



ARRIVA

ARRIVA plc Annual Report and Accounts 2001

Financial Highlights

Summary	2001	2000
Turnover	£1,998m	£1,743m
Operating profit**	£110.3m	£96.9m
Profit before tax*	£92.0m	£84.2m
Earnings per share*	35.2p	30.0p
Dividends per share	16.4p	15.6p

*excluding goodwill amortisation and exceptional items

**from continuing operations



ARRIVA's vision is to be recognised as the leading transport services organisation in Europe.

Our business will grow through acquisition, better service delivery, innovation and marketing. For our customers our brand represents a commitment to delivering better service. The values that underpin our brand are:

- **Safety** of employees and customers comes first
- **Working together** and taking responsibility for delivery to both our customers and fellow employees
- **Strong local relationships** are fundamental to our business
- **Anticipating change** and always looking ahead for better ways to ensure consistent delivery
- **A strong commercial focus** to create long-term value for our shareholders

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ARRIVA Passenger Services UK Bus



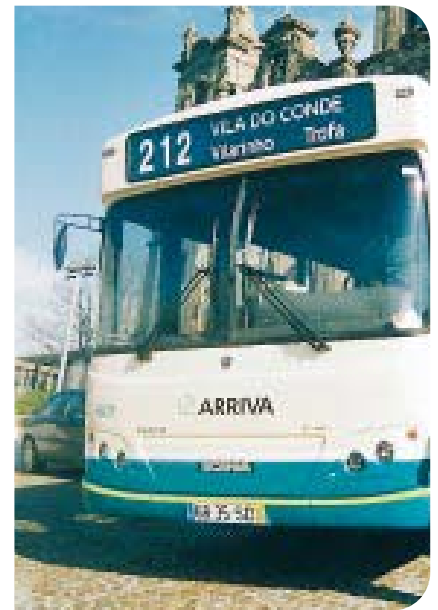
In the UK, ARRIVA is one of the largest bus operators with a fleet of over 6,000 vehicles serving customers in the North East, North West and South East of England, London, Yorkshire, the Midlands, Wales and Scotland.

ARRIVA Passenger Services UK Rail



ARRIVA operates two rail franchises in the UK. ARRIVA Trains Northern provides urban and inter-city passenger rail services across the North of England. ARRIVA Trains Merseyside is a commuter rail network linking Liverpool with Chester and Southport.

ARRIVA Passenger Services Mainland Europe



ARRIVA is one of the largest private sector providers of passenger transport in mainland Europe with around 3,000 vehicles operating in Denmark, Sweden, the Netherlands, Spain and Portugal. An extensive range of services includes trains, buses, commuter coaches and water buses.

ARRIVA
Motor Retailing



ARRIVA Motor Retailing operates a UK motor franchise network from 33 locations. It has commercial relationships with 13 manufacturers – BMW, Ford, Honda, Jaguar, Kawasaki, Land Rover, Lexus, Nissan, Peugeot, Renault, Rover, Toyota and Vauxhall.

ARRIVA
Vehicle Rental



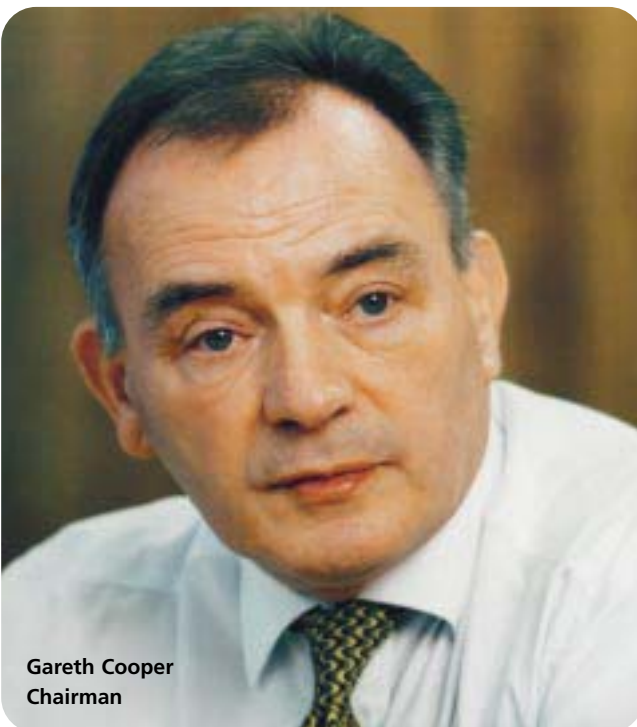
ARRIVA Vehicle Rental has around 10,000 vehicles available for rent from some 42 locations across the UK.

ARRIVA
Bus and Coach



ARRIVA Bus and Coach distributes both new and good quality used buses and coaches for operations throughout the UK. It has the exclusive rights to import DAF bus and coach chassis and products, and is also the UK and Eire distributor for Van Hool coaches.

'I am pleased to report on the excellent progress achieved by the Group over the past year, in what was a challenging trading environment.'



Gareth Cooper
Chairman

I am pleased to report on the excellent progress achieved by the Group over the past year, in what was a challenging trading environment.

- Operating profit from continuing businesses up by 14 per cent to £110.3 million.
- Pre-tax profit, excluding goodwill amortisation and exceptional items, up by 9 per cent to £92 million.
- Earnings per share, on the same basis, up by 17 per cent to 35.2 pence.
- Operating cash inflow up by 33 per cent to £231 million.
- Final dividend up by 5 per cent to 12.2 pence.

Operating profit from our continuing businesses, before goodwill amortisation and exceptional items, increased by 14 per cent to £110.3 million (2000: £96.9 million). Turnover grew by 15 per cent to £1,998 million (2000: £1,743 million). Pre-tax profit before goodwill amortisation and exceptional items was £92 million (2000: £84.2 million) with earnings per share on



Bus driver Nicola Burden works for ARRIVA Yorkshire which is involved in the Royal National Institute for the Blind's 'model bus route' in Wakefield.



Julius Malima and Richard Oti-Akenteng are both drivers for ARRIVA London, which has just over 20 per cent of the capital's bus market.

the same basis showing growth of 17 per cent to 35.2 pence. Basic earnings per share was 28.3 pence (2000: 25.3 pence).

Operating cash inflow was £231 million demonstrating the underlying strength of the business. The interest charge increased by £2.6 million to £20 million, primarily reflecting the cumulative impact of acquisitions over the last two years and the continuing share buy-back programme. With strong cash generation, interest covered some five and a half times by operating profit, before goodwill amortisation and exceptional items, and a debt to equity ratio of 67 per cent, the Group clearly has substantial resources available to continue to expand in its chosen markets and to continue the share buy-back programme. An exceptional charge of £7 million was incurred primarily reflecting redundancies and other costs associated with the integration of acquisitions.

