to test a new customer loyalty scheme In February 2008, we launched a trial to test a new generation of mobile phone ticketing technology on 14 of our Fastrack B buses in Kent, enabling customers to purchase tickets quickly and easily via their mobile phones, providing the added benefit of cash-free travel

We remain committed to developing and investing in technology for more eco-friendly vehicles In October, we introduced the UK's first Environmentally Enhanced Vehicle buses into our Midlands fleet In the north-east we started a trial of B20 biodiesel giving a 20 per cent reduction in net CO2 emissions A trial of cab-based technology to help drivers improve fuel consumption is also under way We intend to deploy these initiatives further if the encouraging initial results are sustained

During the year we acquired small operations in Staffordshire and Darlington In January 2008 we announced the acquisition of UK AIM-listed bus, coach and airside passenger transport operator Tellings Golden Miller Group, which will complement our airside passenger services in Germany (Frankfurt) and Italy (Bergamo)

We continue to contribute to the Local Transport Bill debate, and welcome the process of dialogue on the development of ideas and proposals to improve effective partnership working between operators and local authorities

London
Arriva is one of the largest bus operators in London, with annual mileage in 2007 exceeding 62 million miles The business has done well to continue to make progress while mitigating the disruptive impact of street works, affecting much of its north London operating area

An increase in contracted mileage of four per cent, reflects four new contracts started in 2007 Three new contracts are due to start in 2008, and with additional buses on other routes, scheduled mileage in London is due to increase by a further four per cent this year We expect market growth of 40 per cent by 2025, from 2007 levels, in line with Transport for London's (TfL) 2025 Vision

Arriva London finished the final quarter of the year strongly, appearing in the top three TfL contractors for service reliability We continue to have a positive relationship with TfL and were pleased that Brixton garage was awarded the 'London Bus Garage of the Year' award, following an independent nomination from TfL The world's first hybrid double-decker bus, on trial for TfL over the last 12 months, is running reliably with improved fuel efficiency

In August 2007 we added 10 new buses to The Original Tour London sightseeing business and opened a visitor centre in Trafalgar Square The business recovered impressively from a disappointing wet summer, managing to attract significant numbers of visitors during the autumn, to end 2007 with record passenger numbers, and patronage up eight per cent on the previous year

UK Bus & Coach distribution
Our Bus & Coach distribution business has performed well, contributing operating profit of £3 1 million (2006 £3 0 million), to the divisional operating profit, on revenue of £9 9 million (2006 £12 3 million)

UK Trains
After absorbing significant bid costs from the concurrent tendering of three rail franchises, the UK Trains divisional operating profit reduced to £7 5 million (2006 £12 3 million) Revenue increased 27 per cent, to £322 4 million (2006 £253 9 million), following the inclusion of the new CrossCountry franchise from 11 November 2007 Excluding CrossCountry, revenue was down two per cent at £249 7 million This reduction in revenue reflects the end, as expected, of an external maintenance contract, partially offset by rising passenger numbers

CrossCountry
The CrossCountry franchise win has an estimated order book of almost £5 billion in real terms Operational performance since starting the franchise has been good with 88 9 per cent of services arriving on time for the year to date, substantially better than the equivalent services for the same period last year Year-on-year revenue was more than nine per cent up for the first two months of 2008, on the basis of our best like-for-like estimate for the remapped franchise

Serving 131 stations over more than 1,650 route miles, CrossCountry is the most geographically extensive rail franchise in the UK, and adds 91 train sets and 1,650 people to our UK trains division Annual revenue of around £600 million is expected, with support payments to Arriva higher in the early years of the franchise, and reducing over time

The CrossCountry franchise revenue is currently around 50 per cent derived from passengers, and 50 per cent from franchise support payments The average passenger journey length on this franchise is 130 miles, reflecting its broad-based nature and the many hubs along the route

We are making good progress with our plans for the franchise The seating capacity of the fleet will be increased by 35 per cent on principal routes at peak times, by June 2009, through the introduction of five fully refurbished high speed trains and additional seats on the Voyager trains

We are committed to improving the customer experience of rail by enhancing website ticket purchasing, interactive customer itinerary management, automated re-booking, flexible printing options and the ability to reserve a seat up to 10 minutes before departure

Arriva Trains Wales
Arriva Trains Wales (ATW) continues to experience strong demand, reporting passenger growth of 9 3 per cent In addition to growing customer numbers, customer satisfaction is also rising, up five per cent to 85 per cent, according to the latest Passenger Focus National Passenger Survey

ATW achieved a record operational performance In December 2007, the year to date Public Performance Measure (PPM), based on the percentage of franchised passenger trains arriving at their destination within five minutes of schedule, increased to 91 8 per cent, up from 87 1 per cent in 2006

The ATW franchise revenue is currently around 30 per cent derived from passengers, and 70 per cent from non-passenger revenue, primarily from franchise support payments The average journey length on this franchise is 17 4 miles, reflecting the mix of urban rail network in south Wales and business orientated travel in north Wales and north-west England The introduction of new ticket machines to make it easier for passengers to purchase tickets, and ticket barriers at 12 key stations, have significantly reduced ticketless travel

ATW continues to work closely with the Welsh Assembly Government There has been significant government investment to provide longer platforms, which will enable ATW to run longer trains at some time in the future Rail investment from the government is also playing a key role in regeneration, demonstrated by the opening of a new station at Llanharan in south Wales in December 2007, and the fact that in February 2008, ATW started running train services to Ebbw Valley for the first time in 40 years

Central
Central costs this year include the £1 4 million arrangement fee for the new five-year £615 million revolving credit facility, signed in early August

Outlook
Our businesses throughout Europe have a track record of demonstrating the real benefits the private sector can bring to public transport Public authorities are increasingly aware of these benefits and recognising the opportunity to improve the value of available services whilst eliminating unnecessary costs This recognition is a strong force behind the continuing march of market liberalisation, providing Arriva with many exciting growth opportunities

At our mainland Europe investor day, in May 2007, we announced the intention to double mainland Europe revenue from 2006 levels in five years, including our share of associated companies' revenue I am pleased to say we are well on the way to achieving this goal with the work already done in 2007 and so far in 2008

In our UK Bus division we look forward to further profitable growth driven by route revitalisation and marketing initiatives, and to an improved environment for partnership working once the Local Transport Bill completes its passage

In our UK Trains division we look forward to the benefits of a full-year contribution from our CrossCountry franchise and to building on our strong operational performance, with additional capacity in due course helping to meet strong demand

Across the group we will continue to pursue growth in our existing businesses, as well as creating opportunities for further expansion into additional markets, while the full benefits of recent successes in growing our operations will be demonstrated in 2008 Our financial strength, order book, diversified portfolio of operations and geographical spread show the qualities of a robust, resilient business poised for further success

David Martin
Chief Executive

resilient business
poised for further success

Financial review

It is pleasing that the group achieved a seven per cent increase in EBITDA from continuing operations and a seven per cent increase in operating profit, against the backdrop of continued increases in fuel costs and substantial expenditure on bidding for new rail tenders Revenue grew to over £2 billion for the first time, and with 79 per cent growth in the group's future contracted revenue, including the CrossCountry rail franchise win in the UK and an 18 per cent increase in the mainland Europe order book, we have built the momentum for further growth

The signing, in early August, of a new £615 million five-year revolving credit facility on improved terms was timely, ahead of the full impact of the 'credit crunch', and has provided significant additional financial capacity for the group

On winning the CrossCountry franchise, we fixed the fuel price for 75 per cent of our anticipated fuel requirements over the life of the franchise This has considerably reduced the fuel price risk in this significant contract The £33 million value of the hedge is included in derivative financial instruments in the balance sheet

Group income statement

Revenue from continuing operations was up 16 per cent to £2,000 7 million (2006 £1,729 0 million) reflecting strong growth across the group

Operating profit from continuing operations grew seven per cent from £119 5 million to £128 0 million Operating profit from continuing operations before goodwill impairment and intangible asset amortisation, our preferred internal measure, was also up seven per cent to £135 4 million (2006 £126 7 million), despite significant bid costs for rail franchises and further increases in fuel costs The operating results reflect strong progress in our UK Bus division, continued growth in mainland Europe and further improved operational performance in Arriva Trains Wales As expected, given its short period of operation, the new CrossCountry franchise has not had a significant impact on the 2007 results

The share of post tax profits from associates increased to £4 3 million from £1 9 million, reflecting the full year impact of the 21 5 per cent interest in Barraqueiro, acquired in May 2006 The net finance cost for the year was higher at £16 5 million (2006 £11 6 million) due to investment in acquisitions and higher interest rates in mainland Europe

Profit before taxation from continuing operations thereby increased to £115 8 million (2006 £109 8 million) The taxation charge was £25 8 million (2006 £25 2 million), reflecting a small decrease in the effective rate from 23 0 per cent to 22 3 per cent The effective rate of tax remains lower than the standard rate in the UK primarily due to the release of provisions for taxation, in respect of prior years, no longer required It is anticipated that changes to UK tax rules in respect of Industrial Buildings Allowance will result in an exceptional increase in the deferred tax charge, in 2008, of around £7 million Profit for the year from continuing operations increased to £90 0 million (2006 £84 6 million)

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, from continuing operations, increased to 46 5 pence (2006 44 4 pence) Basic earnings per share was 43 5 pence (2006 51 8 pence), the fall reflecting the 10 2 pence impact, in 2006, of the exceptional gain on the disposal of Arriva Vehicle Rental

Cash flow

EBITDA from continuing operations increased by seven per cent to £249 2 million (2006 £232 9 million) A working capital outflow of £1 0 million (2006 outflow from continuing operations £73 2 million), reduced by an inflow from the commencement of the CrossCountry franchise of £6 7 million, contributed to net cash inflow from continuing operations for the year of £248 2 million, up 55 per cent (2006 £159 7 million)

Net capital expenditure was £145 2 million, compared to £118 2 million in 2006 (after adjusting for the impact of the 2006 investment in new trains that was subsequently refinanced through an operating lease), excluding expenditure in the discontinued vehicle rental division The increase in net capital expenditure of £27 0 million was mainly due to bus and rail expansion in mainland Europe

Expenditure on acquisitions, including the absorption of net debt, in 2007 was £73 5 million (2006 £66 8 million) In March, through an 86 per cent owned venture, we acquired 85 per cent of Osthannoversche Eisenbahnen AG (OHE) in Lower Saxony, Germany for £28 2 million including net debt assumed Goodwill on the acquisition was £6 4 million In August, we completed the acquisition of Veolia's bus business in Denmark for £29 7 million including net debt Goodwill on the acquisition was £9 1 million Expenditure, on the same basis, on other smaller acquisitions in Spain, Czech Republic and Italy was £11 9 million with goodwill of £7 6 million In the UK, we acquired Chase Coaches in February 2007, and in August we acquired additional bus operations in Darlington, for a total consideration of £3 7 million (including net debt assumed)

Subsequent to the year end, the group acquired Tellings Golden Miller Group plc for £10 3 million, plus net debt assumed of £19 4 million In January the group also acquired a further 10 per cent interest in Barraqueiro, for a consideration of €50 million in cash (£37 million), taking our total stake to 31 5 per cent

Interest and dividend payments absorbed £59 4 million (2006 £52 6 million), whilst there were substantially reduced corporation tax payments during the year of £5 4 million (2006 £24 9 million) New shares issued on exercise of share options generated £1 3 million (2006 £1 2 million) There was an increase in net debt to £448 5 million (2006 £378 4 million), reflecting the impact of acquisition and investment activity and the £36 1 million impact of translating overseas debt into sterling at £0 73 to the euro (2006 £0 67 to the euro)

Revenue grew to over £2 billion

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 In addition, foreign acquisitions and operations are funded in local currency where possible The result of this policy has been to reduce to insignificant levels the foreign exchange risk when translating overseas assets and liabilities into sterling and to increase euro borrowings as the group expands in mainland Europe

Commodity risk

The group's general policy is to maintain fuel price fixes at least 12 to 15 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, a fuel fix was put in place covering 75 per cent of the anticipated fuel usage of the contract up to its expiry The group's forward fixing of fuel, excluding associates for 2008 and 2009, at 25 February 2008, compared with 2007, was On a like-for-like basis, fuel costs, excluding fuel taxation,

	2007 %	2008 %	2009 %
Protected by indexation arrangements	8 8	10 4	9 7
Forward purchased*	85 2	81 1	34 3
Subject to spot or future forward purchase	6 0	8 5	56 0
	100 0	100 0	100 0
***Average price per litre of forward purchased fuel, excluding fuel taxation and delivery**	28 1 pence	27 2 pence	29 1 pence

EBITDA from continuing operations increased by 7%

are likely therefore to decrease moderately in 2008, but with the prospect of an increase in 2009 if current prices in the market are maintained The total fuel consumption in 2007 was approximately 365 million litres The CrossCountry franchise is anticipated to consume around 100 million litres of fuel per annum

Interest rate risk

Fluctuations in interest rates are managed by a combination of interest rate swaps and use of fixed rate debt Actual hedged debt at 31 December 2007 was 83 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 Hedged debt for this purpose represents fixed rate finance and swaps over one year's duration at inception

Foreign currency risk

As noted previously, the group policy on foreign exchange exposure is that the risk of translating non-UK assets and liabilities into pounds sterling should be reduced to insignificant levels At 31 December 2007, the exposure was six per cent of non-UK assets The risk is managed through the use of funding in local currencies and by entering into foreign currency swaps of durations up to three years The majority of such swaps also encompass fixed interest rates, thus also providing interest rate protection between EURIBOR, LIBOR and CIBOR The group also enters into foreign exchange forward contracts to hedge specific cash flows arising with overseas suppliers The fair value of the group's cross currency swaps and foreign exchange forward contracts at 31 December 2007 was a liability of £23 1 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 The group nominates and approves banks and lease providers with whom it will deal with All group companies are required to bank with the nominated bankers, which change from time to time due to group refinancing, entry into new markets and changes to credit ratings

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 three-month cash forecasts prepared on a rolling monthly basis, 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 The above 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 month in advance, foreseeable level of unutilised available facilities of more than £100 million At 31 December 2007, hedged debt maturity was 19 months and headroom on facilities was approximately £470 million

Capital risk

The group monitors its capital risk on a continuous basis to ensure that, having regard to the anticipated and possible future requirements, sufficient capital exists to fund operations and provide returns to shareholders, and that the Weighted Average Cost of Capital (WACC) of the group is optimised There are a number of alternative methods of calculating WACC and there are also variations caused by doing business in the different markets in Europe in which we operate Our current assessment is that the group WACC is around seven per cent

Capital structure

Total shareholders' equity was £710 2 million (2006 £542 5 million) at the end of the year, a substantial increase Retained profits contributed £44 5 million to group distributable reserves, actuarial gains on retirement benefit obligations added a further £70 6 million and fair value of derivatives added £48 6 million During 2007, the group undertook an internal reorganisation, which resulted in there being approximately £600 million of available distributable reserves in the parent company Arriva plc Gearing for the group at 31 December 2007 was 61 per cent (2006 68 per cent) The 2007 interest cover (the ratio of EBITDA to net finance costs), from continuing operations excluding goodwill impairment and intangible asset amortisation, was 15 times (2006 20 times)

The ratio of year end net debt to EBITDA was 1 8 times (2006 1 6 times) Arriva remains comfortably within the financial covenants set by its lenders, the principal covenants being that the ratio of EBITDA to net finance costs is not less than 3 1, and the ratio of net debt to EBITDA is not more than 3 5 1

Borrowing facilities

In early August, we took advantage of market conditions to sign a new £615 million, five-year, revolving credit facility agreement, on improved terms, with a group of leading European banks This replaces the £310 million facility arranged in 2004, providing stability, flexibility and additional financial capacity for the medium-term development of the group in the UK and mainland Europe

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 £46 million The rolling stock of the UK, Netherlands, Danish and German rail businesses that is provided through operating leases have annual commitments of approximately £113 million All material commitments will cease on expiry of the franchises Bonds amounting to £25 million have been provided in respect of the Netherlands, Danish and German rail businesses Letters of credit amounting to £16 million are provided as part of the group's UK insurance arrangements

There is a net cash position in sterling and a borrowing position in euros as a result of the group's policy of reducing exposure to foreign exchange currency fluctuations to insignificant levels, as described previously

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

Retirement benefit obligations

The retirement benefit obligation taken on with the award of the CrossCountry franchise was £12 0 million This represents 60 per cent of the total obligation, in line with the established practice of accounting for the shared cost structure of the Railways Pension Scheme Also in line with industry practice, a corresponding intangible asset has been created of £12 0 million, representing the right to operate the franchise, which will be amortised over the life of the franchise

At 31 December 2007, total liabilities in respect of retirement benefit obligations fell to £73 7 million (2006 £173 8 million) The retirement benefit obligations in respect of the Arriva Trains Wales and new CrossCountry sections of the Railways Pension Scheme are £4 0 million (2006 £9 5 million) and £8 0 million respectively The overall reduction in the group obligation was primarily due to higher long-term interest rates causing a consequent increase in the rate used to discount liabilities The related deferred tax asset recognised in the balance sheet was £17 3 million (2006 £49 3 million)

Return on capital employed

The financial return obtained from the capital employed by the group is a key measure of financial performance, and is monitored monthly The definition of Return on Capital Employed (ROCE) used by the group is the last 12 months' operating profit, before goodwill impairment and intangible asset amortisation (excluding the impact of pension finance charges or credits), expressed as a percentage of the weighted monthly average total tangible assets less liabilities (excluding borrowings, deferred tax liabilities and retirement benefit obligations) ignoring derivatives The ROCE on this basis for 2007, reported in the group's December 2007 management accounts, was 16 7 per cent (2006 15 9 per cent)

Financial summary

The underlying cash generation of the group remains strong and durable, has continued to grow, and is supported in the future by growth in the contract order book

The balance sheet is robust, reinforced by the resilience built in by our hedging strategies on fuel, foreign exchange and interest costs, and the group has increased financial capacity, secured by the new £615 million credit facility This provides a solid base for further investment and acquisitions in the future and increased shareholder returns, as demonstrated, in the short term, by the proposed 10 per cent increase in final dividend