The Board is recommending a final dividend of 12.2 pence per share, which, together with the interim dividend of 4.2 pence per share paid in October 2001, makes a total dividend of 16.4 pence per share, an increase of 5 per cent. The final dividend will be paid on 1 May 2002 to all shareholders on the Register at the close of business on 5 April 2002.

Our UK bus operations continue to provide a robust foundation for the Group. Whilst this is a mature market, opportunities for organic growth exist as evidenced by the increased volume in the London market and the gains that have been achieved in other parts of the country as a result of new investment and targeted marketing campaigns. These actions combined with a range of other initiatives enabled us to withstand the labour and insurance cost pressures in this sector.

The UK rail industry has experienced a very difficult year with Railtrack placed into administration and the uncertainty and delays in the refranchising process. In our case, these issues have been compounded by the need to turn around loss-making franchises that were understaffed and had insufficient rolling stock when we took them over. Despite instigating one of the largest driver recruitment campaigns ever undertaken in the industry, at ARRIVA Trains Northern, we were forced to reduce services temporarily in October and we apologised to our customers for the resulting disruption. The majority of these services were reinstated last month and the balance will be restored in June following the completion of the major Leeds First infrastructure project by Railtrack.



Pictured at Liverpool Central station are Cathy Allinson and John McNelis, who work for ARRIVA Trains Merseyside which achieved a sustained improvement in both reliability and punctuality during the second half of 2001.



Richard Monkton, of ARRIVA Motor Retailing, was one of the first technicians in the UK motor industry to achieve pan-European recognition for his skills at the Dutch Automotive test centre Innovam.

In December 2001 the Strategic Rail Authority (SRA) announced that the refranchising process would re-start and in January 2002 they published their 10-year plan. We welcomed both of these developments and are finalising our shortlisted bid for the new Trans-Pennine Express franchise. We have pre-qualified for the Wales and Borders franchise and will be bidding for the new Northern franchise. In February 2002 the SRA clarified the future of the franchise serving Merseyside. Merseytravel, the local Passenger Transport Authority and Executive, will be the contracting party and we will be bidding to retain this franchise, which is currently served by ARRIVA Trains Merseyside.

We believe that ARRIVA can make a positive contribution to the development of the UK rail industry and that it provides an important growth opportunity for the Group.

ARRIVA operations in mainland Europe continued to make good progress. Following the successful integration of Combust A/S, ARRIVA Denmark is the largest provider of bus services in Denmark. In December, we were successful in winning two passenger rail franchises tendered by the Danish State. They are scheduled to commence in January 2003 and are

estimated to be worth more than £150 million over seven years. In the Netherlands we have underpinned our position in the north of the country with the vast majority of our operations effectively secured by contracts with expiry dates ranging from 2003 to 2008. We also won the first publicly tendered bus operation. The four companies acquired in Portugal at the end of 2000 have been integrated. In Spain we have also acquired a number of small businesses and we are well positioned to develop our businesses in Iberia.

Our mainland European presence provides us with a solid platform to achieve further growth in our current markets whilst we continue to evaluate new markets for both acquisitions and tendering opportunities.

ARRIVA Motor Retailing performed strongly during the year reflecting the improvement in the UK's motor retailing sector and a management team tightly focused on maintaining strong relationships with manufacturers and improving levels of customer service. The European Union is currently reviewing block exemption with the aim of increasing competition in the sector. Whatever the outcome of the review, our business is well placed because of its considerable experience of



Jenny Young is part of a 20-strong team of Welcome Hosts working for ARRIVA Trains Merseyside. The team helps customers with luggage, train information and directions.



Tania Smith is a receptionist at ARRIVA Vauxhall in Redcar, one of the Group's 33 dealerships across the UK.

operating in highly competitive markets. Our motor dealerships occupy good freehold sites and the strength of the business is demonstrated by its excellent results.

The Group's vehicle rental business continues to go from strength to strength. Following the major restructuring and refocusing in 1999, the business has increased its vehicle fleet from 7,000 to 10,000 units. As a result net profits, after attributable interest costs, have more than doubled from £2.6 million in 1998 to £5.9 million in 2001. All the evidence points to more growth opportunities for this business.

During the year we welcomed two new members to the Board. Euan Cameron joined on 3 May 2001 following his appointment as managing director of ARRIVA Trains earlier in the year and Veronica Palmer joined on 1 September 2001 as a non-executive Director. Mrs Palmer was formerly Director General of the Confederation of Passenger Transport.

Following the Annual General Meeting on Friday, 26 April 2002, John Ward will retire from the Board. John joined the Board as a non-executive Director in 1994 and he has made a considerable contribution to the development of

the Group over a period of significant change. On behalf of the Board and our shareholders I express our warm appreciation for his service.

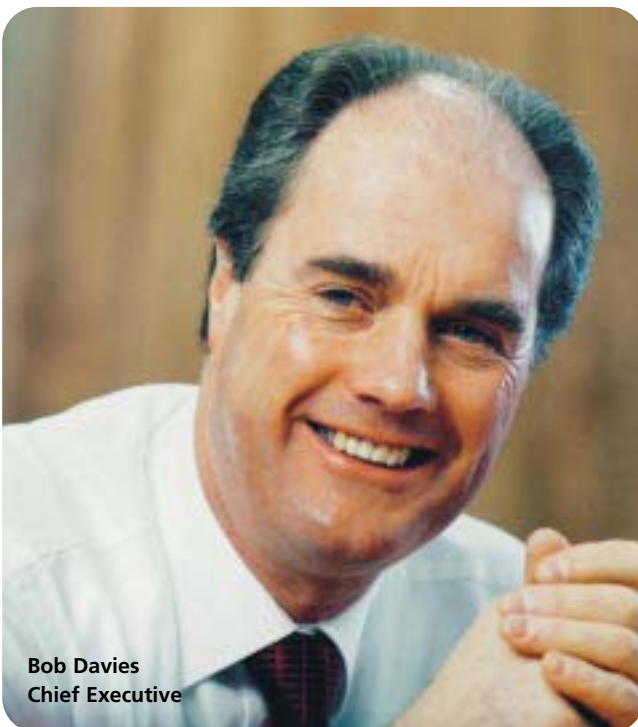
The Group's success is dependent upon the commitment of our employees and I would like to record the Board's appreciation to those individuals and teams who have contributed to another successful year in the development of the business.

Gareth Cooper
Chairman



ARRIVA's passenger transport operations provide over 800 million passenger journeys a year.

With a fleet of over 6,000 vehicles, ARRIVA is one of the largest bus operators in the UK. The average age of the fleet, outside London, has been reduced to seven years.



Bob Davies
Chief Executive

ARRIVA Passenger Services

UK Buses

In the UK, ARRIVA is one of the largest bus operators with a fleet of over 6,000 vehicles serving customers in the North East, North West and South East of England, London, Yorkshire, the Midlands, Wales and Scotland.

UK Buses achieved an operating profit of £68.4 million, before goodwill amortisation and exceptional items, (2000: £69 million) on a turnover of £548.6 million (2000: £520.5 million). Revenue growth in the business was offset by increased labour and insurance costs.

During the year action was taken to eliminate low margin and loss-making activities whilst we invested in those areas that provide opportunities for growth. Our innovative marketing campaign in the North East of England has provided detailed experience of how we can stimulate and encourage bus travel. The business integrated two acquisitions, the Wycombe Bus operations and London Pride, the largest open-top sightseeing operator in the capital.



ARRIVA is the largest bus operator in London, a market achieving year on year passenger growth.

ARRIVA is a partner in the Leeds Guided Busway – the second phase of which is now operational.

ARRIVA'S 'Quality Partnership' with Telford and Wrekin Council is achieving a significant switch from private car use. Improved information and marketing complements the introduction of new vehicles and a comprehensive redrawing of Telford's bus routes.

'Over the past few years the Group has grown rapidly, entering a number of new markets and countries.'

Our London operations represent some 25 per cent of the turnover for UK Buses. Patronage has increased with Transport for London reporting, in January 2002, that demand for bus travel is at its highest for 25 years with 6 per cent year on year growth in passenger journeys. Our bus depots are well positioned in London and provide sufficient capacity to capitalise on this growing market. Encouraging signs of reduced staff turnover rates continued throughout the year following improvements in our recruitment and training procedures. One of our drivers in London, Fraser Patterson, received the national 'Bus

Driver of the Year' award. Fraser, who works at ARRIVA'S Tottenham Garage, beat over 100 finalists to take the top place. Tourism in London has clearly seen significant challenges due to the foot and mouth outbreak and the aftermath of the tragic events of 11 September. However, our open-top sightseeing tours business is well positioned to take full advantage of an upturn in the market.

Outside London, we operate in a mature market where the business is maintaining its strong position by focusing on improving the product, stimulating passenger growth



Improving the product is a key focus for UK Buses. Investment in new vehicles which provide easy access is helping to ensure that passenger transport is available to a much wider section of the community.

ARRIVA Trains Merseyside operates around 800 services daily and is one of the most frequent commuter services outside London.

and developing relationships with local authorities. The average age of our non-London fleet is seven years and we have continued to invest in both infrastructure and our employees. Overall, patronage in this market was unchanged.

Examples of actions taken to maintain our position include the second phase of the Leeds Guided Busway, which is now fully operational. Customers are benefiting from guided busways and dedicated bus lanes, new easy access buses and modern shelters. Our 'Quality Partnership' with Telford and Wrekin Council, which was established in 2000, has continued to achieve a significant switch from private car usage with a 14 per cent year on year increase in patronage. In rural east Bedfordshire we have launched a new service that connects eight villages to the town centres and railway stations at Sandy and Biggleswade. The service, branded 'the Link', uses 14-seater minibuses and has been funded from a £500,000 three-year grant made to the county council under the Government's Rural Bus Challenge initiative. 'Going Your Way', our award winning marketing campaign to stimulate and encourage bus travel in the North East of England,

contributed to ARRIVA outperforming all other operators in Tyne and Wear.

Cost pressures in this business are well known with increased insurance charges and above inflation wage settlements. However, the cash flow remains strong, and with a reduced capital expenditure requirement in 2002, UK Buses will be a substantial cash generator for the Group.

UK Trains

ARRIVA operates two rail franchises in the UK. ARRIVA Trains Northern provides urban and inter-city passenger rail services across the North of England. ARRIVA Trains Merseyside is a commuter rail network linking Liverpool with Chester and Southport.

ARRIVA Trains achieved an operating profit of £11.5 million (2000: £nil) on a turnover of £425.5 million (2000: £296.8 million – 46 weeks). The improvement in operating profit reflected the revised financial terms agreed with the SRA in February 2001 when we were awarded extensions for our two, previously loss-making, franchises acquired with MTL Services plc.



ARRIVA's award winning 'Going Your Way' marketing campaign, launched in the North East of England, is being introduced to more areas during 2002.



Fraser Patterson (right), who is based at ARRIVA London's Tottenham Garage, won the prestigious 'National Bus Driver of the Year' award. Malcolm Baker (left), from ARRIVA London's Croydon Garage, was the winner of the local 'Driver of the Year' competition for ARRIVA London South.

The level of funding to operate the two franchises has been agreed on an annual basis with the SRA and in January 2002 we reached agreement on funding for the period to the contractual expiry date of 2 February 2003. The terms have been agreed on the same basis as those for the period ended 4 January 2002.

Taking over two franchises that had a number of key problems including a shortage of staff and insufficient rolling stock was always going to be challenging. Despite the fact that we were only awarded the franchises initially for a one-year term and have always been on a one-year notice period, we have strengthened the management teams across the businesses. Since February 2000 total staffing has been increased by over 650 employees, and we have introduced a range of initiatives to improve customer service, communication and consultation at both franchises. We have taken a number of other actions including the establishment of training and development programmes.

The inherited problems, particularly driver shortages at ARRIVA Trains Northern, have continued to impact on operational performance. In common with a number of other train

operating companies we have experienced industrial action during the early months of 2002.

At ARRIVA Trains Merseyside there was a sustained improvement in both reliability and punctuality during the second half of the year. A number of initiatives have been introduced to improve service. Welcome Hosts greet customers at key stations to assist with luggage, train information and directions for onward journeys. On board cleaners now travel on the underground section of the rail network throughout the day. As all trains travel through this section of the railway, this new measure helps to ensure that carriages are kept clean and tidy.

The short-term nature of the franchises has created significant difficulties. However, we are confident that, with the granting of long-term franchises, ARRIVA could deliver real benefits for customers, the wider community and our shareholders.

Mainland Europe

ARRIVA is one of the largest private sector providers of passenger transport in mainland Europe with around 3,000



Surjeet Puee is one of the team of trainers at ARRIVA Trains Northern which has been addressing the inherited problem of driver shortage. With a training period of 12 months, the company has undertaken one of the largest driver recruitment and training programmes ever seen in the rail industry.