Steve Lonsdale
Group Managing Director - Finance

Principal risks and uncertainties

The Board recognises that any commercial opportunity brings with it a degree of risk and, like any business, Arriva must manage a range of risks in the course of its activities An impact assessment of the scale and probability of the principal risks affecting the business is reviewed annually

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

1 Market risks

Changes in national public transport budgets

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

2 Operational risks

Meeting health, safety and environmental standards

The Board recognises the importance to the business, as a public transport operator, of maintaining high standards and the consequences of failing to do so A Safety Committee of the Board oversees the group's safety policy and the arrangements of its implementation and reporting (see page 34 - Corporate Responsibility section)

Mobilisation of large new rail franchises

We aim to use the knowledge gained in the successful rail mobilisation processes we have been involved in to date for other new rail franchises won by the group The mobilisation of the CrossCountry contract from November 2007 went smoothly, benefiting from our previous experience both in the UK and abroad

3 Commercial risks

Franchise / tender / acquisition costing and revenue forecasting

Errors or inaccurate assumptions in tenders or acquisitions represent a risk to the business A number of procedures are in place to mitigate the risk

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

One of the most significant set of assumptions which may be required in constructing a franchise bid relates to general economic factors influencing the market concerned Arriva's balanced portfolio of operations, between bus and rail, and between different countries, minimises its exposure to any downturn in any individual market sector The revenue risk associated with any potential loss of consumer demand from the travelling public is mitigated by the substantial proportion of the group's revenues which flow from non-passenger sources (see page 8 - Spreading our net)

Most tendered net cost contracts (see page 5 - Hold on tight) require the operator to deliver specified services whilst retaining the income from passengers In contracts where passenger income represents a significant proportion of total revenue, the group is exposed to the risk of passenger revenue being higher or lower than anticipated Historically, passenger revenue growth is highly correlated with growth in local economies The recently started UK CrossCountry rail contract is a particularly large contract with these characteristics, Arriva is committed to reducing government financial support on this franchise to almost zero before the end of the franchise in 2016 To deliver anticipated returns, over eight per cent annual revenue growth in real terms will be required, a considerable proportion of which is dependent on economic growth However, in the fourth year of the franchise, the financial risk is partially mitigated by a revenue risk sharing mechanism in the contract

The actual conditions are complex but the principal financial arrangements are

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

These risk mitigating factors are mirrored by potential payments to the UK Government when targeted revenue is exceeded

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

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

4 Financial risks

As detailed on pages 28 to 29 in the Financial Review, the group's financial risks are managed by the group treasury function in accordance with a formal Board approved treasury policy

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

Commodity risk
The group's policy is to maintain fuel price fixes at least 12 to 15 months ahead, on a rolling basis

Currency translation risk
The group policy on foreign exchange exposure is that the risk of translating non UK assets and liabilities into pounds sterling should be reduced to insignificant levels

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

5 Other risks

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

The group has procedures in place to ensure effective liaison with appropriate national and European Union officials and monitoring of developments in this area for timely reporting to senior management

In the UK, the Government is currently planning changes to transport legislation with an expected implementation date in late 2008 or early 2009 The Government is also considering amendments to the Bus Service Operators Grant These planned and potential changes could have significant impact on the UK bus industry

Arriva, alongside other UK operators, is monitoring the development of legislation in this area and representing the best long-term interests of the industry

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

Our impact on society

As a leading provider of transport services in Europe we play a vital economic and social role in the lives of millions of people across the 10 countries in which we operate On behalf of our employees, customers, shareholders and all the communities we serve, we believe in promoting the environmental benefits of modal shift to public transport, whilst operating responsibly to mitigate the environmental impact of our operations

In managing our social impact we focus on four themes, from the boardroom to our depots

1 Safety	Operating our services in a way that minimises the risk to our passengers and employees
2 Community	Making a positive impact and building on the value we provide with our transport services
3. Employees	Helping our people to make the most of their potential, and being a good employer
4 Environment	Finding the right balance between enabling people to make the journeys that enrich their lives, and helping to minimise the environmental impact of those journeys

Reflecting the importance of the four themes, Steve Clayton, an executive director, leads from main Board level to set policy, and encourage improvements and the sharing of knowledge and best practice

Formal policies set out certain aspects of our approach to the wider community Our set of Corporate Responsibility policies can be viewed on our website at www arriva co uk

1 Safety

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

Safety practices are reviewed regularly by the Board Safety Committee (see page 58 - Corporate Governance), which is chaired by a non-executive director, Veronica Palmer, with another non-executive director Steve Williams, and Steve Clayton as members The committee monitors all aspects of safety in our operations, reviews and reports to the Board on the company's internal safety management system, and oversees the group safety policy and the arrangements for its implementation

Our approach to safety management includes specific training for senior operational managers, employees and supervisory staff Much of the training is externally accredited by the

Institution of Occupational Safety and Health (IOSH), Europe's leading body for health and safety professionals We work with other members of our industry to share best practice and reduce risk, and believe, from the limited industry comparative information available, that our safety record represents best practice We are also recognised as being at the leading edge of road risk management in the UK bus and coach industry

Our policy is for each of our transport businesses to provide employees with training including a safe approach to driving, customer care and conflict management Each operational location is subject to internal safety and standards audits every six-months Audits are completed by trained and experienced safety auditors who will make recommendations and prepare action plans in the event of non-compliance Arrangements are subject to periodic quality assurance audits

2. Community

Our transport services help maintain the heartbeat for the communities we serve When people depend on us, we have to be dependable A key performance indicator for Arriva is the proportion of planned or contracted mileage that we succeed in operating on our deregulated and contracted bus and rail services In 2007, we are proud to have operated 99 1 per cent of the 520 million vehicle miles that were scheduled - an improvement from the 98 9 per cent achieved in 2006

But our community engagement goes deeper than that with a real commitment by our people and businesses in their local areas Work with charities, local sports clubs, schools, neighbourhood groups and the arts all help to cement relationships between Arriva, its employees and our local communities

Our UK employees are supported with fundraising for their chosen good causes in their local communities Wider local activities have included visits to school and community groups to spread safety awareness among youngsters, free transport for community groups and free advertising on buses for local organisations and charities

As part of our focus on young people and education, Arriva produced a school pack for teachers and 11 to 16-year-olds in the UK It supports key areas of the curriculum including lesson plans for maths, sensible road use, how to catch a bus and planning a route to school

The safety of our customers and employees is our primary concern

The attraction of sport to encourage young people to lead healthier lifestyles is harnessed through a number of community initiatives For example, in Wales, Arriva is main sponsor for the Wales Deaf Rugby Union team and supports women's and children's soccer teams with sponsored kit, with safety awareness integral to these and other community programmes

Budding young sportspeople won training grants in Arriva s 'Search for a Star' appeal, after being voted for by UK bus passengers

In Liverpool, Arriva's Healthy Schools Bus, in partnership with Everton Football Club, has completed more than 210 school visits since its launch in November 2006, giving more than 11,000 pupils a fun focus on healthy eating and exercise The initiative includes follow-up visits, monitoring pupils' progress in nutrition and fitness Plans are being developed to replicate the success of the scheme over a wider area

The safety of people in the communities where Arriva operates is a key element to our work with local people Arriva employees in Portugal give regular safety lessons in schools, while in the UK each regional bus depot has a schools liaison officer who works with pupils to develop safety awareness Arriva also has two people working with Transport for London's schools liason programme In Wales, work with disadvantaged youngsters promotes a shared sense of community which in turn has the added benefit of reducing antisocial behaviour and reducing rail trespass

Innovation in this field includes Arriva Sweden's launch of a 'disco bus' fitted with lights and a sound-system to engage young people in a positive way, an initiative now being replicated in Italy

We have expanded the 'Child Safe' campaign for families on holiday in Spain and Portugal Children using Arriva buses are given brightly coloured wristbands on which their parents write emergency contact details The wristbands carry a distinctive logo which is matched on 'Child Safe' shops and businesses where a lost child can go to be reunited with their family

In Italy our SAF business sponsored a children's arts project promoting understanding of the environmental role of public transport, with sculptures from recycled materials displayed in cities across Europe with the children's green transport messages

3 Employees
Arriva now has more than 40,000 employees across Europe, including a proportional share of associate companies

Training and development
We invest in our people and encourage them to reach their full potential, because it is their contribution and effort that will help the company achieve its vision

Examples of training and development for employees include technical qualifications, health and safety training, diversity awareness training and people management skills, in addition to on-the-job training For several years we have given our employees access to an extensive range of learning and development resources via an on-line facility This has recently been expanded and redeveloped into a new website which now includes on-line language training in more than 30 different languages A communications skills initiative across our UK businesses is being expanded into mainland Europe

Our graduate development programme, operating across Europe, includes an 18-month development programme, off-job training, coaching from a mentor and regular performance/development reviews So far we have recruited into graduate schemes in Denmark, Germany, Italy, Sweden and the UK

We have devised a strategic leadership profile, identifying the behaviours which are most important in helping Arriva meet its strategic objectives, and expressed in terms which translate across all the countries in which we operate Our performance management process is designed to support the development of our people, improve business performance and support Arriva's leadership agenda We also have a succession planning process in place for senior managers and assess the development needs of those managers who have been identified as having good potential

Morale and motivation
In 2007 we repeated our biennial employee survey to gauge attitudes and opinions and understand what we can do better to improve employee motivation

The feedback, presented to the Board, showed an overall response rate of 54 per cent, a healthy improvement on the 35 per cent recorded in 2005, and giving more meaningful representative feedback on employee opinion

While overall employee satisfaction remains at 49 per cent, a figure we aim to improve, the survey results showed significant improvements in the responses relating to internal communication, which had shown up in the 2005 survey as an area meriting attention During 2006 and 2007 we designed and produced a group-wide programme to help supervisors and managers to communicate better with their teams We believe the improvement in scores reflects the success of this initiative

To enable employees at all levels of the business to have the opportunity to raise ideas and feed back customer comments, each business has developed an action plan to respond to feedback from employees

We intend to repeat our survey again in 2009 and will continue to use employee feedback as a valuable source of management guidance

Employee representation
We make extensive use of works councils and endeavour to maintain close working relationships with the trades unions covering our industry Arriva operates a European Works Council which provides a forum for a formal group-wide update on operations and business performance and best practice sharing, facilitated by visits to operational units in the host country

Across our UK and mainland Europe businesses, the vast majority of our workforce is covered by collective agreements on working conditions, and we make appropriate arrangements for union officials to receive training and to carry out official union business

Working time
Arriva policy is to ensure we comply with all local requirements, though the interpretation and specific implementation of EU legislation does vary across European countries

During 2006 and 2007 we designed and produced a group-wide programme to help supervisors and managers to communicate better with their teams

4 Environment

Compliance with standards

Around 10 per cent of the company's sites are certified to the ISO14001 environmental management standard

The group has legal compliance as a minimum standard and aims to exceed this wherever practicable This is a group-wide approach, subject to local legislation, and is tested through appropriate audit procedures

Across the whole group, we work to exceed legal compliance through trial and adoption of new and novel technologies, and through working in partnership with suppliers to ensure that we are using the most appropriate product or service in the circumstances

Greenhouse gases

No transport operator can fail to be aware of the broad scientific consensus that greenhouse gases (GHG), including carbon dioxide (CO_2) from the burning of fossil fuels, are implicated in climate change

All modes of transport can expect to come under increasing scrutiny, reflecting increased concern about the effects of GHG emissions In doing so there is a balance to be maintained Access to transport and freedom of movement are not only highly prized aspects of human society, they are also at the heart of economic and social well-being Public transport has a great deal to offer as part of the answer to maintaining vital mobility, underpinning freedom of movement and economic prosperity while keeping a brake on unnecessary emissions Furthermore in many cases improved environmental performance goes hand in hand with reduced business costs That is lower fuel consumption leads to lower GHG emission and lower spend on fuel

GHG footprint

Arriva's GHG footprint has been estimated by the Edinburgh Centre for Carbon Management (ECCM) from data provided by the company Arriva's 2007 operational emissions were estimated as 1,049,998 tonnes of CO_2 equivalent (CO_2e) This represents an increase in absolute emissions of 3,310 tonnes CO_2e (0 3 per cent) compared to 2006

ECCM estimates that the GHG emissions calculations carried out in this study have an associated uncertainty of +/-13 per cent and the final emissions estimate is therefore assigned an overall good' evaluation in terms of confidence in the data However, the uncertainty factor means the recorded 0 3 per cent change is too small to be regarded as of any statistical significance

The assessment includes bus and train fleet fuel consumption, premises energy consumption, waste disposal, company owned vehicles, and refrigerant gas losses, but not business travel This is consistent with the approach taken for the 2005 and 2006 assessments The amount of CO_2e associated with business travel is believed to be not material in the context of the group as a whole

The emissions associated with the bus fleet account for 78 per cent of the total, or 816,728 tonnes of CO_2e Train fleet emissions contribute 16 per cent to the total (164,835 tonnes of CO_2e), and site energy consumption contributes four per cent to the total (42,020 tonnes of CO_2e) Other emissions sources (waste disposal and refrigerant losses) contribute approximately two per cent to overall emissions

During the assessment period we used biodiesel blends in some bus and train fleets The reduction in emissions on a 'tank to wheel' basis through using biofuels has been included in the results reported in the assessment

We intend to use our GHG emissions data to identify areas for improvement and increased management focus In doing so we will also aim to improve the carbon-efficiency of our ancillary functions such as the way we manage our depots and other facilities, and business travel

GHG emissions reduction target

We are aiming to reduce our GHG emissions footprint, measured on like-for-like operations, by 15 per cent from the 2006 figure, by 2012 We specify 'like-for-like' to ensure we can continue to track meaningful progress if we make a major acquisition or disposal, or win a large contract

Most of Arriva's GHG footprint, unsurprisingly, is derived from the fuel that powers our buses and trains This must therefore be the area to focus our efforts in order to make the biggest possible improvements

Our long-term fuel strategy is

1 To use what we must as efficiently as possible subject to commercial restrictions and considerations

2 To make what we use as environmentally friendly as possible

3 To maximise the social and economic benefit of that fuel use by using it to carry as many passengers as possible

For many years we have been reducing vehicle emissions in terms of urban air pollutants other than CO2 Much progress has been made through the introduction of progressively cleaner engine technologies, and the high standards of maintenance which keep those vehicles working efficiently and passing regular inspections

However, over recent years new buses and trains have tended to use more fuel than their predecessors This has been partly as a side effect of improving emissions of local pollutants, and partly an effect of increased vehicle weights, stemming from improved engine technology and increased equipment specifications, including those to enhance safety, laid down by tendering authorities and regulators

Our 2012 GHG reduction target is demanding, especially given the heavier fuel consumption of these more recent generations of vehicles which are working their way through our fleets We are unlikely to meet that target entirely as a result of changes which are within our sole control, but we hope that over time it will be possible to encourage other parties to make changes which help us Reaching the 15 per cent target, on our present plans, requires us to make assumptions which we consider to be reasonable on the future availability of biofuels, but which will depend on supporting decisions taken by governments and fuel suppliers

Alternative fuels

Arriva has a record of innovation in identifying viable low emission and renewable fuels, and putting them into service where operationally and commercially practicable This has several benefits for the group Fossil-fuel based diesel fuel is a finite resource and we consider it prudent to learn as much as possible about how our existing and potential vehicles may be adapted to operate on different fuels This learning is shared with fuel suppliers and vehicle manufacturers and helps all parties involved to move into the future with greater confidence and experience In some countries it enables us to operate at reduced cost, as a result of economic incentives to stimulate the market demand for alternative fuels It allows us, as service providers, to respond to the expressed public policy objectives of governments at many levels in the communities we serve Finally, it gives us an important way of reducing our GHG footprint in the medium term

We are aiming to reduce our GHG emissions footprint, measured on like-for-like operations, by 15 per cent from the 2006 figure, by 2012

The diversity of our fleet and operating markets allows us to quickly evaluate the possible benefits and to rapidly implement potential solutions

In Germany, Arriva is using environmentally friendly biodiesel which reduces CO2 emissions by up to 90 per cent, derived from locally grown rape seed oil, for trains at our PEG and ODEG operations and our Bils bus company

In Portugal, building on our improvements in upgrading operations to Ultra Low Sulphur Diesel (ULSD), we have started running 240 buses on a B30 biodiesel blend - a mixture of 30 per cent biodiesel and 70 per cent mineral diesel - which will lead to a net reduction of up to 30 per cent in CO2 emissions for those vehicles

In the UK we began trials of B20 biodiesel blend using Fatty Acid Methyl Ester (FAME) to reduce carbon emissions by around 20 per cent net for 75 vehicles The FAME is predominantly a mixture of sustainable soya products, along with used cooking oil and tallow The trial, moving into the appraisal phase, runs in Blyth, Northumberland, where our buses carry around 130,000 passengers every week

Biofuels are no less controversial than any other energy source Arriva, despite its advanced deployment of biofuels in some markets, accepts that the science and politics of biofuels have not yet developed fully and may change over time In planning a measured extension of our use of biofuels to help meet our GHG emissions reduction targets, we believe we are also contributing towards the public policy objectives expressed by the European Commission and the UK, German and Portuguese governments, all of which envisage increased take-up of biofuels as one measure to combat climate change, and have built that assumption into their own policies If any such policy objectives change to discourage biofuel use then we will be likely to amend our GHG emissions reduction targets accordingly

Different driving, different designs

The way our buses are driven has a big impact on fuel consumption and thereby CO2 emissions Since early 2007 we have been running a project in North West England to measure individual journeys and how fuel is used Early results are promising, and are factored into our plans to reach our 2012 GHG emissions reduction target

We are also experimenting with alternative vehicle designs Our London business, with Transport for London, is conducting trials of the world's first hybrid double-decker bus The bus uses electric motors in tandem with diesel engines to reduce emissions by a potential 40 per cent

Local air pollution reduction

Since 2001 Arriva has invested more than £480 million in modern buses and trains that are in line with, and sometimes exceed, the latest EU environmental standards All new buses now meet the strict Euro 4 benchmark, whilst new trains meet the Euro Stage 3A standard, offering steep reductions in emissions of carbon monoxide, nitrogen oxides, hydrocarbons and particulate matter less than 10 microns in size