Ian Hollingworth, station duty officer at ARRIVA Trains Merseyside, working at the new 'Eye to Eye' variable height counter – the first in the country – which has been installed at Birkenhead Central station. The counter can be lowered for customers in wheelchairs and has induction loops for those who are hard of hearing.

vehicles operating in Denmark, Sweden, the Netherlands, Spain and Portugal. An extensive range of services includes trains, buses, commuter coaches and water buses.

Our Passenger Services operations in mainland Europe achieved an operating profit of £12.8 million, before goodwill amortisation and exceptional items (2000: £12 million), on a turnover of £256 million (2000: £202.6 million).

The purchase of Combus A/S from the Kingdom of Denmark was completed in April for a nominal consideration and, as planned, 50 per cent of the operations were subsequently sold to Connex Transport AB. The Combus acquisition is cash generative and has helped to create a more sustainable market structure in the country. ARRIVA Denmark is in a strong position to grow profitability, as currently low margin routes are re-tendered.

ARRIVA Denmark was successful in tendering for two passenger rail franchises serving Jutland. The contracts were won in competition against Connex, Serco Rail and two state owned companies, the Danish State railway and a subsidiary of Deutsche Bahn. The franchises cover Mid and West Jutland

with 29 diesel trains serving over 80 stations. The two franchises have been awarded for seven years from January 2003 when ARRIVA Denmark will become the first private company to operate rail services tendered by the Danish State.

In the Netherlands, where we operate bus and train services, we have secured a strong base in the north of the country. We are now seeking to develop our business elsewhere, to take advantage of the significant new opportunities, over the next five years, with a growing number of operations subject to tender.

We have continued the process of restructuring in the Netherlands and have strengthened the local management team. The business, which has already won the contract to operate the first publicly tendered bus service, is ideally positioned to grow over the next few years.

In Spain we have consolidated our operations and have made a number of small acquisitions. The Portuguese acquisitions made at the end of 2000 have been integrated and significant headcount reductions have been achieved. Both of these countries continue to provide opportunities for further growth.



ARRIVA is one of the largest private sector providers of passenger transport in mainland Europe with operations in Denmark, Sweden, the Netherlands, Spain and Portugal.

ARRIVA made its first acquisition in the Netherlands in 1998.

ARRIVA Motor Operations

Motor Retailing

ARRIVA Motor Retailing operates a UK motor franchise network from 33 locations. It has commercial relationships with 13 manufacturers – BMW, Ford, Honda, Jaguar, Kawasaki, Land Rover, Lexus, Nissan, Peugeot, Renault, Rover, Toyota and Vauxhall.

The improvement in performance of the UK's motor retailing sector continued throughout the year. Motor Retailing increased its operating profit by 36 per cent to £9.5 million (2000: £7 million) on a turnover of £653 million (2000: £607.4 million).

Our sales of new vehicles to retail customers increased by 28 per cent in a UK market in which new registrations were up by 11 per cent. Used car sales increased by 7 per cent.

In August 2000 the Secretary of State for Trade and Industry announced a series of measures designed to restore confidence in the new car market. As a result, the scale of our operations allowed us to benefit from a level of bulk

purchase discounts, which had previously only been available to large fleet buyers.

Our new website – 'ARRIVA Click' – was successfully launched in October and is performing well. It provides a virtual forecourt, enabling customers to browse new and used cars, with a range of functions providing easy access to a number of other services.

The European Union (EU) has published its draft block exemption agreement which is now being considered by trade bodies and other interested parties. By the end of June the EU will have considered all representations and its revised block exemption will take effect on 1 October 2002.

Included in the draft are a number of significant proposals to increase competition and our view is that the large and well resourced groups like ARRIVA Motor Retailing will be in a strong position to grow their market share.

Vehicle Rental

ARRIVA Vehicle Rental has around 10,000 vehicles available for rent from some 42 locations across the UK.



Providing a virtual forecourt, the 'ARRIVA Click' website was successfully launched in October 2001.

Matthew Harris (left), sales executive with ARRIVA Vauxhall Redcar. ARRIVA Motor Retailing has commercial relationships with 13 manufacturers and is committed to delivering a high quality responsive service.



ARRIVA Vehicle Rental performed strongly, achieving a 13 per cent increase in operating profit to £10.5 million, before goodwill amortisation (2000: £9.3 million). Turnover increased to £85.5 million (2000: £80.6 million).

The business has maintained a strong focus on the maximum possible utilisation of its fleet. In more difficult economic conditions the flexibility of its product, targeted at the corporate and public sectors, has led to an increase in use by local authorities and companies. In response to a growing market the business has developed and is marketing a new programme – 'ARRIVA freedom' – that aims to meet the changing needs of individual customers. It can provide new and used vehicles with a range of flexible agreements that can be quickly changed to enable customers to meet the changing needs of their organisations.

ARRIVA Bus and Coach

ARRIVA Bus and Coach distributes both new and good quality used buses and coaches for operations throughout the UK. It has the exclusive rights to import DAF bus and coach chassis and products, and is also the UK and Eire distributor for Van Hool coaches.



Sunderland-based Arthur Hodgson and Ruth Patterson work for ARRIVA Vehicle Rental which has a fleet of around 10,000 cars and light commercial vehicles.

ARRIVA Vehicle Rental has developed and is marketing a new programme, 'ARRIVA freedom', that meets the changing needs of public and private sector customers in what is a growing market.

Reflecting the impact of the foot and mouth outbreak on discretionary coach hire throughout the year, ARRIVA Bus and Coach achieved an operating profit of £3.6 million, before goodwill amortisation (2000: £4.5 million), on a reduced turnover of £25.2 million (2000: £27.3 million). The business maintained a return on capital employed of 13 per cent.

Training and Development

Over the past few years the Group has grown rapidly, entering a number of new markets and countries. Today the Group has over 30,000 employees, an increase of some 50 per cent since 1998. Against this background, the need for a common set of values and comprehensive training is clearly recognised. In addition to the specific job training for employees such as drivers and a very successful modern apprenticeship programme, we have been progressively introducing a wide range of additional training initiatives. These include the development of a customer service NVQ for which over 4,500 employees have now registered. We have also implemented new management training programmes based on a common vision for the business and the consistent application of our brand values. These use a range of approaches including a dedicated website that

allows managers to access learning from any location and at a time that suits them.

Outlook

Last year we said that, following the repositioning of the Group, we were well placed to deliver profitable growth. Despite the fact that the trading environment in 2001 was clearly challenging, we have delivered a substantial increase in earnings underpinned by strong cash flow. The focus for this year is to build on this progress and to use the strong cash flow to deliver value for our shareholders through continued share buy-backs and targeted acquisitions in our chosen markets.