Although climate change and local air quality issues are generally regarded as the most prominent environmental concern relating to transport companies, other matters such as use of water and waste disposal are still important

In 2007 we started research into the reduction in our use of energy and water, and the opportunity to use renewable energy within the existing public transport infrastructure For example, in 43 sites belonging to four of our UK regional bus operations we installed advanced heating controls, incorporating electronic controllers and sensors operating inside and outside buildings Heating-energy savings in these sites over the first nine months of operations ranged from 32 per cent to 42 per cent, encouraging us to expand the programme in 2008 and investigate similar technologies which could control lighting systems

The priorities and solutions for managing our environmental impact in one location are often not the same as in another location There is greater scope for use of solar power in southern Portugal than in Scotland, and a greater need to save water resources in Spain than in the Netherlands Where we find good practice and innovation delivering benefits, we always look for ways in which other parts of Arriva can benefit

In the last six years, we have invested £480 million in modern buses and trains which are in line with latest EU standards

i Vehicle split by engine type

	2007 %	2006 %
Euro I	12 8	14 5
Euro II	38 0	38 5
Euro III	29 5	29 0
Euro IV	4 0	0 5
Euro V	1 7	-
EEV	1 3	-
Non Euro class	10 3	16 2
Other	2 4	1 3

ii Mileage split by engine type

	2007 %	2006 %
Euro I	12 9	13 9
Euro II	37 7	38 3
Euro III	33 0	31 6
Euro IV	2 9	0 4
Euro V	0 6	-
EEV	0 4	-
Non Euro class	10 8	15 3
Other	1 7	0 5

	2007	2006
iii Water consumption per vehicle (cubic metres)	88	90
iv Energy consumption per vehicle (Kwh)	13,035	13,390

Board of Directors

Sir Richard Broadbent KCB Chairman

Aged 54 Sir Richard was appointed to the Board in July 2004 and was appointed chairman in November 2004

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

As chairman, Sir Richard chairs the Nomination Committee of the Board and is also a member of the Remuneration Committee

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David Martin BA, FCMA, MIMgt Chief Executive

Aged 56 David qualified as an accountant in 1977 after graduating in business studies He held a variety of general management positions before joining the bus industry in 1986 After leading a management buy-out of an East Midlands based bus company, he was involved in the acquisition of National Express and subsequent management buy-outs leading to the creation of British Bus Group Limited David joined Arriva in 1996 on the acquisition of British Bus, becoming a member of the Board in February 1998 with specific responsibility for the group's international operations and development

In March 2005 he was appointed group managing director - operations and deputy chief executive, and on 19 April 2006 was appointed chief executive

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Steve Lonsdale BA, FCA Group Managing Director - Finance

Aged 50 Steve graduated from the University of Newcastle upon Tyne with a degree in economics and accounting before joining Coopers & Lybrand in 1978 He qualified as a chartered accountant in 1981 and spent eight years working in the profession in the UK and overseas Steve joined the group in 1987 where he worked as group accountant until 1991 when he was appointed to the Board as group finance director

In March 2005 he was appointed group managing director - finance, with responsibility for all finance, legal and company secretarial matters

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Steve Clayton BA, FCIT, MIMgt Group Managing Director - Corporate Affairs

Aged 54 After graduating from London University in 1975, Steve held various management positions with London Transport He was managing director of Leaside Bus Company Limited from 1988, which was acquired by the group in 1994

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

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Simon Batey MA, FCA Non-Executive Director

Aged 54 Simon joined the Board as a non-executive director on 1 October 2003 and since 1 January 2004 he has been chairman of the Audit Committee, he also sits on the Remuneration and Nomination Committees

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

Steve Williams LLB Non-Executive Director

Aged 60 Steve was appointed to the Board as a non-executive director on 1 September 2005 and on 18 October 2005 was appointed senior independent director, Steve sits on the Nomination, Audit and Safety Committees

Steve is chief legal officer and group general counsel of Unilever plc and Unilever NV

Prior to joining Unilever, Steve spent eleven years at Imperial Chemical Industries plc in the legal and company secretarial departments He served for nine years as a non-executive director of Bunzl plc until 2004

Nick Buckles Non-Executive Director

Aged 47 Nick was appointed to the Board as a non-executive director on 19 July 2005 and in September 2007 was appointed as chairman of the Remuneration Committee, Nick also sits on the Nomination Committee, and was chairman of the Safety Committee from October 2005 until September 2007

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

Veronica Palmer OBE Non-Executive Director

Aged 67 Veronica was appointed to the Board as a non-executive director in September 2001 and since September 2007 has chaired the Safety Committee of the Board, she also sits on the Audit and Nomination Committees Veronica was chairman of the Remuneration Committee from June 2005 until September 2007 Veronica held the position of director general of the Confederation of Passenger Transport UK from 1989 until June 2001 Earlier she worked in the brewing industry's trade association as parliamentary secretary following a successful career in the Royal Air Force and work as an employment consultant in Europe Veronica has an MBE for military services and an OBE for services to the transport industry She is chairman of the Northern Ireland Transport Holding Company Board

The directors submit their report and the audited accounts of Arriva plc for the year ended 31 December 2007

Principal activities of the group
The principal activities of the group at 31 December 2007 comprised the operation of bus and train services in the UK and nine countries in mainland Europe

Business Review
A review of the group's principal activities and performance for the year is contained in the Chairman's Statement (on pages 18 to 19), the Chief Executive's Review (on pages 20 to 25), the Financial Review (on pages 26 to 31) and the Corporate Responsibility report (on pages 34 to 43), which collectively comprise the Business Review and these are included in this report by reference A review of the principal risks and uncertainties facing the company is set out on pages 32 to 33 and is also included in this report by reference

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

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

(i) Earnings per share, before goodwill impairment, intangible asset amortisation and exceptional items (see page 26)

(ii) Order book (see pages 16 to 17)

(iii) Employee turnover and non-attendance (see page 37)

(iv) Return on capital employed (see page 31)

(v) Percentage of scheduled mileage operated (see page 35)

(vi) Public Performance Measure for UK Trains (see page 25)

(vii) Fault incidents per 100,000 km (see page 35)

(viii) Employee injuries per 100 employed (see page 35)

Results and dividends
The profit for the year amounted to £90 0 million (2006 £104 7 million) The directors recommend the payment of a final dividend on the ordinary shares of the company of 17 06 pence per share (2006 15 51 pence), which together with the interim dividend of 5 59 pence (2006 5 32 pence) represents a total of 22 65 pence per ordinary share (2006 20 83 pence) The proposed final dividend, if approved, will be payable on 1 May 2008 to shareholders on the Register of Members at the close of business on 28 March 2008 The total amount paid and proposed to be paid is £45 0 million in respect of 2007 (2006 £41 2 million)

Share capital
The share capital of the company comprises 290,000,000 ordinary shares of 5 pence each, each share having one vote As at 1 March 2008, there were 198,623,572 shares in issue The total number of voting rights was therefore 198,623,572

The movement in the share capital during the year is detailed in Note 23 to the Accounts

Directors
The names and biographies of the current directors appear on pages 44 and 45

S J Clayton, N P Buckles and S G Williams retire by rotation and, being eligible, offer themselves for re-election at the Annual General Meeting on 23 April 2008

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

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

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

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

Statement of directors' responsibilities in respect of the Annual Report, the Directors' Remuneration Report and the financial statements

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

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

In preparing those financial statements, the directors are required to

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

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

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

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

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

Directors' interests

The interests of the directors (including their family interests) at the end of the year, including details of directors' interests under the Long Term Incentive Plan, appear in the Directors' Remuneration Report on pages 49 to 55

Purchase of own shares

No shares were purchased pursuant to the authority granted to the directors at the Annual General Meeting held on 18 April 2007 Renewal of this authority will be sought at the Annual General Meeting to be held on 23 April 2008

Acquisitions

In January 2007, the acquisition of Czech Republic bus operator Bosak Bus s r o was announced for a cash payment of £1 0 million and the assumption of £0 7 million debt Also in January 2007, the acquisition was announced of Spanish bus operator Esfera for an initial payment of €3 7 million (£2 5 million), subject to the business achieving specific key growth targets a further payment of up to €1 million (£0 7 million) will be made

In March 2007, the group completed the acquisition of 85 per cent of the German bus and rail company Osthannoversche Eisenbahnen AG (OHE) for a consideration of £28 2 million including net debt assumed, as part of an 86 per cent owned joint venture

In June 2007, the acquisition of 49 per cent of Italian bus operator SPT Linea for €6 8 million (£4 6 million) was announced Arriva's Italian business SAB Autoservizi s r l and Lombardy-based Ferrovie Nord Milano Group (FNM SpA), entered into a 50/50 joint venture to acquire the shares in SPT Linea

The acquisition of the whole of the issued share capital of Veolia Transport Danmark AS was completed on 31 August 2007

On 11 November 2007, the group commenced the operation of the CrossCountry UK rail franchise which had been awarded in July 2007 and which runs until March 2016

In January 2008 the group announced the acquisition of a further 10 per cent interest in Barraqueiro SGPS SA, the leading Portuguese passenger transport operator for a consideration of €50 million (£37 million) in cash Following this transaction the group now holds a 31 5 per cent interest in Barraqueiro

On 11 January 2008, the company announced that its offer for the whole of the issued and to be issued share capital of Tellings Golden Miller Group plc (TGM), for a cash consideration of 45 pence per share (approximately £10 3 million), had become wholly unconditional On 22 January the "squeeze-out" provisions of s979 Companies Act 2006 were invoked in respect of the non-assenting shareholdings in TGM amounting to approximately 2 81 per cent of the issued and to be issued share capital of TGM

Charitable and political donations
During the year the group made charitable donations, for a variety of charitable purposes, amounting to £111,640 (2006 £148,677) There were no political donations (2006 £nil)

Annual General Meeting
The Annual General Meeting will be held on 23 April 2008 Details of business to be considered at the Meeting can be found in the Notice of Annual General Meeting which has been sent to all shareholders with the Annual Report & Accounts, and will appear on the website at www arriva co uk, from 28 March

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

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

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

The group has, subject to the 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 Further information on employee representation can be found in the Corporate Responsibility report on page 38

Policy regarding payment of suppliers
The group's policy regarding the payment of suppliers is either to agree terms of payment at the start of business with each supplier or to ensure that the supplier is made aware of the payment terms, and in either case to pay in accordance with its contractual or other legal obligations At 31 December 2007, the company's trade creditors outstanding represented approximately 40 days' purchases (2006 49 days)

Substantial shareholdings
As far as the directors are aware, the only notifiable holdings equal to or in excess of three per cent of the issued ordinary share capital as at 1 March 2008 were

	Per cent
Marathon Asset Management LLP	6 03
Aberdeen Asset Management PLC's Fund Management Operating Subsidiaries	5 05
Blackrock Inc	4 06
Legal & General Group Plc	4 03
Allianz SE and Allianz Global Investors Global Equity Business Unit	3 27

Corporate governance
A review of the company's application of the principles and provisions of The Combined Code 2006 appears on pages 56 to 60

Health, safety and environment
Details of the company's approach to health, safety and environmental issues appears within the Corporate Responsibility report on pages 34 to 43

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

By order of the Board

D P TURNER
Company Secretary
5 March 2008

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

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

Membership of the committee is limited to the non-executive directors The membership in 2007 was as follows

N P Buckles	(chairman from 5 September 2007)
Sir Richard Broadbent	(from 5 September 2007)
S G Batey	
A V M Palmer	(chairman until 5 September 2007 when she retired from the committee)

During the year, the committee met on three occasions details of the attendance at meetings appear in the Corporate Governance report on page 58

2 Remuneration policy
The objective of the Board s remuneration policy is to recruit and retain high quality directors and managers by providing competitive rewards based on the achievement of targets which are aligned to the company's strategic goals and with returns to shareholders The committee has established and continues to maintain with independent advice a peer pay comparator group comprising a selection of FTSE 250 companies (from the transport and other sectors) of a similar size and complexity to that of the company The committee benchmarks remuneration with the peer group, subject to the achievement of performance targets Performance targets selected by the committee are subject to periodic review to ensure continued congruence with the group's strategic goals

3 Remuneration structure
(a) Base salary
Each of the executive directors is paid a basic annual salary which is reviewed in January each year

	Basic Salary 1 January 2008 £ 000 pa	Basic Salary 1 January 2007 £'000 pa
D R Martin	480	465
S P Lonsdale	312	302
S J Clayton	280	271

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

With regard to the group financial performance element, the target is group earnings per share before goodwill impairment and intangible asset amortisation calculated in accordance with International Financial Reporting Standards and adjusted for exceptional items ('EPS') The committee reviews annually the EPS target to ensure that it remains appropriate in the context of the group's strategy and the delivery of sustained shareholder value For 2007 the EPS element of the bonus arrangement was structured as follows

EPS Target (pence)	Bonus as a per cent of Basic Salary
42 0	Nil
44 5	40
47 0	70

The qualitative element of directors' bonus arrangements focuses on delivery of specific elements of strategy, environmental issues, organisational and management goals and the development of a high calibre management team

As a consequence of the EPS performance of the group for the year ended 31 December 2007 (46 5 pence), and the performance of each director against the qualitative targets agreed at the beginning of the year, bonus payments were made to each executive director in February 2008 as follows

	Bonus for Year Ended 31 Dec	
	2007	2006
	£	£
D R Martin	425,000	246,800
S P Lonsdale	265,700	160 950
S J Clayton	243,900	136,500
	934,600	544,250

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

(c) Long Term Incentive Plan ('LTIP')

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

The vesting of the shares conditionally awarded in 2005 had as the performance measurement period the three years ended 31 December 2007 The Total Shareholder Return target was met, however the EPS performance target required in order to trigger vesting was 52 6 pence The actual EPS performance was 46 5 pence and, as a consequence, none of the shares conditionally awarded in 2005 will vest and the awards have therefore lapsed

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

(i) Total Shareholder Return element ('TSR')

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

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

The TSR performance is independently calculated and verified by Alithos Limited

(ii) The EPS element

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

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

Awards made prior to 2006 limited the market value of any conditional share award to 100 per cent of the director's basic salary as at the date of the award Vesting was dependent on both the TSR performance when compared with that of the peer comparator group and also the group's EPS performance when compared with the movement in the Retail Price Index Irrespective of TSR performance, an award was not capable of vesting if the EPS performance target was not met

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

As at 31 December 2007, the interests of the executive directors in conditional share awards made under the LTIP were as follows

	Awards Subsisting at 1 January 2007			Movement in Conditionally Awarded Shares: Awarded During Year			Movement in Conditionally Awarded Shares: Vested During Year			Not Vested in Year	Balance at 31 Dec 2007
	No of shares	Date Awarded	Share Price at Date of Calculation of Award (p)	No of shares	Date	Share Price at Date of Calculation of Award (p)	No of shares	Date of Vesting	Value of Shares at Date of Vesting (£)		
D R Martin	61,682	8/3/04	374 5				35,874	7/3/07	261,880	25,808	-
	54,744	14/3/05	548 0								54,744
	159,785	17/5/06	544 0								159,785
				124,832	16/3/07	745 0					124,832
Total	**276,211**			**124,832**			**35,874**			**25,808**	**339,361**
S J Clayton	61,682	8/3/04	374 5				35,874	7/3/07	261 880	25,808	-
	45,620	14/3/05	548 0								45,620
	92,940	17/5/06	544 0								92,940
				72,752	16/3/07	745 0					72,752
Total	**200,242**			**72,752**			**35,874**			**25,808**	**211,312**
S P Lonsdale	60,280	8/3/04	374 5				35,058	7/3/07	255,923	25,222	-
	45 620	14/3/05	548 0								45,620
	103 663	17/5/06	544 0								103,663
				81,074	16/3/07	745 0					81,074
Total	**209,563**			**81,074**			**35,058**			**25,222**	**230,357**

(d) Share option schemes

Since the introduction of the LTIP in 2000, none of the executive directors has participated in the company's share option schemes and it is not anticipated that there will be any change to this policy None of the executive directors has any residual interest in the share option schemes in respect of awards prior to 2000 The non-executive directors do not participate (and have not participated) in any of the company's share option schemes

(e) Directors' Remuneration details for the year ended 31 December 2007 (audited information)

	Emoluments					
	Fees £	Salary £	Performance Related Bonus £	Benefits in Kind/ Allowance £	Total £	Prior Year £
Sir Richard Broadbent	120,000	-	-	-	120,000	120,000
D R Martin	-	465,000	425,000	27,197	917,197	679,113
S J Clayton	-	271,000	243,900	25,220	540,120	421,866
S P Lonsdale	-	302,000	265,700	21,227	588,927	471,540
S G Batey	40,000	-	-	-	40,000	40,000
N P Buckles	35,500	-	-	-	35,500	35,500
A V M Palmer	35,500	-	-	-	35,500	35,500
S G Williams	35,500	-	-	-	35,500	35,500
R J Davies (retired April 2006)	-	-	-	-	-	275,098
Total	**266,500**	**1,038,000**	**934,600**	**73,644**	**2,312,744**	**2,114,117**

Notes

1 Benefits in kind for each director comprise a company car or car allowance, fuel, medical insurance and telephone costs

2 A pension of £5,000 (2006 £5,000) was paid to a former director

(f) Non-executive directors' fees

Excluding the chairman, each of the non-executive directors is paid a basic annual fee of £32,500 together with an additional fee to reflect the responsibilities associated with chairing a Board committee or fulfilling the role of senior independent director Fees for 2007 were paid as follows

	Basic Annual Fee £	Additional Annual Fee £	Total £	Additional Role
Sir Richard Broadbent	120,000	-	120,000	chairman of Nomination Committee
S G Batey	32,500	7,500	40,000	chairman of Audit Committee
N P Buckles	32,500	3,000	35,500	chairman of Safety Committee until 5 September 2007 chairman of Remuneration Committee from 5 September 2007
A V M Palmer	32,500	3,000	35,500	chairman of Remuneration Committee until 5 September 2007 chairman of Safety Committee from 5 September 2007
S G Williams	32,500	3,000	35,500	senior independent director
	250,000	**16,500**	**266,500**	