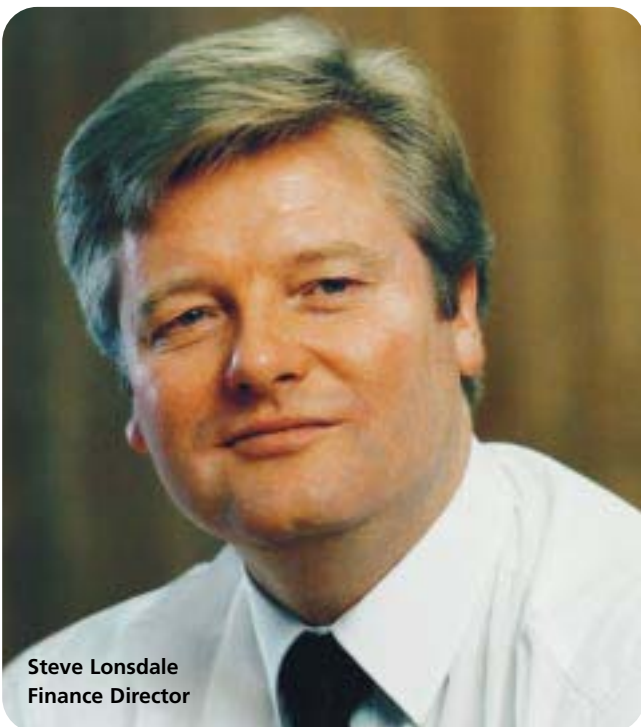
Bob Davies
Chief Executive



Wakefield's new £4 million bus station, which opened in October 2001, was jointly funded by ARRIVA Yorkshire, West Yorkshire Passenger Transport Authority, Wakefield Metropolitan District Council and the European Union.



Following the acquisition of London Pride, ARRIVA is now the largest sightseeing bus tour operator in London.



Steve Lonsdale
Finance Director

Strong cash inflows from trading operations remain a key feature of the Group's activities. Together with a robust capital structure, this has enabled the Group to further expand its operations and invest in the businesses whilst continuing the share buy-back programme which commenced in 2000.

During the year the Group acquired Denmark's largest bus operator, Combus A/S, started a two-year extension of its two UK rail franchises on new financial terms, and continued its programme of share buy-backs. Smaller acquisitions included London Pride, the sightseeing tour business, to complement our existing Original London Sightseeing Tour activity.

The acquisition of Combus A/S in Denmark was completed in April 2001 for nominal consideration. As planned, within a month of the purchase, the Copenhagen Combus activities were sold to Connex Transport AB. The net debt inherited after these two transactions was £13 million. No goodwill was paid on the acquisition reflecting a number of loss making contracts within Combus for which provision has been made on acquisition. The integration of the Combus operations in ARRIVA Denmark was successfully completed incurring a charge to exceptional



ARRIVA Trains Merseyside's customers benefit from improved travelling conditions thanks to the efforts of a team of on board cleaners including James Cahill and Gerry Gibbons.



Waterbuses are one of the modes of transport ARRIVA provides in Denmark, where the company will operate the Copenhagen Metro from October 2002.

items of £2.2 million. The turnover and operating profit, before goodwill amortisation and exceptional items, contributed in the year by Combust were £36 million and £2.3 million respectively.

Following the two-year extension to the Group's rail franchises in February 2001, the rail operations have contributed £11.5 million (2000: £nil) to operating profits. Losses in the period up to 18 February 2001, the expiry of the contract on its original terms, have been charged against a contract loss provision.

The Group bought back 3.0 per cent (2000: 6.1 per cent) of its shares during 2001 at a cost of £21 million (2000: £35 million). These transactions enhance earnings per share and, at current levels of interest rates and share price, the ongoing financial cost is less than the dividend yield. This programme will continue and we will seek authority at the forthcoming Annual General Meeting to purchase up to 15 per cent of the Company's issued share capital.

The financial capacity of the Group remains strong with gearing of 67 per cent at the end of the year and interest cover

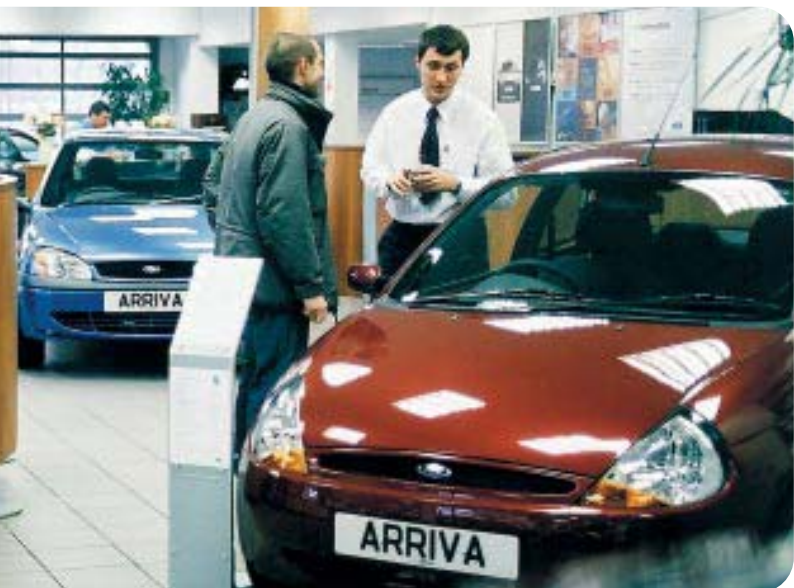
(operating profit before goodwill amortisation and exceptional items, as a multiple of interest costs) of five and a half times.

Financial Reporting

FRS 18 'Accounting Policies' became mandatory for the Group in the year ended 31 December 2001. The Standard replaces the basic principles of SSAP 2 with a new framework focused on selecting the most appropriate accounting policies and increased disclosure requirements. The Group complies with all aspects of the Standard.

FRS 19 'Deferred Tax', which will become mandatory for the Group for the year ended 31 December 2002, requires full provision to be made for deferred tax where capital allowances exceed depreciation, even when no future tax cash outflow is anticipated. This differs significantly from SSAP 15 which only requires a provision to be made where a tax cash outflow is foreseeable. Had FRS 19 applied in this financial year, the deferred tax provision would have increased by £51 million and the Group tax charge would have increased by £11 million.

In Note 17 to the Accounts, the transitional disclosures required under FRS 17 'Retirement Benefits' show the impact



Lee Attley (right), new vehicles sales executive at ARRIVA Ford Sunderland. ARRIVA Motor Retailing sells over 75,000 vehicles annually.



To support ARRIVA's management development programme we introduced our 'Learning Development Gateway' which managers can access via the Internet from a dedicated ARRIVA website.

the Standard would have had on the Group's balance sheet had it been effective at 31 December 2001. For the defined benefit schemes operated by the Group, FRS 17 will require that the schemes' assets, mainly quoted investments, be calculated at their market value on each balance sheet date. The Standard will also require accrued pension liabilities to be calculated using the projected unit method, discounted using an AA corporate bond rate. On this basis, at 31 December 2001, the combined schemes' net pension liability was £26 million. The Standard will be fully effective in the year ended 31 December 2003, and will require the net pension surplus or deficit to be recognised in the balance sheet.

Segmental Analysis

The segmental analysis in Note 1 to the Accounts has been prepared on the basis that operating results are reported before goodwill amortisation and exceptional items. An operating profit of £2.3 million relating to Combus for the nine month period since acquisition has been included.

As indicated above, the Group's rail franchises were extended for two years in February 2001. Losses amounting to £30 million were incurred in the 12 months to 18 February 2001 and

are covered by a contract loss provision established on the acquisition of MTL Services plc in February 2000; hence there is no comparative profit or loss figure for UK Rail in the segmental analysis in respect of 2000.

Cash Flows

The Group significantly increased the cash inflow from its operating activities during the year. Although a significant part of this was due to the previously loss making rail contracts being extended on profitable terms it still demonstrates the strong cash generation of the Group. Investment in vehicles in both the passenger services division and daily rental division continued, financed by strong cash inflow from revenue generation and vehicle disposals.

The level of capital expenditure on buses is largely discretionary. Having brought the average age of the UK bus fleet down over recent years, the Group is likely to reduce its level of capital expenditure on buses in 2002.

The cash inflow from operations was £231 million during the year (2000: £174 million), an increase of 33 per cent. Capital expenditure was £169 million compared with

£151 million last year, including £45 million of investment in UK Bus (2000: £51 million). Proceeds from the disposal of short-term rental vehicles was £46 million (2000: £47 million) and the running-off of the Motor Finance receivables book contributed a further £25 million (2000: £37 million).

The Group invested £19 million, including debt assumed, on acquisitions in Europe and in the UK, principally to acquire Combus A/S and London Pride.

Interest and dividend payments were £53 million (2000: £51 million), and tax payments were £12 million (2000: £31 million). The share buy-back programme of 3 per cent of the issued share capital utilised £21 million of funds, at an average price of £3.27 per share. There was a reduction in net debt to £316 million (2000: £339 million).

Capital Structure

Shareholders' funds were £475 million (2000: £469 million) at the end of the year. Retained profits contributed £25 million to distributable reserves, offset by the utilisation of £21 million of reserves for the share buy-back programme. Gearing, the ratio of debt to equity, was 67 per cent (2000: 72 per cent).

The Group remains comfortably within the principal financial covenants set by its lenders, which require net tangible assets to exceed £140 million and gearing to remain below 200 per cent.

The Group has set a medium-term objective of maintaining interest cover before goodwill amortisation of around four times.

Borrowing Facilities

The Group's long-term finance is provided by £104 million of debt issued through a US private placement. £57 million of the debt is due for repayment in 2005, with the balance of £47 million repayable in 2008. A large proportion of the Group's bus fleet is financed on medium-term fixed rate hire purchase or finance lease arrangements. The typical duration of these arrangements is three to five years. As part of the rail franchising arrangements the Group has provided guarantees of £19 million. The rolling stock of the rail businesses is provided through operating leases with annual commitments of approximately £50 million. All material commitments will cease on expiry of the rail franchises.

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

Treasury

The Group's treasury function manages major cash flows as well as risks arising from interest rate and foreign exchange rate fluctuations. This is achieved through the use of interest rate and exchange rate swaps and long-term fixed rate finance. In addition, foreign operations are funded in local currency where possible, or by entering into foreign currency swaps. The effect of this policy has been to reduce to insignificant

levels the foreign exchange risk when translating overseas assets and liabilities into sterling.

The US private placement is denominated in US dollars. The debt and interest flows have been hedged by the Group to fix the capital repayment at £104 million, with the interest burden on the debt fixed at 7 per cent.

The bus fleet is financed through £176 million of facilities with fixed interest rates between 3.8 per cent and 8.8 per cent, with an average cost of 6.4 per cent. Further information is provided in Note 16 to the Accounts.

The UK Bus division now uses a fuel hedging strategy to reduce the impact of any future volatility in fuel prices. This has been brought into effect during the last quarter of 2001. The strategy is targeted to fix the cost of fuel to the Group annually in advance through a number of part volume fixed priced contracts phased in over a period of up to 18 months.

Taxation

The tax charge for the Group was £17 million representing an effective rate of tax of 22 per cent. The rate is lower than the standard rate due to the claiming of capital allowances on the bus and daily rental fleets in excess of depreciation charged on those assets. Due to the increasing proportion of Group profits derived from overseas operations, where standard tax rates are higher, and UK Rail, where available capital allowances are lower, an increase in the underlying effective cash rate of tax is anticipated in future. The implementation of FRS 19 in the year ending 31 December 2002 will inevitably result in an effective rate of tax nearer to the UK standard rate of tax of 30 per cent.

Shareholders' Funds

Shareholders' funds were £475 million (2000: £469 million) at the end of the year representing 231 pence per share (2000: 222 pence per share). This excludes goodwill previously written off directly to reserves of £250 million. If this goodwill had been capitalised then the net assets of the Group would have been £725 million representing 353 pence per share.

Summary

The Group is financially strong and in a good position to invest in growing its operations and to take advantage of future acquisition opportunities. At current rates of development the Group continues to have the financial resources available to further develop, including the realisation of the balance of the Motor Finance receivables of £19 million, and will continue to seek to optimise its financial structure through further share buy-backs and maintaining an interest cover of approximately four times.

Steve Lonsdale
Finance Director



Chris Benson of ARRIVA Trains Northern helped youngsters from Cotsford Junior School in Peterlee learn how maths plays an important role in planning journeys and timetables.



Louise Ellman (left), the MP for Liverpool Riverside, launched a national partnership between ARRIVA and Workable, the organisation dedicated to supporting disabled university students and graduates in developing their careers. Pictured with Louise Ellman is Workable's chief executive David Filmer and Pam Arland, a consultant with Workable.

Community Matters

ARRIVA is committed to playing a positive role in the communities it serves across the UK and mainland Europe, with the firm belief that strong local relationships are fundamental to its business.