The fees payable to the non-executive directors were last reviewed in March 2005 A review conducted at the end of 2007 indicated that the fee levels in comparator companies had increased markedly and it was decided therefore to implement increases in January 2008, in the fees paid to the non-executive directors, as follows

	Basic Annual Fee £	Additional Annual Fee £	Total £
Sir Richard Broadbent	150,000	-	150,000
S G Batey	40,000	10,000	50,000
N P Buckles	40,000	5,000	45,000
A V M Palmer	40,000	5,000	45 000
S G Williams	40,000	5,000	45 000
	310,000	25,000	335,000

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

Under the terms of the Articles of Association the fees payable to the non-executive directors are limited to £400,000 per annum in the aggregate, this level was established following approval by shareholders at the Annual General Meeting held on 23 April 2004, and the Articles permit the directors to increase this cap annually in line with the increase in the index of UK wage inflation As at 31 December 2007 in accordance with the indexation provisions, the cap on the aggregate level of non-executive directors' fees was £456,800

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

(g) Directors' share interests

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

	1 January 2007	31 December 2007	1 March 2008
R J Broadbent	27,246	27,246	27,246
S J Clayton	80,000	80,000	80,000
S P Lonsdale	314,831	314,831	314,831
D R Martin	452,974	488,848	488,848
S G Batey	7,268	7,268	7,268
N P Buckles	5,000	5,000	5,000
A V M Palmer	Nil	Nil	Nil
S G Williams	1,060	1,060	1,060

(h) Pensions (audited information)

	D R Martin	S J Clayton	S P Lonsdale
Scheme*	2	3	1
Normal retirement age	65	65	65
Director's contribution	Nil	Nil	Nil
Increase in accrued pension during the year (allowing for indexation) (£ pa)	101,758	9,444	18,741
Gross increase in accrued pension (£ pa)	109,911	12,616	25,692
Accrued pension at 31/12/2007 (£ pa)	300,554	100,697	218,775
Accrued pension at 31/12/2006 (£ pa)	190,643	88,081	193,083
Value of net increase in accrual over period (£)	1,435,226	99,137	161,839
Transfer value of accrued pension at 31/12/2006 (£)	2,572,530	847,755	1,608,394
Transfer value of accrued pension at 31/12/2007 (£)	4,281,623	1,056,898	1,992,137
Total change in value during period (£)	1,709,093	209,143	383,743

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

Since 1 January 2000 Messrs Martin, Clayton and Lonsdale have been accruing benefits in their respective schemes at 1/30th of basic annual salary, for service after 31 December 1999 bonus ceased to be taken into account when computing pension benefits

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

(i) Service contracts

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

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

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

(iii) The value of the benefits in kind

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

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

(j) External Board appointments

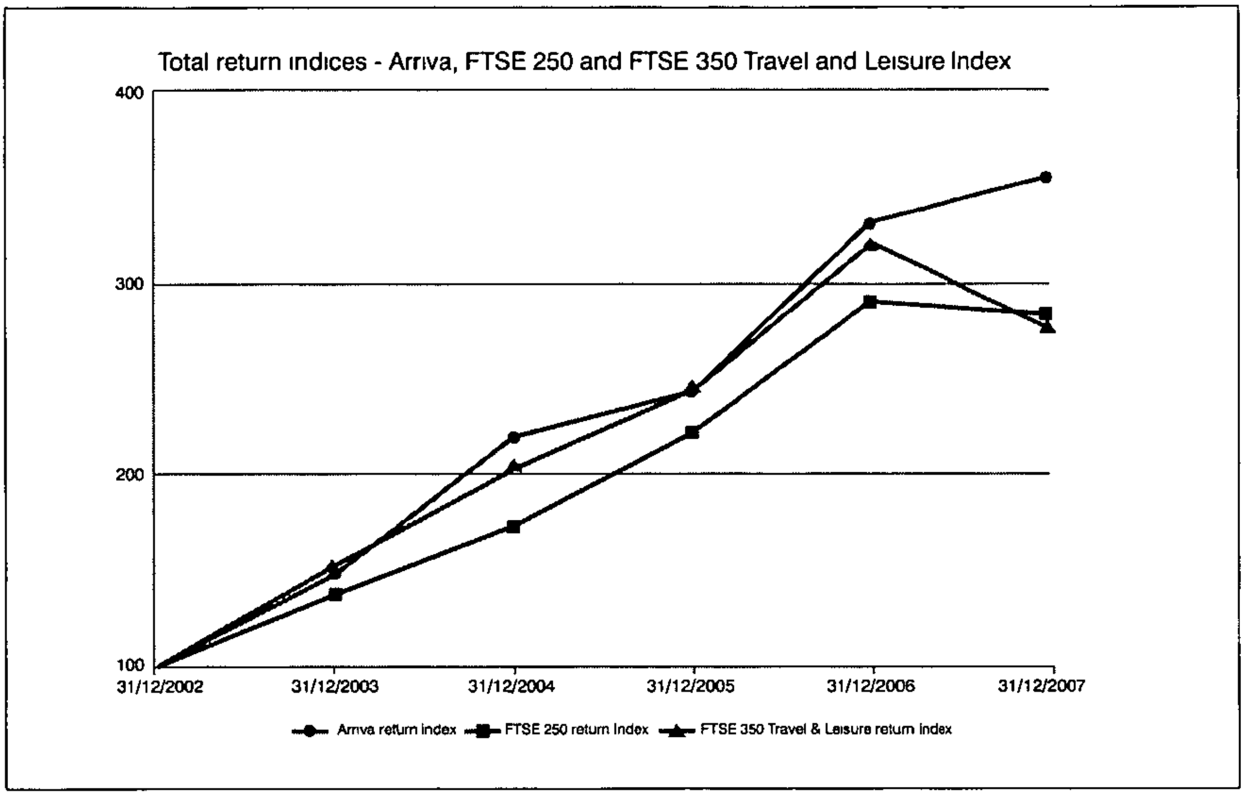
The Board will permit executive directors to accept one appointment outside the company Before accepting such appointments the director(s) involved must receive the prior approval of the Board In considering such cases the Board will always satisfy itself, as far as is possible, that such appointments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

(k) TSR graph

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

(a) The FTSE 250 and

(b) The FTSE 350 Travel and Leisure Index



(l) Remuneration report approval

An ordinary resolution to consider and if thought fit approve this Remuneration Report, will be proposed at the Annual General Meeting to be held on 23 April 2008

For and on behalf of the Board

N P Buckles
Chairman, Remuneration Committee

5 March 2008

Compliance statement

The essential principles of corporate governance applied by the company are detailed in Section 1 of The Combined Code on Corporate Governance published in June 2006 ('The Code') and throughout the year under review the company in all material respects complied with those provisions The purpose of this report is to describe how the principles of The Code have been applied by the company throughout the year under review

The Board and its structure

A General

The Board comprises a non-executive chairman, three executive directors and four independent non-executive directors, this composition was maintained throughout the whole of the period under review Steve Williams is the senior independent director and in this regard his responsibilities include providing shareholders with an additional channel of communication with the company should the normal channels be either inappropriate or have failed to provide resolution Additionally, in his capacity as senior independent director, Steve Williams may attend and participate at the meeting of any Board committee of which he is not a member

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

The Board will normally meet between eight and ten times annually, with one of the meetings always reserved for the review and testing of the group's strategy During 2007, the Board met on nine occasions

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

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

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

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

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

B Induction

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

C Evaluation

Each year the Board undertakes an evaluation of its own performance The performance evaluation for 2007, conducted in early 2008, was led by Steve Williams as the senior independent director and included a specific element concerning an assessment of the performance of the chairman The evaluation concluded that the Board was operating effectively A small number of areas were identified where further improvements could be made including increasing the focus on the regulatory environment of the industry and further deepening directors' knowledge of individual business units These points are being addressed

D Board Committees

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

D1 Audit Committee

The Audit Committee comprises exclusively independent non-executive directors and is chaired by Simon Batey, a chartered accountant and former finance director of United Utilities plc and more latterly, until his retirement from that post, chief financial officer of Thames Water Utilities Limited The other members of the committee are Steve Williams and Veronica Palmer The Audit Committee's principal areas of focus are

(a) Financial reporting

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

(b) Internal control and risk management systems

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

In this regard the Audit Committee is assisted by the Group Internal Audit function, the head of which reports directly to the chairman of the Audit Committee

(c) Internal audit

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

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

(d) External audit

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

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

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

D2 Nomination Committee

The Nomination Committee membership comprises a majority of independent non-executive directors and is chaired by Sir Richard Broadbent The other members of the committee are Simon Batey, Nick Buckles, Veronica Palmer and Steve Williams

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

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

D3 Remuneration Committee

The committee comprises exclusively non-executive directors and is chaired (effective from 5 September 2007) by Nick Buckles The other members of the committee are Sir Richard Broadbent (from September 2007) and Simon Batey Veronica Palmer ceased her membership of the committee on 5 September following her appointment as chairman of the Board's Safety Committee

A full review of the work of the committee appears in the Directors' Remuneration Report on pages 49 to 55

D4 Safety Committee

Given the nature of the group's businesses, the Board recognises the fundamental importance of safety and related issues In order that sufficient and appropriate attention to safety and related disciplines can be given adequate attention by the Board, the Safety Committee was established a number of years ago to address these matters

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

Since 5 September 2007, the committee has been chaired by Veronica Palmer, the previous chairman, Nick Buckles, having assumed the chairmanship of the Remuneration Committee from the same date and ceasing to be a member of the Safety Committee from the same date The other members of the committee are Steve Williams and Steve Clayton, Sir Richard Broadbent having ceased his membership of the committee on 5 September The group safety and environment manager supports the committee in its work

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

E Board and Board Committee attendance information

Number of Meetings/Attendance	BOARD 9	AUDIT 3	NOMINATION 3	SAFETY 2	REMUNERATION 3
Sir Richard Broadbent*	9	-	3	1	1
D R Martin	9	-	-	-	-
S J Clayton	9	-	-	2	-
S P Lonsdale	9	-	-	-	-
S G Batey	9	3	3	-	3
N P Buckles*	9	-	3	1	3
A V M Palmer*	9	3	3	1	2
S G Williams	9	3	3	2	-

* Sir Richard Broadbent was appointed to the Remuneration Committee during the course of the year and at the same time stood down from his membership of the Safety Committee Veronica Palmer and Nick Buckles exchanged their respective roles as chairman of the Remuneration and Safety Committees during the course of the year, Nick Buckles also relinquished his membership of the Safety Committee and Veronica Palmer that of the Remuneration Committee Each of those three directors has attended all committee meetings that they were eligible to attend as members

F Relations with shareholders

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

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

G Annual General Meeting

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

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

H Group policies

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

I Whistleblowing

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

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

The whistleblowing policy and its operation is subject to periodic review by the Audit Committee, the last review was in February 2008

J Internal control

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

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

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

The key features of the internal control system are

(a) Organisation structure

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

(b) Financial reporting

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

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

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

Group Internal Audit is staffed by appropriately qualified and experienced auditors

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

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

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

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

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

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

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

As part of the ongoing risk assessment and management programme the principal risks and uncertainties facing the business have been identified and are reported on separately on pages 32 to 33

K Going concern
The directors confirm that, after having made appropriate enquiries, they have reasonable expectation that the group and the company have adequate resources to continue in operational existence for the foreseeable future Accordingly, the directors continue to adopt the going concern basis in the preparation of the Accounts This approach was endorsed by the Audit Committee at its meeting held on 26 February 2008

We have audited the group financial statements of Arriva plc for the year ended 31 December 2007 which comprise the Group income statement, the Group balance sheet, the Group cash flow statement, the Group statement of recognised income and expense and the related notes These group financial statements have been prepared under the accounting policies set out therein

We have reported separately on the parent company financial statements of Arriva plc for the year ended 31 December 2007 and on the information in the Directors' Remuneration Report that is described as having been audited

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

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

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

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

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

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

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

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

Opinion
In our opinion

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 December 2007 and of its profit and cash flows for the year then ended,
- the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation, and
- the information given in the Directors' Report is consistent with the group financial statements

PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Newcastle upon Tyne
18 March 2008

Group income statement

for the year ended 31 December 2007

	notes	2007 £m	2006 £m
Continuing operations			
Revenue	1	2,000 7	1,729 0
Net operating expenses	3(a)	(1,872 7)	(1,609 5)
Group operating profit		128 0	119 5
Share of post tax profits from associates		4 3	1 9
Net finance costs	2	(16 5)	(11 6)
Profit on ordinary activities before taxation	3	115 8	109 8
Tax on profit on ordinary activities	5	(25 8)	(25 2)
Profit for the year from continuing operations		90 0	84 6
Discontinued operations			
Profit for the year from discontinued operations	6	-	20 1
Profit for the year		90 0	104 7
Attributable to			
Equity holders of the parent		86 4	102 3
Minority interests		3 6	2 4
		90 0	104 7
Dividends per ordinary share	7	22 65p	20 83p
Earnings per share	8(a)		
Basic earnings per share		43 5p	51 8p
Diluted earnings per share		43 4p	51 4p
Earnings per share from continuing operations	8(a)		
Basic earnings per share		43 5p	41 6p
Diluted earnings per share		43 4p	41 3p
Basic earnings per share before goodwill impairment, intangible asset amortisation and exceptional items from continuing operations	8(b)	46 5p	44 4p

Group balance sheet

at 31 December 2007

	notes	2007 £m	2006 £m
Non-current assets			
Goodwill	9	328 2	286 4
Other intangible assets	10	43 2	34 9
Property, plant and equipment	11	1,164 4	982 5
Investments	12	63 6	51 4
Derivative financial instruments	20	39 6	3 9
		1,639 0	1,359 1
Current assets			
Inventories	13	41 1	34 9
Trade and other receivables	14	360 3	221 1
Cash and cash equivalents	15	95 7	87 6
Derivative financial instruments	20	21 8	9 4
		518 9	353 0
Total assets		2,157 9	1,712 1
Current liabilities			
Trade and other payables	16	546 5	369 6
Tax liabilities	17	34 5	16 5
Obligations under finance leases	18	10 5	24 8
Bank overdrafts and loans	18	117 9	131 5
Derivative financial instruments	20	10 4	13 6
		719 8	556 0
Non-current liabilities			
Bank loans	18	203 2	108 7
Other loans	18	123 3	147 4
Retirement benefit obligations	21	73 7	173 8
Deferred tax liabilities	22	87 6	45 3
Obligations under finance leases	18	89 3	53 6
Other non-current liabilities	19	114 3	67 3
Derivative financial instruments	20	12 7	1 2
		704 1	597 3
Total liabilities		1,423 9	1,153 3
Net assets		734 0	558 8
Equity			
Share capital	23	9 9	9 9
Share premium account	26	24 2	22 4
Other reserves	25	105 0	58 0
Retained earnings	26	571 1	452 2
Total shareholders' equity	26	710 2	542 5
Minority interest in equity	26	23 8	16 3
Total equity		734 0	558 8

D R Martin
S P Lonsdale
Directors

These financial statements on pages 62 to 99 were approved by the Board on 5 March 2008

Group cash flow statement

for the year ended 31 December 2007

	notes	2007 £m	2006 £m
Cash flows from operating activities			
Cash generated from operations	27(b)	248 2	160 0
Interest and finance charges paid		(16 5)	(12 1)
Tax paid		(5 4)	(24 9)
Net cash inflow from operating activities		226 3	123 0
Cash flows from investing activities			
Acquisitions of businesses		(35 5)	(20 9)
Net cash assumed on acquisitions		12 3	1 9
Investment in associates		(2 8)	(41 8)
Disposal of business		-	130 2
Purchase of property, plant and equipment		(232 6)	(171 2)
Disposal of property, plant and equipment		87 4	78 7
Net cash used in investing activities		(171 2)	(23 1)
Cash flows from financing activities			
Proceeds from issuing ordinary share capital		1 3	1 2
Decrease in loans due within one year		(39 4)	(6 6)
Increase/(decrease) in loans due after one year		36 0	(45 9)
Decrease in finance lease obligations		(15 2)	(7 9)
Dividends paid to the company's shareholders		(41 9)	(39 6)
Dividends paid to minority interests		(1 0)	(0 9)
Net cash used in financing activities		(60 2)	(99 7)
Net (decrease)/increase in cash, cash equivalents and overdrafts	27(c)	(5 1)	0 2
Cash, cash equivalents and overdrafts at the beginning of the year	27(c)	71 1	71 6
Exchange losses on cash, cash equivalents and overdrafts	27(c)	(3 6)	(0 7)
Cash, cash equivalents and overdrafts at the end of the year	27(c)	62 4	71 1

Group statement of recognised income and expense

for the year ended 31 December 2007

	2007 £m	2006 £m
Net foreign exchange adjustments offset in reserves, net of tax	4 1	(3 4)
Cash flow hedges, net of tax	47 0	(17 0)
Actuarial gains on defined benefit schemes, net of tax	70 6	9 9
Tax relief on share option schemes	0 5	-
Net income/(expense) recognised directly in equity	122 2	(10 5)
Profit for the year	90 0	104 7
Total recognised income and expense	212 2	94 2
Attributable to		
Equity holders of the parent	206 7	92 3
Minority interests	5 5	1 9
	212 2	94 2

Basis of preparation
As a UK listed company, Arriva plc is required to prepare its group accounts in accordance with EU endorsed International Financial Reporting Standards (IFRS), International Financial Reporting Interpretations Committee (IFRIC) interpretations and the Companies Act 1985 applicable to companies reporting under IFRS These financial statements have been prepared in accordance with EU endorsed IFRS, IFRIC interpretations and the Companies Act 1985 applicable to companies reporting under IFRS for periods ending 31 December 2007

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

The principal accounting policies of the group are set out below

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

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

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

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

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

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

Use of estimates and accounting assumptions
The preparation of financial statements requires management to make estimates and assumptions that affect the group's reported results Although these estimates are based on management's best knowledge at the time, actual results could differ from those estimates The key areas of judgment or estimation which could impact the results in the next financial year were they to change include the economic useful lives of property, plant and equipment (disclosed below), the use of actuarial assumptions for measurement of retirement benefit obligations (see note 21), the measurement of insurance provisions, and the use of forecasts in respect of the annual testing for impairment of goodwill

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

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

Government grants
Government grants relating to capital expenditure are included as deferred income and are credited to the income statement over the expected useful economic life of the assets concerned Revenue related grants are credited to the income statement when the related expenditure is expensed

Foreign currency translation

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

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

Property, plant and equipment

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

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

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

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

Goodwill

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

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

Goodwill previously eliminated against reserves has not been reinstated

Intangible assets

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

Impairment

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

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

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

Inventories

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

Borrowings

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

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

Taxation

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

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

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

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

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

Pensions

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

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

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

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

Share-based payments

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

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

Provisions

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

Leases

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

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

Cash and cash equivalents

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

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

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

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

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

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

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

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

International Accounting Standards and Interpretations		Effective date
IFRS7	Financial Instruments Disclosures	1 January 2007
IAS1	Amendment - Presentation of financial statements	1 January 2007
IFRIC8	Scope of IFRS2	1 May 2006
IFRIC9	Reassessment of embedded derivatives	1 June 2006
IFRIC10	Interim financial reporting and impairment	1 November 2006

The adoption of IFRS7 has resulted in an increased level of disclosure relating to financial instruments, although there has been no effect on the reported income or net assets of the group The adoption of the other above standards has not had a material impact on the group's financial statements

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

International Accounting Standards and Interpretations		Effective date
IFRS2	Share-based Payments - Amendment relating to vesting conditions and cancellations	1 January 2009
IFRS3	Business Combinations - Comprehensive revision on applying the acquisition method	1 July 2009
IFRS8	Operating Segments	1 January 2009
IAS1	Presentation of Financial Statements Comprehensive revision including requiring a statement of comprehensive income	1 January 2009
IAS1	Presentation of Financial Statements - Amendments relating to disclosure of puttable instruments and obligations arising on liquidation	1 January 2009
IAS23	Borrowing Costs - Comprehensive revision to prohibit immediate expensing	1 January 2009
IAS27	Consolidated and Separate Financial Statements - Consequential amendments arising from amendments to IFRS3	1 July 2009
IAS28	Investments in Associates Consequential amendments arising from amendments to IFRS3	1 July 2009
IAS31	Interests in Joint Ventures - Consequential amendments arising from amendments to IFRS3	1 July 2009
IAS32	Financial Instruments Presentation - Amendments relating to puttable instruments and obligations arising on liquidation	1 January 2009
IFRIC11	IFRS2 Group and Treasury Share Transactions	1 March 2007
IFRIC12	Service Concession Arrangements	1 January 2008
IFRIC13	Customer Loyalty Programmes	1 July 2008
IFRIC14	IAS19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	1 January 2008

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

1 Segmental reporting
Primary reporting format - business segments
year ended 31 December 2007

	UK Bus £m	Mainland Europe £m	UK Trains £m	Central £m	Total operations £m
Revenue	814 7	863 6	322 4	-	2,000 7
EBITDA	144 2	111 0	10 7	(16 7)	249 2
Depreciation	(56 3)	(53 9)	(3 2)	(0 4)	(113 8)
Operating profit*	87 9	57 1	7 5	(17 1)	135 4
Goodwill impairment and intangible asset amortisation	-	(6 4)	(1 0)	-	(7 4)
Group operating profit	87 9	50 7	6 5	(17 1)	128 0
Share of post tax profits from associates	-	4 3	-	-	4 3
Net finance costs					(16 5)
Profit on ordinary activities before taxation					115 8
Tax on profit on ordinary activities					(25 8)
Profit for the year					90 0
Profit attributable to minority interests					(3 6)
Net profit attributable to equity shareholders					86 4

* Before goodwill impairment and intangible asset amortisation

(a) Included above is £113 0 million of revenue and £2 7 million of operating profit, before goodwill impairment and intangible asset amortisation, relating to the acquisitions made by the mainland Europe division during the year There is £1 3 million of revenue and £0 1 million operating loss relating to acquisitions made by the UK Bus division

(b) Revenue for UK Trains includes franchise agreement receipts amounting to £182 5 million

Primary reporting format - business segments

year ended 31 December 2006

	UK Bus £m	Mainland Europe £m	UK Trains £m	Central £m	Total operations £m
Revenue	**762 8**	**712 3**	**253 9**	**-**	**1,729 0**
EBITDA	130 4	100 9	14 5	(12 9)	232 9
Depreciation	(54 4)	(48 9)	(2 2)	(0 7)	(106 2)
Operating profit*	**76 0**	**52 0**	**12 3**	**(13 6)**	**126 7**
Goodwill impairment and intangible asset amortisation	-	(6 4)	(0 8)	-	(7 2)
Group operating profit	**76 0**	**45 6**	**11 5**	**(13 6)**	**119 5**
Share of post tax profits from associates	-	1 9	-	-	1 9
Net finance costs					(11 6)
Profit on ordinary activities before taxation					109 8
Tax on profit on ordinary activities					(25 2)
Profit for the year from continuing operations					84 6
Profit for the year from discontinued operations					20 1
Profit for the year					104 7
Profit attributable to minority interests					(2 4)
Net profit attributable to equity shareholders					102 3

* Before goodwill impairment and intangible asset amortisation

(a) Included above is £12 2 million of revenue and £0 8 million of operating profit, before goodwill impairment and intangible asset amortisation, relating to the acquisitions made by the mainland Europe division during the year There is £11 1 million of revenue and £1 1 million of operating profit relating to acquisitions made by the UK Bus division

(b) The share of post tax profit from associates of £1 9 million above includes £0 9 million from the investment in Barraqueiro SGPS SA made in May 2006

(c) The profit for the year from discontinued operations related to Arriva Vehicle Rental, as disclosed in note 6

(d) Revenue for UK Trains includes franchise agreement receipts amounting to £142 0 million

1 Segmental reportıng (contınued)

Prımary reportıng format - busıness segments

year ended 31 December 2007

	UK Bus £m	Maınland Europe £m	UK Traıns £m	Central £m	Group £m
Segment assets	642 1	1,163 8	114 3	17 0	1,937 2
Investment ın equıty accounted assocıates	-	63 6	-	-	63 6
Unallocated assets					
- Cash and cash equıvalents					95 7
- Derıvatıve fınancıal ınstruments					61 4
Total assets	**642 1**	**1,227 4**	**114 3**	**17 0**	**2,157 9**
Segment lıabılıtıes	(222 4)	(448 9)	(132 5)	(34 7)	(838 5)
Unallocated lıabılıtıes					
- Corporate borrowıngs					(544 2)
- Derıvatıve fınancıal ınstruments					(23 1)
- Deferred tax on derıvatıve fınancıal ınstruments					(18 1)
Total lıabılıtıes	**(222 4)**	**(448 9)**	**(132 5)**	**(34 7)**	**(1,423 9)**
Net assets					**734 0**
Other segment ıtems					
Capıtal expendıture					
- Property, plant and equıpment exıstıng busınesses	45 4	178 1	8 9	0 2	232 6
- Property, plant and equıpment acquısıtıons	0 9	97 5	-	-	98 4

year ended 31 December 2006

	UK Bus £m	Maınland Europe £m	UK Traıns £m	Central £m	Group £m
Segment assets	658 0	819 0	66 4	16 4	1,559 8
Investment ın equıty accounted assocıates	-	51 4	-	-	51 4
Unallocated assets					
- Cash and cash equıvalents					87 6
- Derıvatıve fınancıal ınstruments					13 3
Total assets	**658 0**	**870 4**	**66 4**	**16 4**	**1,712 1**
Segment lıabılıtıes	(283 8)	(270 0)	(86 5)	(33 1)	(673 4)
Unallocated lıabılıtıes					
- Corporate borrowıngs					(466 0)
- Derıvatıve fınancıal ınstruments					(14 8)
- Deferred tax on derıvatıve fınancıal ınstruments					0 9
Total lıabılıtıes	**(283 8)**	**(270 0)**	**(86 5)**	**(33 1)**	**(1,153 3)**
Net assets					**558 8**
Other segment ıtems					
Capıtal expendıture					
- Property, plant and equıpment exıstıng busınesses	51 3	101 5	8 8	9 6	171 2
- Property, plant and equıpment acquısıtıons	4 8	11 9	-	-	16 7

Capıtal expendıture ın Central ın 2006 ıncludes £4 2 mıllıon relatıng to dıscontınued operatıons

Secondary reporting format - geographical segments

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

	Revenue		Segment assets		Capital expenditure	
	2007 £m	2006 £m	2007 £m	2006 £m	2007 £m	2006 £m
Continuing operations						
UK	1,137 1	1,016 7	773 4	740 8	54 5	65 5
Mainland Europe	863 6	712 3	1,163 8	819 0	178 1	101 5
	2,000 7	1,729 0	1,937 2	1,559 8	232 6	167 0
Discontinued operations in the UK			-	-	-	4 2
Investments in equity accounted associates			63 6	51 4	-	-
Unallocated assets						
- Cash and cash equivalents			95 7	87 6	-	-
- Derivative financial instruments			61 4	13 3	-	-
			2,157 9	1,712 1	232 6	171 2

2 Net finance costs

	2007 £m	2006 £m
Finance costs		
- Interest payable on bank and other borrowings repayable within five years	15 6	10 2
- Interest payable on bank and other borrowings repayable after five years	0 8	0 2
Finance lease charges	5 3	4 1
Hire purchase charges	1 5	2 6
Interest payable and similar charges	23 2	17 1
Finance income		
- Interest receivable on other financing items	(6 7)	(5 5)
Net finance costs	16 5	11 6

3 Profit on ordinary activities before taxation

(a) Net operating expenses	2007 £m	2006 £m
Operating costs	1,629 6	1,375 2
Administrative expenses	243 1	234 3
	1,872 7	1,609 5

3 Profit on ordinary activities before taxation (continued)

(b) The following items have been included in arriving at operating profit from continuing operations	2007 £m	2006 £m
Staff costs	977 0	869 0
Depreciation of property, plant and equipment	113 8	106 2
Amortisation of intangible assets	5 6	5 4
Impairment of goodwill	1 8	1 8
Profit on disposal of properties	(3 2)	(0 5)
Operating lease rentals payable		
- Plant and equipment	172 7	128 6
- Property	15 9	15 6
Repairs and maintainance expenditure on property, plant and equipment	13 3	14 8

During the year the group (including its overseas subsidiaries) obtained the following services from the group's auditors and network firms as detailed below	2007 £m	2006 £m
Remuneration payable to the company's auditors for the auditing of the annual accounts	0 4	0 4
The auditing of accounts of subsidiaries of the company pursuant to legislation (countries and territories outside Great Britain)	0 5	0 3
Services relating to taxation	0 1	0 2
All other services	0 5	0 1
	1 5	1 0

Included in the group's audit fees and expenses paid to the auditors is £0 1 million (2006 £0 1 million) in respect of the parent company

4 Employee information

(a) Average number of employees by business	2007 Number	2006 Number
UK Bus	18,014	17,773
UK Trains	2,373	2,157
Mainland Europe	14,662	12,374
	35,049	32,304
Central	134	131
Continuing operations	35,183	32,435

(b) Staff costs from continuing operations (including executive directors)	2007 £m	2006 £m
Wages and salaries	840 0	746 6
Social security costs	92 9	82 7
Pension costs	44 1	39 7
	977 0	869 0

Key management personnel are considered to be the directors and their remuneration is disclosed within the Directors' Remuneration Report

5 Taxation

Analysis of charge in the year for continuing operations	2007 £m	2006 £m
Current tax	26 0	9 3
Deferred tax	(0 2)	15 9
Taxation	25 8	25 2

Tax on items charged/(credited) to equity	2007 £m	2006 £m
Current tax (credit)/charge on exchange movements offset in reserves	(2 7)	2 4
Deferred tax charge on cross currency swaps	0 7	-
Deferred tax charge/(credit) on cash flow hedges	18 3	(7 3)
Deferred tax charge on actuarial gains on defined benefit schemes	28 9	3 2
Current tax credit on share option schemes	(0 5)	-
Total tax on items charged/(credited) to equity	44 7	(1 7)

The tax for the year is lower (2006 lower) than the standard rate of corporation tax in the UK of 30 per cent (2006 30 per cent) The differences are explained below

	2007 £m	2006 £m
Profit on ordinary activities before taxation	115 8	109 8
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30 per cent (2006 30 per cent)	34 7	32 9
Effects of		
- Adjustments to tax in respect of prior years	(7 5)	(8 7)
- Income not subject to tax	(0 7)	(0 3)
- Expenses not deductible for tax purposes	2 4	2 0
- Utilisation of previously unrecognised tax losses	(1 3)	(4 2)
- Tax losses arising where no deferred tax asset has been recognised	0 1	0 5
- Different tax rates of subsidiaries operating in other jurisdictions	3 6	3 6
- Results from associated undertakings	(1 3)	(0 6)
- Remeasurement of deferred tax - change in UK tax rate	(3 0)	-
- Remeasurement of deferred tax - change in German tax rate	(1 2)	-
Total taxation	25 8	25 2

6 Discontinued operations

Profit from discontinued operations of £20 1 million in the prior year relates to the vehicle rental business £20 0 million relates to the gain on disposal of the subsidiary

Net cash inflows from discontinued operations for the year ended 31 December 2007 were £nil (2006 £132 1 million)

7 Dividends

	2007 £m	2006 £m
Final dividend paid for the year ended 31 December 2006 of 15 51 pence per share (2006 final dividend paid for the year ended 31 December 2005 of 14 77 pence per share)	30 8	29 2
Interim dividend paid for the year ended 31 December 2007 of 5 59 pence per share (2006 interim dividend paid for the year ended 31 December 2006 of 5 32 pence per share)	11 1	10 4
Amounts recognised as distributions to equity holders in the year	41 9	39 6

The directors are proposing a final dividend in respect of the financial year ending 31 December 2007 of 17 06 pence per share which will absorb an estimated £33 9 million of shareholders' funds It will be paid on 1 May 2008 to shareholders who are on the Register of Members on 28 March 2008

8 Earnings per share

	2007			2006		
(a) Basic and diluted earnings per share	Per share p	Earnings £m	Shares m	Per share p	Earnings £m	Shares m
Profit attributable to ordinary shareholders		86 4			102 3	
Weighted average number of shares			198 4			197 7
Basic earnings per share	43 5	86 4	198 4	51 8	102 3	197 7
Performance-based share option schemes						
- Additional shares for earnings contingency			0 9			1 5
- Number of shares that would have been issued at fair value			(0 2)			(0 4)
Diluted earnings per share	43 4	86 4	199 1	51 4	102 3	198 8
Earnings per share from continuing operations						
Basic earnings per share	43 5	86 4	198 4	51 8	102 3	197 7
Gain on disposal of subsidiary	-	-		(10 2)	(20 0)	
Post tax results from discontinued operations	-	-		-	(0 1)	
Basic earnings per share from continuing operations	43 5	86 4	198 4	41 6	82 2	197 7
Diluted earnings per share	43 4	86 4	199 1	51 4	102 3	198 8
Gain on disposal of subsidiary	-	-		(10 1)	(20 0)	
Post tax results from discontinued operations	-	-		-	(0 1)	
Diluted earnings per share from continuing operations	43 4	86 4	199 1	41 3	82 2	198 8

Earnings per share from discontinued operations was nil (2006 10 2 pence per share) Diluted earnings per share from discontinued operations was nil (2006 10 1 pence per share)

(b) Basic earnings per share before goodwill impairment, intangible asset amortisation and exceptional items from continuing operations	2007 p	2006 p
Basic earnings per share	43 5	51 8
Earnings per share relating to		
- Goodwill impairment and intangible asset amortisation	3 0	2 8
- Gain on disposal of subsidiary	-	(10 2)
Basic earnings per share before goodwill impairment, intangible asset amortisation and exceptional items from continuing operations	46 5	44 4

9 Goodwill

	2007 £m	2006 £m
Cost		
At 1 January	336 0	327 3
Additions	24 1	12 6
Hindsight adjustment (note 28c)	2 2	6 5
Disposals	-	(6 7)
Currency translation adjustments	19 0	(3 7)
At 31 December	381 3	336 0
Impairment		
At 1 January	49 6	49 8
Impairment in the year	1 8	1 8
Disposals	-	(1 6)
Currency translation adjustments	1 7	(0 4)
At 31 December	53 1	49 6
Net book amount at 31 December	328 2	286 4

Details of acquisitions in the year are shown in note 28 During the year, goodwill was reviewed for impairment in accordance with IAS36 For the purposes of this impairment review goodwill has been tested on the basis of discounted future cash flows arising in each relevant cash generating unit Goodwill is allocated across multiple cash generating units and the amount allocated to each unit is not significant in comparison with the total carrying amount of goodwill

10 Other intangible assets

	2007 £m	2006 £m
Cost		
At 1 January	47 8	48 5
Additions	12 0	-
Currency translation adjustments	3 2	(0 7)
At 31 December	63 0	47 8
Amortisation		
At 1 January	12 9	7 7
Amortisation for the year	5 6	5 4
Currency translation adjustments	1 3	(0 2)
At 31 December	19 8	12 9
Net book amount at 31 December	43 2	34 9

The addition of £12 0 million in the year relates to the award of the CrossCountry rail franchise

All amortisation charges in the year have been charged through net operating expenses Intangible assets relate to identifiable assets purchased as part of the group's business combinations and the right to operate the Arriva Trains Wales and CrossCountry rail franchises Intangible assets are amortised on a straight-line basis over their expected useful economic lives