The Group provides financial and practical support to charities and projects that help people with disabilities, the elderly, the young and the environment. The community relations programme includes a number of activities ranging from employee volunteering and the sponsorship of local community initiatives, to the development of long-term partnerships with a number of organisations including Business in the Community and the Royal National Institute for the Blind.

ARRIVA Trains Northern has teamed up with the Peterlee Education Action Zone to help improve the learning experience of local school children. Youngsters from junior schools travel on ARRIVA's trains and attend presentations at stations to learn about timetables, fares and other activities which assist their studies.

In June, ARRIVA worked with the Foundation for Citizenship at Liverpool John Moores University by sponsoring the Citizenship Awards, which recognise the achievements of children across Merseyside. Youngsters from primary and secondary schools received their awards from Lord David Alton.

ARRIVA is continuing to develop its relationship with Business in the Community. A pilot mentoring scheme, involving employees at our head office supporting pupils from a local secondary school, was very successful. 72 per cent of pupils improved in one or more of the key subjects – Maths, English and English Literature – and almost a third improved their punctuality and attendance record. Such was the success of the scheme, a second programme is underway with an increase in the number of employees taking part. The mentoring programme is being extended to ARRIVA's operations in Merseyside, ARRIVA Trains Northern and ARRIVA Vehicle Rental.

December saw the launch of a national partnership between ARRIVA and Workable, an organisation which supports disabled university students and graduates in achieving their



ARRIVA employees voted Liverpool's Lily Centre breast cancer support group as the Group's 2002 Charity of the Year. Pictured are: Peggy O'Brien – chairperson at the centre, Lily Halligan – the centre's founder, Lady Mayoress Ann Scott, Winnie Keating – secretary and Joan Rydill – treasurer.



ARRIVA Vehicle Rental's Lisa Cobain and James Kent from Sunderland's Sandhill View School have teamed up in the Group's second mentoring programme.

career ambitions. Workable currently operates in London, the North East and the North West.

A new initiative has been introduced to recognise the valuable contribution that employees make to their local community through voluntary work. Employees are invited to apply for a Community Action Award and if successful, a donation is made to the organisation they support. In 2001, 23 awards were made, ranging from £50 to £500. The three awards for £500 went to the Cystic Fibrosis Trust supported by Roy Cole at ARRIVA Midlands North, Breast Cancer Care supported by Gayle Spiller at ARRIVA's Rover dealership in High Wycombe, and the Glan Clwyd Cancer Unit in North Wales, supported by employees at ARRIVA Cymru's Rhyl depot.

In Yorkshire, ARRIVA is working with Common Purpose. The organisation aims to improve the way society works by increasing the number of informed individuals who are actively involved in shaping the future of the area in which they live or work. It is planned to expand the programme to other areas where ARRIVA operates.

Throughout the year support was given to the Alder Hey Rocking Horse Appeal, the 2001 Charity of the Year. The 2002 charity is The Lily Centre, a Liverpool-based breast cancer support group. The Charity of the Year scheme has now been extended to the Group's mainland European operations, with support being given to the charities and projects in Denmark, the Netherlands, Portugal and Spain.

Gareth Cooper BSc, FCIT

Aged 58. Gareth was appointed to the Board on 2 March 1999 as independent non-executive Chairman. He has substantial experience in both the service and manufacturing industries holding managing director positions within the Marley plc Group, and, more recently, as managing director of Crown Berger Limited (1987-1991) and from 1991-1997 managing director of Stena Line UK Ltd. Currently non-executive Chairman of Stena Line UK Ltd and White Young Green PLC and a director of Simon Group PLC, P & O Stena Line Ltd and Stena Line Holdings BV. Gareth sits on the Board's four standing committees and chairs the Health & Safety Committee and the Nomination Committee of the Board.

**Bob Davies LLB, FCMA**

Aged 53. Bob was appointed to the Board as Chief Executive Officer on 30 December 1998. He was previously chief executive of East Midlands Electricity plc and prior to that finance director of Ferranti International Plc (1991-1993) and Waterford Wedgwood plc (1988-1991). Prior to that Bob spent 15 years in the international motor industry with Ford Motor Company holding senior positions in the UK, in the USA with Ford Motor Credit and at Ford's Spanish Operation as Director of Finance. Bob is currently a non-executive director of Geest plc and T & S Stores plc.

**Steve Lonsdale BA, FCA**

Aged 44. After graduating from the University of Newcastle upon Tyne with a degree in Economics and Accounting, Steve joined 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 as Group Accountant and was appointed to the Board in 1991 as Group Finance Director with responsibility for finance, tax and treasury.

**David Martin BA, FCMA, MiMgt**

Aged 50. David graduated in Business Studies, qualifying as an accountant in 1977 and held a variety of general management positions before joining the bus industry in 1986. He led a management buy-out of an East Midlands based bus company and was involved in the acquisition of National Express and subsequent management buy-outs leading to the creation of British Bus Group Ltd. David joined the Group in 1996 following the acquisition of British Bus and was appointed to the Board in February 1998 with responsibility for the Group's international operations and development.

**Veronica Palmer OBE**

Aged 61. Veronica was appointed to the Board on 1 September 2001 as an independent non-executive Director and is a member of the Audit, Remuneration and Nomination Committees of the Board. Until June 2001, she was Director General of the Confederation of Passenger Transport UK, a post she had held since 1989. Previously 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 was awarded an MBE for military services and an OBE for services to the transport industry.

**John Ray**

Aged 50. John joined the Group in 1973 as a motor dealership accountant. In 1980 he joined the Group's then Agricultural division as a Director of Eastern Tractors Holdings Ltd. He re-joined the Motor Division in 1989 holding a number of senior operational and financial positions in the Division and was appointed to the Board in March 1997 with responsibility for the Group's motor operations business.

Michael Allen FRICS

Aged 57. Appointed to the Board as an independent non-executive Director on 3 June 1997. Michael sits on the Board's Audit, Nomination, Remuneration and Health & Safety Committees and chairs the Remuneration Committee. Michael was formerly deputy chairman of Persimmon plc until his retirement on 31 December 2000. Following John Ward's retirement after the Annual General Meeting Michael will assume the roles of senior independent Director and chairman of the Audit Committee.



Euan Cameron MSc

Aged 48. Appointed to the Board on 3 May 2001 with responsibility for the Group's UK Rail business. Euan worked in the rail industry until its privatisation in 1997 and, following privatisation was group operations director of Prism Rail and managing director of WAGN and C2C train operating companies. Euan is a member of the Health & Safety Committee of the Board.