11 Property, plant and equipment

2007	Land & buildings £m	Plant, company vehicles, fixtures & fittings £m	Buses & coaches £m	Railway rolling stock £m	Total £m
Cost					
At 1 January 2007	267 4	134 7	1,099 6	108 1	1,609 8
Acquisitions	49 8	55 3	99 9	13 5	218 5
Additions	14 5	31 3	93 9	92 9	232 6
Disposals	(5 9)	(4 2)	(59 3)	(70 5)	(139 9)
Currency translation adjustments	15 2	11 0	47 1	12 5	85 8
At 31 December 2007	341 0	228 1	1,281 2	156 5	2,006 8
Accumulated depreciation					
At 1 January 2007	39 8	76 6	488 2	22 7	627 3
Acquisitions	16 5	41 5	56 5	5 6	120 1
Charge for the year	5 6	16 1	86 2	5 9	113 8
Disposals	(2 2)	(2 5)	(47 8)	-	(52 5)
Currency translation adjustments	4 3	7 0	19 5	2 9	33 7
At 31 December 2007	64 0	138 7	602 6	37 1	842 4
Net book amounts					
At 31 December 2007	277 0	89 4	678 6	119 4	1,164 4

The net book amount of assets held under hire purchase and finance lease contracts included in plant, company vehicles, buses and coaches is £277 0 million (2006 £280 7 million) The depreciation provided in the year in respect of these assets was £28 3 million (2006 £33 5 million) The gross cost of assets held for the purpose of letting under operating leases amounts to £15 3 million (2006 £15 8 million) The accumulated depreciation on these assets was £7 3 million (2006 £8 9 million)

2006	Land & buildings £m	Plant, company vehicles, fixtures & fittings £m	Buses & coaches £m	Railway rolling stock £m	Total £m
Cost					
At 1 January 2006	265 4	120 4	1,198 9	124 5	1,709 2
Acquisitions	3 9	1 2	17 3	-	22 4
Additions	11 2	30 4	95 8	33 8	171 2
Disposals	(10 0)	(17 1)	(205 4)	(48 2)	(280 7)
Currency translation adjustments	(3 1)	(0 2)	(7 0)	(2 0)	(12 3)
At 31 December 2006	267 4	134 7	1,099 6	108 1	1,609 8
Accumulated depreciation					
At 1 January 2006	36 0	71 7	490 4	18 3	616 4
Acquisitions	0 3	0 7	4 7	-	5 7
Charge for the year	4 7	14 5	83 9	5 2	108 3
Disposals	(0 1)	(10 1)	(87 8)	(0 4)	(98 4)
Currency translation adjustments	(1 1)	(0 2)	(3 0)	(0 4)	(4 7)
At 31 December 2006	39 8	76 6	488 2	22 7	627 3
Net book amounts					
At 31 December 2006	227 6	58 1	611 4	85 4	982 5

	2007 £m	2006 £m
Net book amount of land and buildings comprises		
- Freehold	275 0	225 7
- Long-leasehold	0 4	0 5
- Short-leasehold	1 6	1 4
	277 0	227 6

12 Investments accounted for using the equity method

Investments (all unquoted)	2007 £m	2006 £m
Cost		
At 1 January	51 4	7 9
Additions	3 7	41 7
Share of recognised profit for the year*	4 3	1 9
Currency translation adjustments	4 2	(0 1)
At 31 December	63 6	51 4

* Share of recognised profit for the year is stated after tax

The group's share of the net assets of its associates is analysed below	2007 £m	2006 £m
Non-current assets	112 9	93 3
Current assets	39 4	27 5
Non-current liabilities	(51 5)	(27 8)
Current liabilities	(38 4)	(42 8)
Share of net assets	62 4	50 2

The group's share of its associates revenue and profit is analysed below	2007 £m	2006 £m
Revenue	63 9	40 0
Profit	4 3	1 9

13 Inventories

	2007 £m	2006 £m
Raw materials, consumables and work in progress	33 0	23 6
Finished goods and goods for resale	8 1	11 3
	41 1	34 9

The group consumed £269 1 million (2006 £222 1 million) of inventories during the year There was no material write down of inventories during the current or prior year

14 Trade and other receivables

	2007 £m	2006 £m
Current assets		
Trade receivables	144 3	90 3
Less Provision for impairment of receivables	(4 5)	(3 6)
Trade receivables – net	139 8	86 7
Prepayments and accrued income	69 2	50 9
Other receivables	151 3	83 5
	360 3	221 1

Credit risk arising from customers is managed at a local level and is subject to periodic reviews by central management and the group's internal audit function Credit limits are in place for customers many of which are local authorities or local transport authorities Due to the nature of certain contractual arrangements, particularly where the agreement and settlement of allocations of passenger revenues between multiple service providers can take more than one year to complete, certain customer debts can often exceed one year before settlement This is common, and the incidence of impairment of such debt is both rare and immaterial

Due to the immaterial level of the provision for impairment of receivables, as detailed above, no further disclosure is made The group considers there to be no material difference between the fair value of trade and other receivables and their carrying amount in the balance sheet

The carrying amounts of the group's trade and other receivables are denominated in the following currencies	2007 £m	2006 £m
Sterling	135 7	96 4
Euro	147 0	85 0
Other European currencies	77 6	39 7
	360 3	221 1

15 Cash, cash equivalents and overdrafts

Cash, cash equivalents and overdrafts in the cash flow statement comprise	2007 £m	2006 £m
Cash and cash equivalents	95 7	87 6
Bank overdrafts (note 18)	(33 3)	(16 5)
	62 4	71 1

16 Trade and other payables

	2007 £m	2006 £m
Current liabilities		
Trade payables	160 2	74 5
Payments received on account	0 4	0 9
Other taxation and social security payable	35 5	29 2
Other payables	115 2	111 5
Accruals and deferred income	235 2	153 5
	546 5	369 6

17 Tax liabilities

	2007 £m	2006 £m
Current tax liabilities	34 5	16 5

18 Financial liabilities - borrowings

	2007 £m	2006 £m
Current liabilities		
- Short-term loans	84 6	115 0
- Bank overdrafts	33 3	16 5
	117 9	131 5
- Finance leases	10 5	24 8
	128 4	156 3
Non-current liabilities		
- Syndicated loans	203 2	108 7
- Other loans	123 3	147 4
- Finance leases	89 3	53 6
	415 8	309 7

	2007 £m	2006 £m
Loan capital and other borrowings repayment statement		
- Within one year or on demand	128 4	156 3
- Between one and two years	96 2	72 2
- Between two and five years	299 6	208 9
- Over five years	20 0	28 6
	544 2	466 0

The total of the loans, any part of which fall due for repayment after five years, is £63 8 million (2006 £92 9 million) £31 2 million (2006 £44 9 million) represents bank loans in the mainland Europe division, with varying repayment dates and interest rates £32 6 million (2006 £48 0 million) represents fixed interest finance lease funding of the mainland Europe bus fleet, with varying repayment dates and interest rates ranging between 3 5 per cent and 7 5 per cent

18 Financial liabilities - borrowings (continued)

Security and guarantees

Borrowings amounting to £128 3 million (2006 £140 3 million), principally relating to the bus fleet are secured by charges over the related assets

As part of the UK rail franchising arrangements the group has provided guarantees of £46 million (2006 £13 million) The group has provided £25 million (2006 £20 million) of bonds in respect of its rail operations in Denmark, the Netherlands and Germany

At 31 December 2007, letters of credit amounting to the value of £16 million (2006 £30 million) are provided by the group's bankers, guaranteed by Arriva plc, in favour of the group's insurers

Syndicated loans are secured by guarantees given by Arriva plc and certain UK subsidiaries

The effective interest rates at the balance sheet date were as follows	2007 %	2006 %
Cash and cash equivalents	4 8	3 4
Bank overdraft	6 5	5 0
Bank borrowings	4 2	4 4
Finance lease	5 2	4 6
Other financial liabilities	5 6	5 6

The carrying amount of the group's borrowings are denominated in the following currencies	2007 £m	2006 £m
Sterling	78 5	123 7
Euro	280 9	209 8
Other European currencies	184 8	132 5
	544 2	466 0

Fair value of financial assets and financial liabilities

Due to the short-term nature of financial assets and financial liabilities, or the floating rate nature of non-current financial liabilities, the group considers there to be no material difference between the fair value of financial assets and financial liabilities and their carrying amount in the balance sheet

Maturity of financial liabilities

The maturity profile of the carrying amount of the group's non-current liabilities at 31 December was as follows

	Debt £m	Finance leases £m	Other financial liabilities £m	2007 Total £m	Debt £m	Finance leases £m	Other financial liabilities £m	2006 Total £m
In more than one year but not more than two years	71 7	23 8	0 7	96 2	36 5	19 9	15 9	72 3
In more than two years but not more than five years	247 7	51 9	-	299 6	196 9	11 4	0 7	209 0
In more than five years	6 4	13 6	-	20 0	6 1	22 3	-	28 4
	325 8	89 3	0 7	415 8	239 5	53 6	16 6	309 7

Borrowing facilities
The group has the following undrawn committed floating rate borrowing facilities available at 31 December in respect of which all conditions precedent had been met at that date

	2007 £m	2006 £m
Expiring within one year	57 0	36 2
Expiring in more than two years	415 8	201 6
	472 8	237 8

Finance leases
The group typically enters into finance leases of no more than five years' duration on an amortising basis Given the short-term nature of this funding, the group considers there to be no material difference between the fair value of finance leases and their carrying amount in the balance sheet

Finance lease obligations included in current liabilities amount to £10 5 million (2006 £24 8 million) and in non-current liabilities amount to £89 3 million (2006 £53 6 million)

19 Other non-current liabilities

	2007 £m	2006 £m
Accruals and deferred income	99 2	60 8
Other payables	15 1	6 5
	114 3	67 3

20 Derivative financial instruments

Financial instrument disclosures are set out below Additional disclosures are set out in the accounting policies

	2007 £m	2006 £m
Non-current assets		
Interest rate swaps - cash flow hedge	0 4	1 7
Fuel derivatives - cash flow hedge	39 2	-
Cross currency swaps - net investment hedge	-	2 2
	39 6	3 9

	2007 £m	2006 £m
Current assets		
Interest rate swaps - cash flow hedge	1 2	-
Forward foreign currency contracts - cash flow hedge	-	0 6
Fuel derivatives - cash flow hedge	20 6	8 4
Cross currency swaps - net investment hedge	-	0 4
	21 8	9 4

20 Derivative financial instruments (continued)

	2007 £m	2006 £m
Current liabilities		
Fuel derivatives - cash flow hedge	-	13 6
Cross currency swaps - net investment hedge	10 4	-
	10 4	13 6

	2007 £m	2006 £m
Non-current liabilities		
Fuel derivatives - cash flow hedge	-	1 0
Cross currency swaps - net investment hedge	12 7	0 2
	12 7	1 2

In accordance with IAS39 'Financial instruments Recognition and Measurement', Arriva plc has reviewed all contracts for embedded derivatives that are required to be separately accounted for if they do not meet certain requirements set out in the standard All embedded derivatives were found to be closely related to their host contracts, and therefore no fair value exercise was required to be undertaken

Maturity of derivative financial statements

The maturity profile of the carrying amount of the group's derivative financial instruments was as follows

At 31 December 2007	Less than one year £m	Between one and two years £m	Between two and five years £m	Over five years £m
Interest rate swaps - cash flow hedge	1 2	-	0 4	-
Fuel derivatives - cash flow hedge	20 6	1 0	5 6	32 6
Cross currency swaps - net investment hedge	(10 4)	(5 0)	(7 7)	-

At 31 December 2006	Less than one year £m	Between one and two years £m	Between two and five years £m	Over five years £m
Interest rate swaps - cash flow hedge	-	1 7	-	-
Forward foreign currency contracts - cash flow hedge	0 6	-	-	-
Fuel derivatives - cash flow hedge	(5 2)	(1 0)	-	-
Cross currency swaps - net investment hedge	0 4	2 2	(0 2)	-

Net fair values of derivative financial instruments

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

	2007 £m	2006 £m
Contracts with positive fair values		
- Interest rate swaps	1 6	1 7
- Forward foreign currency contracts	-	0 6
- Fuel derivatives	59 8	8 4
Contracts with negative fair values		
- Fuel derivatives	-	(14 6)

The fair values of derivatives have been supplied externally by the respective counterparties to the derivative and by banks using market rates prevailing at the balance sheet date

21 Retirement benefit obligations

At 31 December 2007 the group operated a number of retirement benefit schemes, both defined benefit and defined contribution, which are financed through separate Trustee administered funds managed by independent professional fund managers on behalf of the Trustees Contributions to the defined benefit funds are based upon actuarial advice following the most recent of a regular series of valuations of the funds by their representative independent actuaries Certain employees of Arriva Merseyside Limited participate in the Local Government Pension Scheme This is a defined benefit scheme funded by payments to the Merseyside Pension Fund The latest formal actuarial valuation of the Merseyside Pension Fund was carried out as at 31 March 2007

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

Total pension cost
The total pension cost for the group was £44 1 million (2006 £39 7 million) The pension costs in respect of the group's defined contribution schemes was £25 8 million (2006 £19 5 million)

Defined benefit plans
The directors believe that separate consideration should be given to the RPS under IAS19 as the group has no rights or obligations in respect of sections of this scheme following the expiry of the franchises The amounts relating to the rail schemes are therefore shown separately and relate to sections in respect of Arriva Trains Wales Limited and XC Trains Limited only

The calculations used to assess the IAS19 liabilities of the retirement benefit schemes are based on the most recent actuarial valuations updated to 31 December 2007 by qualified independent actuaries The schemes' assets are stated at their market value at 31 December 2007

The principal actuarial assumptions at the balance sheet date are

	2007 %	2006 %
Discount rate	5 9	5 2
Inflation rate	3 2	2 9
Increases to deferred benefits during deferment	3 2	2 9
Increases to pensions in payment	3 0	2 9
Increases to salaries	4 2	4 1
Weighted average expected long-term rate of return of the scheme assets at 31 December, after deduction for scheme expenses	7 6	7 5

Weighted average life expectancy for mortality tables to determine benefit obligations		2007 years	2006 years
Member age 65 (current life expectancy)	Male	18	19
	Female	21	22
Member age 45 (life expectancy at age 65)	Male	19	20
	Female	22	22

21 Retirement benefit obligations (continued)

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

	2007 %	2006 %
Category of assets at the year end		
Equities	8 25	8 25
Bonds	5 0	4 8
Other	6 9	6 5
Weighted average expected long-term rate of return at 31 December, after deduction for scheme expenses	7 6	7 5

The overall expected rate of return is a weighted average of the expected returns of the various categories of plan assets held The directors' assessment of the expected returns is based on historical return trends, the forward looking views of financial markets (suggested by the yields available) and the views of investment organisations

The actual return on plan assets was £51 2 million (2006 £80 3 million)

The amounts recognised in the balance sheet are determined as follows	Group Schemes 2007 £m	RPS 2007 £m	Total 2007 £m	Total 2006 £m	Total 2005 £m
Present value of funded obligations	(727 9)	(334 2)	(1,062 1)	(927 9)	(856 3)
Fair value of plan assets	667 4	314 1	981 5	747 7	640 2
Deficit	(60 5)	(20 1)	(80 6)	(180 2)	(216 1)
Deficit relating to scheme members	-	8 1	8 1	6 4	8 7
Unrecognised asset	(1 2)	-	(1 2)	-	-
Net deficit recognised in the balance sheet	(61 7)	(12 0)	(73 7)	(173 8)	(207 4)

The amounts recognised in the income statement are as follows	2007 £m	2006 £m
Current service costs	23 4	25 1
Interest cost	46 4	39 2
Expected return on assets	(51 5)	(40 1)
Settlements	-	(1 6)
Past service adjustment	-	(2 4)
	18 3	20 2

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

Movements in the present value of defined benefit obligations were as follows	2007 £m	2006 £m
At 1 January	927 9	856 3
Member contributions paid	17 3	13 6
Current service cost	23 4	25 1
Past service adjustment*	-	(2 7)
Interest cost*	50 1	40 4
New rail franchise*	187 2	-
Benefits paid	(32 2)	(23 3)
Actuarial (gains)/losses*	(111 6)	22 6
Settlements	-	(4 1)
At 31 December	1,062 1	927 9

Movements in the fair value of plan assets were as follows	2007 £m	2006 £m
At 1 January	747 7	640 2
Expected return on plan assets*	56 3	41 7
Total contributions	47 5	53 6
New rail franchise*	167 3	-
Benefits paid	(32 2)	(23 3)
Actuarial (losses)/gains*	(5 1)	38 0
Settlements	-	(2 5)
At 31 December	981 5	747 7

* Before RPS shared cost adjustment

The movements in the present value of defined benefit obligations and in the fair value of the plan assets do not take into account the shared cost nature of the RPS The income statement includes 60 per cent of the relevant RPS amounts

Plan assets	2007 %	2006 %
The weighted average asset allocations at the year end were as follows		
Equities	75	74
Bonds	18	20
Other	7	6

Cumulative actuarial gains and losses recognised in equity	2007 £m	2006 £m
At 1 January	24 1	11 0
Actuarial gains recognised in year	99 5	13 1
At 31 December	123 6	24 1

History of experience gains and losses	2007 £m	2006 £m	2005 £m	2004 £m
Experience adjustments on scheme liabilities				
- Amounts (£m)	111 6	(22 6)	(74 9)	(4 3)
- Percentage of scheme liabilities	10 5%	2 4%	8 7%	0 6%
Experience adjustments on scheme assets				
- Amounts (£m)	(5 1)	38 0	65 5	19 5
- Percentage of scheme assets	0 5%	5 1%	10 2%	3 7%

The group expects to make contributions of approximately £31 million to the defined benefit plans during the next financial year

22 Deferred tax

The movement in deferred tax is shown below	2007 £m	2006 £m
At 1 January	45 3	44 3
Exchange differences	2 0	(0 4)
Acquisition of subsidiaries	(7 4)	0 7
Disposal of subsidiary	-	(11 1)
Income statement (credit)/charge for continuing operations	(0 2)	15 9
Tax charged/(credited) to equity	47 9	(4 1)
At 31 December	87 6	45 3

Deferred tax assets have not been recognised in respect of tax losses and other temporary differences giving rise to deferred tax assets where there is uncertainty regarding the recoverability of the resulting deferred tax assets Deferred tax is not provided on the unremitted earnings of overseas subsidiaries where the group has control over the timing of remittance and it is probable that remittance will not take place in the foreseeable future Material deferred tax assets and liabilities are only offset where there is a legally enforeceable right of offset and there is an intention to settle the balances net

The movements in deferred tax assets and liabilities during the period are shown below

Deferred tax liabilities	Accelerated tax depreciation £m	Revaluation £m	Intangibles £m	Derivatives £m	Other £m	Total £m
At 1 January 2006	72 9	17 0	11 1	6 4	2 5	109 9
Exchange differences	(0 2)	-	(0 2)	-	-	(0 4)
Acquisition of subsidiaries	0 8	-	-		-	0 8
Disposal of subsidiary	(10 9)	(0 7)	-		-	(11 6)
Income statement charge/(credit) for continuing operations	12 5	(0 1)	(1 7)	-	(0 1)	10 6
Tax credited directly to equity	-	-	-	(7 3)	-	(7 3)
Transferred to deferred tax assets	-	-	-	0 9		0 9
At 31 December 2006	75 1	16 2	9 2	-	2 4	102 9
Exchange differences	1 9	-	0 6		0 3	2 8
Income statement (credit)/charge for continuing operations	(1 6)	(0 3)	(3 2)		1 3	(3 8)
Transferred from deferred tax assets	-	-	-	18 1	-	18 1
At 31 December 2007	75 4	15 9	6 6	18 1	4 0	120 0

The deferred tax liability due after more than one year is £112 4 million (2006 £101 3 million)

Deferred tax assets	Retirement benefit obligations £m	Provisions £m	Derivatives £m	Other £m	Total £m
At 1 January 2006	(58 6)	(6 2)	-	(0 8)	(65 6)
Acquisition of subsidiaries	-	-	-	(0 1)	(0 1)
Disposal of subsidiary	0 5	-	-	-	0 5
Income statement charge/(credit) for continuing operations	5 6	1 8	-	(2 1)	5 3
Tax charged directly to equity	3 2	-	-	-	3 2
Transferred from deferred tax liabilities	-	-	(0 9)	-	(0 9)
At 31 December 2006	(49 3)	(4 4)	(0 9)	(3 0)	(57 6)
Exchange differences	-	(0 6)	-	(0 2)	(0 8)
Acquisition of subsidiaries	-	(7 9)	-	0 5	(7 4)
Income statement charge/(credit) for continuing operations	3 1	(1 1)	-	1 6	3 6
Tax charged directly to equity	28 9	-	19 0	-	47 9
Transferred to deferred tax liabilities	-	-	(18 1)	-	(18 1)
At 31 December 2007	(17 3)	(14 0)	-	(1 1)	(32 4)

The deferred tax asset due after more than one year is £20 9 million (2006 £47 3 million)

23 Called up equity share capital

	Authorised		Allotted - fully paid	
	2007	2006	2007	2006
Ordinary shares of 5 pence each	£14,500,000	£14,500,000	£9,930,679	£9,904,472
Number of shares	290,000,000	290,000,000	198,613,572	198,089,442

	2007	2006
Reconciliation of movement in issued share capital		
Shares in issue 1 January	198,089,442	196,922,357
Share allotments on exercise of options	524,130	1,167,085
Shares in issue 31 December	198,613,572	198,089,442

Consideration of £1 3 million was received in respect of the share allotments in the year ended 31 December 2007 (2006 £1 2 million)

At 31 December 2007 there were outstanding options to receive allotments of 2,888,975 ordinary shares under the Executive Share Option Scheme, the Share Incentive Scheme and the Long Term Incentive Plan The price for the vested share for the Long Term Incentive Plan is £nil The option exercise prices for the other schemes range from 272 6 pence to 745 0 pence The options are exercisable up to March 2017 At 31 December 2007 the middle market quotation of the ordinary share, as derived from the Stock Exchange Official List, was 795 0 pence The highest price attained by the ordinary share in 2007 was 842 0 pence and the lowest level during 2007 was 651 0 pence

24 Share-based payments

The group operates an Executive Share Option Scheme (ESOS) Share Incentive Scheme (SIS) and Long Term Incentive Plan (LTIP)

The ESOS is an Inland Revenue approved discretionary employee share option scheme, with options granted to certain senior employees (excluding directors) and exercisable between three and ten years from date of grant, subject to performance criteria having been satisfied

The SIS is an unapproved discretionary employee share option scheme, with options granted to certain senior employees (excluding directors) and exercisable between three and seven years from date of grant, subject to performance criteria having been satisfied

The ESOS and SIS March 2007 awards have been granted under The Arriva plc Company Share Option Plan 2006

The LTIP is a discretionary share scheme providing incentives in the form of conditional awards of shares to selected senior employees, including executive directors There is a performance period of not less than three years before any of the shares may vest, with vesting of any of the shares subject to performance criteria having been satisfied Further details of the LTIP and performance criteria are given in the Directors' Remuneration Report

In accordance with the transitional provisions of IFRS, the following disclosures relate only to awards made after 7 November 2002 that have not vested before 1 January 2005

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

	Executive Share Option Scheme		
	March 2003	March 2004	March 2007
Share price at grant date	£2 83	£3 73	£7 45
Exercise price	£2 83	£3 73	£7 45
Number of employees	12	46	44
Shares under option	73,000	206,162	121,324
Vesting period (years)	3	3	3
Expected volatility	32%	24%	20%
Option life (years)	10	10	10
Expected life (years)	3	3	3
Risk free rate	4%	4 5%	5 1%
Expected dividends expressed as a dividend yield	5 8%	5 1%	3 0%
Expectations of meeting performance criteria	100%	100%	100%
Fair value per option	£0 470	£0 504	£1 130

	Share Incentive Scheme				
	March 2003	March 2004	March 2005	March 2006	March 2007
Share price at grant date	£2 83	£3 73	£5 48	£6 13	£7 45
Exercise price	£2 83	£3 73	£5 48	£6 13	£7 45
Number of employees	44	54	95	78	73
Shares under option	254,500	197,338	442,500	336,000	221,676
Vesting period (years)	3	3	3	3	3
Expected volatility	32%	24%	24%	24%	20%
Option life (years)	7	7	7	7	7
Expected life (years)	3	3	3	3	3
Risk free rate	4%	4 5%	4%	4 6%	5 1%
Expected dividends expressed as a dividend yield	5 8%	5 1%	3 6%	3 7%	3 0%
Expectations of meeting performance criteria	100%	100%	100%	100%	100%
Fair value per option	£0 470	£0 504	£0 835	£0 959	£1 130

	Long Term Incentive Plan				
	March 2005	May 2006[1]	May 2006[2]	Sept 2006[1]	Sept 2006[2]
Share price at grant date	£5 48	£5 44	£5 44	£6 79	£6 79
Exercise price	£0 00	£0 00	£0 00	£0 00	£0 00
Number of employees	4	3	3	14	14
Shares under option	224,451	178,194	178,194	267,228	109,150
Vesting period (years)	3	3	3	3	3
Expected volatility	24%	25%	25%	20%	20%
Option life (years)	3	3	3	3	3
Expected life (years)	3	3	3	3	3
Risk free rate	4%	4 8%	4 8%	4 8%	4 8%
Expected dividends expressed as a dividend yield	3 6%	3 3%	3 3%	3 3%	3 3%
Expectations of meeting performance criteria	0%	10%	100%	10%	100%
Fair value per option	£4 919	£4 980	£2 140	£6 290	£4 330

	Long Term Incentive Plan		
	March 2007[1]	March 2007[2]	March 2007[2]
Share price at grant date	£7 45	£7 45	£7 45
Exercise price	£0 00	£0 00	£0 00
Number of employees	17	3	14
Shares under option	402,596	139,329	107 532
Vesting period (years)	3	3	3
Expected volatility	20%	20%	20%
Option life (years)	3	3	3
Expected life (years)	3	3	3
Risk free rate	5 1%	5 1%	5 1%
Expected dividends expressed as a dividend yield	3 0%	3 0%	3 0%
Expectations of meeting performance criteria	64%	100%	100%
Fair value per option	£6 900	£3 270	£3 710

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

[1] Relates to the EPS element of the award

[2] Relates to the TSR element of the award

24 Share-based payments (continued)

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

(a) Executive Share Option Scheme

	2007		2006	
	Number ('000)	Weighted average exercise price (£)	Number ('000)	Weighted average exercise price (£)
Outstanding at 1 January	173	3 69	232	3 54
Granted	121	7 45	-	-
Forfeited	(15)	3 73	-	-
Exercised	(85)	3 73	(59)	3 10
Outstanding at 31 December	194	6 01	173	3 69
Exercisable at 31 December	73	3 64	7	2 83

	2007				2006			
			Weighted average remaining life				Weighted average remaining life	
Range of exercise prices (£)	Weighted average exercise price (£)	Number of shares ('000)	Expected (years)	Contractual (years)	Weighted average exercise price (£)	Number of shares ('000)	Expected (years)	Contractual (years)
2 83 - 7 45	6 01	194	1 0	8 0	3 69	173	-	7 0

The weighted average share price during the period for options in the ESOS exercised over the year was 762 9 pence (2006 630 6 pence) The total charge for the year relating to the scheme was £nil (2006 £nil)

(b) Share Incentive Scheme

	2007		2006	
	Number ('000)	Weighted average exercise price (£)	Number ('000)	Weighted average exercise price (£)
Outstanding at 1 January	950	5 24	827	4 42
Granted	221	7 45	336	6 13
Forfeited	(18)	5 66	(36)	4 68
Exercised	(140)	3 89	(177)	3 22
Outstanding at 31 December	1,013	5 90	950	5 24
Exercisable at 31 December	114	3 50	52	2 83

Range of exercise prices (£)	2007 Weighted average exercise price (£)	Number of shares ('000)	Weighted average remaining life Expected (years)	Contractual (years)	2006 Weighted average exercise price (£)	Number of shares ('000)	Weighted average remaining life Expected (years)	Contractual (years)
2 83 - 7 45	5 90	1,013	0 8	4 6	5 24	950	1 2	5 1

The weighted average share price during the period for options in the Share Incentive Scheme exercised over the year was 768 5 pence (2006 642 3 pence) The total charge for the year relating to the scheme was £0 2 million (2006 £0 3 million) After deferred tax, the total charge was £0 2 million (2006 £0 2 million)

(c) Long Term Incentive Plan

	2007 Number ('000)	2007 Weighted average exercise price (£)	2006 Number ('000)	2006 Weighted average exercise price (£)
Outstanding at 1 January	1,285	-	1,338	-
Granted	649	-	733	-
Forfeited	(156)	-	-	-
Exercised	(134)	-	(786)	-
Outstanding at 31 December	1,644	-	1,285	-
Exercisable at 31 December	59	-	39	-

Range of exercise prices (£)	2007 Weighted average exercise price (£)	Number of shares ('000)	Weighted average remaining life Expected (years)	Contractual (years)	2006 Weighted average exercise price (£)	Number of shares ('000)	Weighted average remaining life Expected (years)	Contractual (years)
0 00	0 00	1,644	1 2	1 2	0 00	1,285	1 3	1 3

The weighted average share price for the LTIP awards exercised in the year was 747 2 pence (2006 639 6 pence) The total charge for the year relating to the scheme was £1 4 million (2006 £0 9 million), all of which related to equity-settled share-based payment transactions After deferred tax, the total charge was £1 0 million (2006 £0 6 million)

25 Other reserves

	Capital redemption reserve £m	Special reserve £m	Hedge reserve £m	Other reserves £m
At 1 January 2006	1 8	59 1	14 1	75 0
Cash flow hedges (net of tax)				
- Fair value losses in period	-		(10 8)	(10 8)
- Transfers to net profit	-	-	(6 2)	(6 2)
At 31 December 2006	1 8	59 1	(2 9)	58 0
Cash flow hedges (net of tax)				
- Fair value gains in period	-	-	48 6	48 6
- Transfers to net profit	-		(1 6)	(1 6)
At 31 December 2007	1 8	59 1	44 1	105 0

The capital redemption reserve represents the cumulative par value of all shares bought back and cancelled by the group and is not distributable The special reserve was created in 1997 when an application to transfer the share premium account into a special reserve was granted by the High Court and is not distributable The hedge reserve records movements on derivative financial instruments designated as cash flow hedges

26 Statement of changes in equity

	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total shareholders' equity £m	Minority interests £m	Total equity £m
At 1 January 2006	9 8	19 1	75 0	383 5	487 4	16 3	503 7
Arising on issue of shares	0 1	3 3	-	(2 2)	1 2	-	1 2
Share-based payments	-	-	-	1 2	1 2	-	1 2
Total recognised income and expense for the year	-	-	(17 0)	109 3	92 3	1 9	94 2
Dividends	-	-	-	(39 6)	(39 6)	(0 9)	(40 5)
Minority share of disposal	-	-	-	-	-	(1 0)	(1 0)
At 31 December 2006	9 9	22 4	58 0	452 2	542 5	16 3	558 8
Arising on issue of shares	-	1 8	-	(0 5)	1 3	-	1 3
Share-based payments	-	-	-	1 6	1 6	-	1 6
Total recognised income and expense for the year	-	-	47 0	159 7	206 7	5 5	212 2
Dividends	-	-	-	(41 9)	(41 9)	(1 0)	(42 9)
Minority share of acquisition	-	-	-	-	-	3 0	3 0
At 31 December 2007	9 9	24 2	105 0	571 1	710 2	23 8	734 0

27 Notes to the group cash flow statement

(a) Reconciliation of net debt	2007 £m	2006 £m
At 1 January	378 4	435 9
Decrease/(increase) in cash, cash equivalents and overdrafts	5 1	(0 2)
Decrease in loans due within one year	(39 4)	(6 6)
Increase/(decrease) in loans due after one year	36 0	(45 9)
Decrease in finance lease obligations	(15 2)	(7 9)
Loans acquired	19 5	5 7
Finance leases acquired	28 0	0 3
Currency translation adjustments	36 1	(2 9)
At 31 December	448 5	378 4

(b) Reconciliation of operating profit to cash generated from operations	2007 £m	2006 £m
Continuing operations		
Operating profit	128 0	119 5
Depreciation	113 8	106 2
Goodwill impairment and intangible asset amortisation	7 4	7 2
EBITDA	249 2	232 9
Increase in inventories, excluding acquisitions and disposal	(1 0)	(6 6)
Increase in trade and other receivables, excluding acquisitions and disposal	(87 2)	(23 3)
Increase/(decrease) in creditors, excluding acquisitions and disposal	87 2	(43 3)
Cash generated from continuing operations	248 2	159 7
Cash generated from discontinued operations	-	0 3
Cash generated from operations	248 2	160 0

(c) Analysis of net debt	1 January 2007 £m	Cash flow £m	Acquisitions (excluding cash & overdraft) £m	Exchange differences £m	31 December 2007 £m
Cash, cash equivalents and overdrafts	(71 1)	5 1		3 6	(62 4)
Loans due within one year	115 0	(39 4)	5 8	3 2	84 6
Loans due after one year	256 1	36 0	13 7	20 7	326 5
Finance leases	78 4	(15 2)	28 0	8 6	99 8
	378 4	(13 5)	47 5	36 1	448 5

28 Acquisitions

(a) Analysis of the net cash outflow in respect of acquisitions	Total £m
Cash consideration (including expenses)	35 5
Cash acquired	(12 3)
Net cash outflow in respect of acquisitions	23 2

(b) Current year acquisitions	Acquired book value £m	Provisional fair value adjustments £m	Net cost £m
Property, plant and equipment	92 3	6 1	98 4
Investments	0 9	-	0 9
Inventories	3 9	(0 5)	3 4
Trade and other receivables	34 1	(0 9)	33 2
Cash and cash equivalents	12 3	-	12 3
Finance lease obligations	(27 6)	(0 4)	(28 0)
Trade and other payables	(39 0)	(2 7)	(41 7)
Loans	(19 4)	-	(19 4)
Deferred tax	-	7 4	7 4
Other non-current liabilities	(4 6)	(47 9)	(52 5)
	52 9	(38 9)	14 0
Minority interest			(3 0)
Goodwill			24 1
Satisfied by cash			35 1

The goodwill of £24 1 million noted above relates to premiums paid in respect of strategic market entry and also to consolidate our position within existing markets

In February 2007 the group acquired 100 per cent of the share capital of Chase Coaches Limited for £0 7 million, resulting in goodwill of £1 0 million

In January 2007 the group acquired 100 per cent of the share capital of the Czech Republic bus operator Bosak Bus s r o for £1 0 million, £0 2 million of which was deferred resulting in goodwill of £1 0 million In March 2007 the group acquired 85 per cent of the share capital of the German bus and rail company Osthannoversche Eisenbahnen AG for £17 4 million, resulting in goodwill of £6 4 million Also in March 2007 the group acquired 100 per cent of the share capital of the German bus company Neisseverkehr for £1 1 million, resulting in goodwill of £nil In August 2007 the group acquired 100 per cent of the share capital of the Danish bus operator Veolia Transport Danmark AS for £7 3 million resulting in goodwill of £9 1 million In November 2007 the group acquired 100 per cent of the share capital of the Spanish bus operator Fray Escoba for £1 0 million, £0 1 million of which was deferred, resulting in goodwill of £0 5 million In November 2007 the group acquired 100 per cent of the share capital of the Czech Republic bus operator Osnado spol s r o for £4 4 million, £0 5 million of which was deferred, resulting in goodwill of £3 9 million

In addition, smaller acquisitions were made in the year, the total cost of which was £2 2 million, resulting in goodwill of £2 2 million

If all acquisitions had occurred at the start of the period the additional revenue and profit for the year would have been £28 6 million and £1 7 million respectively

The fair value adjustments in the table above relate mainly to a contract loss provision made in respect of Veolia Transport Danmark AS and alignment to group accounting policies The fair values are provisional, depending on the final determination of the value of related assets and liabilities The final fair values are subject to completion of contractual discussions and settlement of balances and may change after the balance sheet date

(c) Prior year acquisitions

The total cost in the year relating to acquisitions from prior years was £0 4 million This is additional consideration relating to Esfera, acquired in December 2006, and additional consideration relating to the increased shareholding in Regentalbahn AG aquired in the prior year In addition, hindsight fair value adjustments were made in the year resulting from the final determination of the assets and liabilities as follows

	£m
Hindsight period adjustments	
Trade and other receivables	0 1
Trade and other payables	(0 2)
Loans	0 1
Other non-current liabilities	1 8
Decrease in fair values	1 8
Additional consideration paid	0 4
	2 2
Goodwill based on provisional fair values	11 2
Goodwill based on final fair values	13 4

29 Group undertakings

Detailed below is a list of those subsidiaries which in the opinion of the directors principally affect the amount of the profit or the amount of the assets of the group The group percentage of equity capital is 100 per cent and the country of registration is England and Wales in each case, except where indicated All subsidiaries operate within England and Wales, except where indicated

Passenger Transport

Arriva Croydon & North Surrey Limited
Arriva Cymru Limited
Arriva Derby Limited
Arriva Durham County Limited
Arriva East Herts & Essex Limited
Arriva International Trains Leasing Limited
Arriva Kent & Sussex Limited
Arriva Kent Thameside Limited
Arriva London North Limited
Arriva London South Limited
Arriva Manchester Limited
Arriva Medway Towns Limited
Arriva Merseyside Limited
Arriva Midlands Limited
Arriva Midlands North Limited
Arriva Noroeste SL[2]
Arriva North East Limited
Arriva Northumbria Limited
Arriva North West Limited
APS (Leasing) Limited
Arriva Personenvervoer Nederland B V[3]
Arriva Portugal Transportes LDA[6]
Arriva Scotland West Limited[4]
Arriva Skandinavien A/S[1]
Arriva Southern Counties Limited
Arriva Sverige AB[5]
Arriva Tees & District Limited
Arriva Teesside Limited
Arriva The Shires Limited
Arriva Trains Limited
Arriva Trains Wales/Trenau Arriva Cymru Limited
Arriva Yorkshire Limited
Arriva Yorkshire West Limited
Autobus Sippel GmBH[8]
London Pride Sightseeing Limited
MK Metro Limited
Osthannoversche Eisenbahnen AG[9]
Prignitzer Eisenbahn Gmbh[8]
Regentalbahn AG[8]
SAB Autoservizi S r L [7]
SAB Autoservizi FVG S p A [10]
Sadem S p A [11]
Stevensons of Uttoxeter Limited
The Original London Sightseeing Tour Limited
Transportes Sul do Tejo S A [6]
Veolia Transport Danmark AS[1]
Verkehrsbetriebe Bils Gmbh[8]
XC Trains Limited

Rental and Distribution of Buses & Coaches

Arriva Bus and Coach Rental (1) Limited
Arriva Bus and Coach Rental (2) Limited
Arriva Bus and Coach Rental (3) Limited
Arriva Bus and Coach Rental (4) Limited
Arriva Bus and Coach Limited

Investment

Arriva Findiv Limited
Arriva International Limited*
Arriva Motor Holdings Limited*
Arriva Passenger Services Limited*
British Bus Group Limited
MTL Services Limited*
Arriva Insurance Company (Gibraltar) Limited[12]*
Arriva International (Northern Europe) Limited
Arriva International (Southern Europe) Limited
Arriva (2007) Limited

Property

British Bus (Properties) Limited

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

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

30 Commitments

Capital amounts contracted for but not provided amount to £26 0 million (2006 £1 7 million) for the group At 31 December 2007 the group had total commitments under non-cancellable operating leases, including access charges to the rail infrastructure and leases for rail rolling stock, expiring as follows

	2007			2006		
	Land & buildings £m	Other £m	Total £m	Land & buildings £m	Other £m	Total £m
Within one year	16 2	163 6	179 8	14 2	155 7	169 9
Later than one year and less than five years	63 1	875 3	938 4	56 0	527 1	583 1
After five years	113 0	2,824 3	2,937 3	118 7	1,076 3	1,195 0
	192 3	3,863 2	4,055 5	188 9	1,759 1	1,948 0

31 Post balance sheet events

On 20 December 2007 the group announced the terms of a recommended cash offer for the entire issued share capital of Tellings Golden Miller Group plc (TGM) On 11 January 2008 the offer was declared unconditional following valid acceptances of the offer from TGM shareholders representing more than 90 per cent of shareholders by value and voting rights The cost of the shares is £10 3 million plus £19 4 million of net debt assumed

On 7 January 2008 the group announced the acquisition of a further 10 per cent interest in Barraqueiro SGPS SA for a consideration of €50 million, which increased the shareholding to 31 5 per cent

Assets employed	2003* £m	2004 £m	2005 £m	2006 £m	2007 £m
Goodwill	226 2	266 7	277 5	286 4	328 2
Other intangible assets	-	45 6	40 8	34 9	43 2
Property, plant and equipment	761 5	962 6	1,092 8	982 5	1,164 4
Other	(64 6)	(381 7)	(341 0)	(285 1)	(233 6)
Unquoted investments	5 2	6 2	7 9	51 4	63 6
	928 3	899 4	1,078 0	1,070 1	1,365 8
Financed by					
Share capital	9 8	9 8	9 8	9 9	9 9
Reserves	461 9	417 8	477 6	532 6	700 3
Minority interests	-	2 2	16 3	16 3	23 8
Bank overdrafts	13 7	5 1	22 5	16 5	33 3
Syndicated loans	-	82 6	203 8	108 7	203 2
Other loans	198 6	155 7	93 3	147 4	123 3
Short-term loans	66 0	126 2	122 9	115 0	84 6
Obligations under finance leases	109 1	62 1	87 5	78 4	99 8
Deferred tax liabilities	69 2	37 9	44 3	45 3	87 6
	928 3	899 4	1,078 0	1,070 1	1,365 8
Trading					
Revenue	1,751 1	1,759 0	1,571 2	1,729 0	2,000 7
Profit before taxation from continuing operations	83 8	109 3	103 1	109 8	115 8
Taxation	26 0	26 0	19 8	25 2	25 8
Profit after taxation from continuing operations	57 8	83 3	83 3	84 6	90 0
Profit after taxation from discontinued operations	-	-	3 0	20 1	-
Profit for the year	57 8	83 3	86 3	104 7	90 0
Statistics					
Funds attributable to shareholders	471 7	427 6	487 4	542 5	710 2
Equity shareholders' funds per ordinary share	241 9p	218 4p	247 5p	273 9p	357 6p
Basic earnings per share	28 7p	42 6p	43 7p	51 8p	43 5p
Dividends per ordinary share	18 0p	18 9p	19 84p	20 83p	22 65p

* The financial information for 2003 has been prepared under UK generally accepted accounting practice

The discontinued operations relate to the vehicle rental operations

Company balance sheet
at 31 December 2007

Prepared using UK generally accepted accounting practice (UK GAAP)

	notes	2007 £m	2006 £m
Fixed assets			
Tangible assets	2	7 9	8 2
Investments	3	611 2	726 9
		619 1	735 1
Current assets			
Debtors	4	137 3	90 2
Cash at bank and in hand		399 8	34 4
		537 1	124 6
Creditors			
Amounts falling due within one year	6	(16 7)	(18 1)
Net current assets		520 4	106 5
Total assets less current liabilities		1,139 5	841 6
Creditors			
Amounts falling due after more than one year	6	(428 8)	(514 2)
Net pension liability	11	(1 4)	(6 1)
		709 3	321 3
Represented by			
Capital and reserves			
Called up equity share capital	7	9 9	9 9
Share premium account	9	24 2	22 4
Capital redemption reserve	9	1 8	1 8
Special reserve	9	59 1	59 1
Profit and loss account	9	614 3	228 1
Equity shareholders' funds	10	709 3	321 3

D R Martin
S P Lonsdale
Directors

These financial statements on pages 101 to 109 were approved by the Board on 5 March 2008

Basis of preparation
The separate financial statements of the company are presented as required by the Companies Act 1985 They have been prepared in accordance with applicable United Kingdom generally accepted accounting practice The company prepares its financial statements on the historic cost basis of accounting as modified by the revaluation of certain tangible fixed assets

Change in accounting policies
The company has adopted FRS29, 'Financial Instruments Disclosures' The adoption of the standard represents a change in accounting policy There is no prior adjustment to reserves resulting from adopting this standard, as its provisions relate to disclosure

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

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

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

Freehold properties	2% per annum on cost or valuation
Plant, company vehicles, fixtures & fittings	3 - 10 years

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

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

Pensions
The company operates retirement benefit schemes, both defined benefit and defined contribution schemes

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

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

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

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

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

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

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

1 Arriva plc profit and loss account

Arriva plc has not presented its own profit and loss account as permitted by Section 230 of the Companies Act 1985
The profit for the financial year dealt with in the accounts of Arriva plc is £423 0 million (2006 loss £1 1 million)

Company employee information is disclosed within the central component in note 4 to the group financial statements Details of directors' remuneration are disclosed in the Directors' Remuneration Report on pages 49 to 55

2 Tangible fixed assets

	Freehold land & buildings £m	Plant, company vehicles, fixtures & fittings £m	Total £m
Cost or valuation			
At 1 January 2007	9 3	1 5	10 8
Additions	-	0 2	0 2
Disposals	-	(0 1)	(0 1)
At 31 December 2007	9 3	1 6	10 9
Comprising			
Cost	8 5	1 6	10 1
Valuation 1997	0 8	-	0 8
	9 3	1 6	10 9
Accumulated depreciation			
At 1 January 2007	1 6	1 0	2 6
Charge for the year	0 2	0 3	0 5
Disposals	-	(0 1)	(0 1)
At 31 December 2007	1 8	1 2	3 0
Net book amounts			
At 31 December 2007	7 5	0 4	7 9
At 31 December 2006	7 7	0 5	8 2

3 Investments

Fixed asset investments	Shares in subsidiaries at cost £m	Impairment £m	Shares in subsidiaries net book amount £m
At 1 January 2007	741 6	(14 7)	726 9
Additions	129 3	-	129 3
Disposals	(245 0)	-	(245 0)
At 31 December 2007	625 9	(14 7)	611 2

Particulars of fixed asset investments are detailed in note 29 to the group financial statements

4 Debtors

	2007 £m	2006 £m
Amounts falling due within one year		
Trade debtors	0 1	0 6
Deferred tax (note 5)	0 1	0 2
Other debtors	9 0	33 9
Prepayments and accrued income	0 5	0 3
	9 7	35 0
Amounts falling due after more than one year		
Amounts owed by group undertakings	127 6	55 2
	137 3	90 2

The amounts owed by group undertakings are repayable on demand

5 Deferred taxation

	2007 £m	2006 £m
Accelerated capital allowances	1 6	1 6
Other timing differences	(1 7)	(1 8)
Deferred tax excluding that relating to pension liability	(0 1)	(0 2)
Deferred tax on pension liability	(0 5)	(2 6)
Deferred tax	(0 6)	(2 8)

Factors that may affect future tax charges

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

6 Creditors

	2007 £m	2006 £m
Amounts falling due within one year		
Trade creditors	1 6	1 4
Creditors for taxation and social security	1 4	1 5
Other creditors	5 0	7 4
Accruals and deferred income	8 7	7 8
	16 7	18 1
Amounts falling due after more than one year		
Amounts due to group companies	398 5	481 1
Accruals and deferred income	30 3	33 1
	428 8	514 2

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

Fair value of non-current liabilities

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

Borrowing facilities

The company has the following undrawn committed floating rate borrowing facilities available at 31 December in respect of which all conditions precedent had been met at that date

	2007 £m	2006 £m
Expiring within one year	57 0	36 2
Expiring in more than two years	415 8	201 6
	472 8	237 8

7 Called up equity share capital

	Authorised		Allotted - fully paid	
	2007	2006	2007	2006
Ordinary shares of 5 pence each	£14,500,000	£14,500,000	£9,930,679	£9,904,472
Number of shares	290,000,000	290,000,000	198,613,572	198,089,442

Reconciliation of movement in issued share capital		
Shares in issue 1 January	198,089,442	196,922,357
Share allotments on exercise of options	524,130	1,167 085
Shares in issue 31 December	198,613,572	198,089,442

Consideration of £1 3 million was received in respect of share allotments in the year ended 31 December 2007 (2006 £1 2 million) At 31 December 2007 there were outstanding options to receive allotments of 2,888,975 ordinary shares under the Executive Share Option Scheme, the Share Incentive Scheme and the Long Term Incentive Plan The price for the vested share for the Long Term Incentive Plan is £nil The option exercise prices for the other schemes range from 272 6 pence to 745 0 pence The options are exercisable up to March 2017 At 31 December 2007 the middle market quotation of the ordinary share, as derived from the Stock Exchange Official List, was 795 0 pence The highest price attained by the ordinary share in 2007 was 842 0 pence and the lowest level during 2007 was 651 0 pence

8 Share-based payments

The grants and related accounting treatment adopted by Arriva plc under FRS20, Share-based payments, are identical to that adopted by the group under IFRS2, 'Share-based payments' For details please refer to note 24 in the group financial statements

9 Reserves

	Capital redemption reserve £m	Share premium account £m	Special reserve £m	Profit and loss account £m	Total £m
At 1 January 2007	1 8	22 4	59 1	228 1	311 4
Arising on issue of shares	-	1 8	-	(0 5)	1 3
Profit for the year	-	-	-	423 0	423 0
Dividends	-	-	-	(41 9)	(41 9)
Actuarial gain on pension deficit	-	-	-	5 0	5 0
Movement on deferred tax relating to pension	-	-	-	(1 5)	(1 5)
Share-based payments	-	-	-	1 6	1 6
Tax relief on share option schemes	-	-	-	0 5	0 5
At 31 December 2007	1 8	24 2	59 1	614 3	699 4

The capital redemption reserve represents the cumulative par value of all shares bought back and cancelled by the group and is not distributable The special reserve was created in 1997 when an application to transfer the share premium account into a special reserve was granted by the High Court and is not distributable

10 Reconciliation of movements in shareholders' funds

	2007 £m	2006 £m
Profit/(loss) for the year	423 0	(1 1)
Dividends	(41 9)	(39 6)
	381 1	(40 7)
New share capital subscribed	1 3	1 2
Actuarial gain on pension deficit	5 0	1 6
Movement on deferred tax relating to pension	(1 5)	(0 5)
Share-based payments	1 6	-
Tax relief on share option schemes	0 5	1 2
Net addition to/(reduction in) shareholders funds	388 0	(37 2)
Opening shareholders funds	321 3	358 5
Closing shareholders funds	709 3	321 3

11 Pensions

The accounting treatment under FRS17 'Retirement benefits' is in line with that adopted by the group under IAS19 'Employee benefits' For details, please refer to note 21 in the group financial statements

At 31 December 2007 the company operated both defined benefit and defined contribution schemes, which are financed through separate Trustee administered funds managed by independent professional fund managers on behalf of the Trustees Contributions to the defined benefit funds are based upon actuarial advice following the most recent of a regular series of valuations of the funds by their representative independent actuaries

Total pension cost

The total pension cost for the company was £0 1 million (2006 £1 2 million) The pension cost in respect of the company's defined contribution scheme was £0 3 million (2006 £0 6 million)

FRS17 'Retirement Benefits'

The calculations used to assess the FRS17 liabilities of the retirement benefit scheme are based on the most recent actuarial valuations, updated to 31 December 2007 by qualified independent actuaries The scheme's assets are stated at their market value at 31 December 2007 The assumptions used are identical to those used for determining the group charge under IAS19

The amounts recognised in the balance sheet are determined as follows	2007 £m	2006 £m
Equities	37 5	38 3
Bonds	15 9	12 7
Other	0 1	0 3
Total market value of assets	53 5	51 3
Present value of liabilities	(55 4)	(60 0)
Deficit	(1 9)	(8 7)
Related deferred tax asset	0 5	2 6
Net pension liability	(1 4)	(6 1)

The costs of the scheme for the year ended 31 December were as follows	2007 £m	2006 £m
Analysis of the charge to operating profit		
- Current service costs	0 4	0 4
- Past service costs	-	0 5
Total operating charge	0 4	0 9
Analysis of the credit to finance income		
- Expected return on assets	(3 7)	(3 1)
- Interest on liabilities	3 1	2 8
Total finance credit	(0 6)	(0 3)
Total (credit)/charge before tax	(0 2)	0 6

Analysis of movement in deficit in the scheme for the year ended 31 December	2007 £m	2006 £m
Gross deficit in the scheme at 1 January	(8 7)	(10 2)
Contributions paid	1 6	0 5
Current service cost	(0 4)	(0 4)
Past service adjustment	-	(0 5)
Total finance credit	0 6	0 3
Actuarial gain	5 0	1 6
Gross deficit in the scheme at 31 December	(1 9)	(8 7)

Analysis of amounts recognised in reserves	2007 £m	2006 £m
Difference between expected and actual return on assets	(1 0)	1 8
Experience gains and losses arising on the scheme liabilities	0 8	(2 1)
Effect of changing the financial assumptions	5 2	1 9
Actuarial gain recognised in reserves	5 0	1 6

Actuarial gain as a percentage of scheme assets and liabilities at 31 December	2007 %	2006 %	2005 %	2004 %
Difference between expected and actual return on assets as a percentage of scheme assets	1 9	3 5	8 3	1 6
Experience gains arising on the scheme liabilities as a percentage of the present value of scheme liabilities	1 4	3 5	9 9	0 7
Total actuarial gain recognised in the reserves as a percentage of the present value of scheme liabilities	9 0	2 7	7 5	0 5

We have audited the parent company financial statements of Arriva plc for the year ended 31 December 2007 which comprise the Company balance sheet and the related notes These parent company financial statements have been prepared under the accounting policies set out therein We have also audited the information in the Directors' Remuneration Report that is described as having been audited

We have reported separately on the group financial statements of Arriva plc for the year ended 31 December 2007

Respective responsibilities of directors and auditors

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

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

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

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

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

Basis of audit opinion

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

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

Opinion

In our opinion

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2007,
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the parent company financial statements

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors

Newcastle upon Tyne

18 March 2008

Annual General Meeting

Meeting date	23 April 2008

Final ordinary dividend

Record date	28 March 2008
Payment date	1 May 2008

Results for the 6 months to 30 June 2008

Announcement date	26 August 2008

Interim ordinary dividend

Record date	12 September 2008
Payment date	1 October 2008

Results for the year ending 31 December 2008

Announcement date	March 2009 - date to be confirmed

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