Steve Clayton BA, FCIT, MiMgt

Aged 48. After graduating with a London University degree in Geography, Steve joined London Transport in 1975 and held various operational line management positions in the London area. In 1985 he was seconded to provide bus consultancy services to Mexico City. In 1988 he was appointed managing director of one of the privatised London bus companies, Leaside Bus Company Limited (now known as ARRIVA London North Ltd), and joined the Group in 1994 on the acquisition of Leaside. Appointed to the Board in February 1998 with responsibility for the Group's UK bus operations. Steve sits as a member of the Board's Health & Safety Committee.



Mark Saxton BA, MSc

Aged 49. Appointed 21 February 2000 as Group Human Resources Director. Mark graduated from the University of Western Australia and gained an MSc from the Department of Management at Bath University. Prior to joining the Group he lived and worked in eight different countries holding various managerial positions, the last twelve years of which were with Cadbury Schweppes where he was Vice President Human Resources for the European Beverages Division (1988-1992), managing director of the Austrian Bottling Company (1992-1997) and latterly Vice President Human Resources of the International Beverages Division (1997-2000). Mark sits as a member of the Board's Health & Safety Committee.



John Ward OBE, DL, ACIB

Aged 68. Appointed to the Board in December 1994 as an independent non-executive Director and sits on the Board's Audit, Nomination and Remuneration Committees, chairing the Audit Committee. With effect from 1 March 1999 John was appointed to the role of senior independent Director. John was formerly a regional director of Barclays Bank PLC and a chairman of the Northern Regional Board. He is also non-executive chairman of Stobo Castle Health Spa Limited and a director of Grainger Trust plc, Northern Investors Company plc, Newcastle Theatre Royal Trust Company Limited and Tyneside Stables Project Limited. John has advised that he will be retiring from the Board at the conclusion of the Annual General Meeting on 26 April 2002.

Secretary &

Registered Office

David Turner BA, FCIS
Admiral Way
Doxford International
Business Park
Sunderland
SR3 3XP

Company registration

number
347103

Auditors

PricewaterhouseCoopers
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Newcastle upon Tyne
NE99 1PL

Stockbrokers

Merrill Lynch
International
2 King Edward Street
London
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Solicitors

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Newcastle upon Tyne
NE99 1SB

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Principal Bankers

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Newcastle upon Tyne
NE99 1SB

HSBC Bank plc
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Merchant Bankers

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& Sons Limited
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Financial Public Relations

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& Company
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Registrar and Transfer Office

Computershare
Investor Services PLC
PO Box 82
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Bridgwater Road
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BS99 7NH

Directors' Report

The Directors submit their report and the audited accounts of ARRIVA plc for the year ended 31 December 2001.

Principal Activities of the Group

The principal activities of the Group at 31 December 2001 comprised:

Passenger Services and Bus & Coach Distribution

Operation of bus services in the UK and certain European countries, coach commuter services and private hire; the operation of rail franchises; bus and coach distribution, rental and finance.

Motor

Sale, service and repair of motor vehicles, supply of automotive parts, self-drive hire.

Review of Operations

A review of operations, together with an indication of future prospects, is given in the Operating and Financial Reviews on pages 8 to 19.

Results and Dividends

The profit for the year before taxation amounted to £76 million (2000: £72.1 million). The Directors recommend the payment of a final dividend on the ordinary shares of the Company of 12.2 pence per share (2000: 11.6 pence) which, together with the interim dividend of 4.2 pence (2000: 4.0 pence) represents a total of 16.4 pence per ordinary share (2000: 15.6 pence). The proposed final dividend, if approved, will be payable on 1 May 2002 to shareholders on the register at the close of business on 5 April 2002.

The total amount proposed to be distributed is £33.8 million (2000: £33.4 million). After payment of these dividends, the retained profit for the year attributable to shareholders of the Company is £25.4 million (2000: £22.7 million).

Share Capital

The movement in the share capital during the year is detailed in Note 20 to the Accounts.

Directors

The names of the present Directors appear on pages 22 and 23.

Mr W G Cooper, Mr S P Lonsdale, Mr A M Saxton and Mr M J Allen retire by rotation, and, being eligible, offer themselves for re-election.

Mrs A V M Palmer was appointed a Director on 1 September 2001 and a resolution to elect Mrs Palmer a Director of the Company will be proposed at the Annual General Meeting.

Mr J S Ward has advised that he will be retiring from the Board on 26 April 2002 at the conclusion of the Annual General Meeting.

No Director was interested in any contract or arrangement which was significant in relation to the Group's business.

Directors' Interests

The interests of the Directors (including their family interests) all of which are beneficial, in the share capital of the Company at the beginning and at the end of the year are shown below. Details of Directors' share options appear in the Remuneration section of the report on Corporate Governance on pages 28 to 35.

Ordinary shares	1/1/01 or date of appointment	31/12/01	28/2/02
W G Cooper	Nil	Nil	Nil
R J Davies	35,000	50,000	50,000
E A R Cameron (Appointed 3 May 2001)	10,000	10,000	10,000
S J Clayton	Nil	10,000	10,000
S P Lonsdale	118,764	149,188	149,188
D R Martin	384,963	384,963	384,963
J A Ray	12,000	12,000	12,000
A M Saxton	7,500	12,500	12,500
M J Allen	1,158	1,158	1,158
A V M Palmer (Appointed 1 September 2001)	Nil	Nil	Nil
J S Ward	Nil	Nil	Nil

On 9 March 2001 Mr S J Clayton disposed of 10,744 ordinary shares at 288 pence per share and on 6 September 2001 disposed of 2,567 ordinary shares at 343 pence per share.

On 6 September 2001 Mr S P Lonsdale disposed of 8,000 ordinary shares at 348.5 pence per share.

On 13 September 2001 Mr J A Ray disposed of 15,558 ordinary shares at 344.5 pence per share.

During the year Mr D R Martin redeemed his holding of £2.275 million unsecured loan notes 2003.

Share Buy-Back

Pursuant to the authority granted to the Directors at the Annual General Meetings held on 28 April 2000 and 27 April 2001 the Company purchased 6,267,500 ordinary shares (representing 2.96 per cent of the issued ordinary share capital at 1 January 2001) at an average price of 327 pence per share (exclusive of expenses) during the period 27 March 2001 – 12 October 2001. The purchase exercise was undertaken to further optimise the Group's capital structure (see Note 20 to the Accounts). The nominal value of the ordinary shares purchased was £313,375.

Acquisitions and Disposal

On 6 March 2001 the Company's wholly owned subsidiary ARRIVA Passenger Services Limited completed the acquisition of the entire issued share capital of London Pride Group Limited for a consideration of £4.9 million in cash.

On 2 April 2001 the Company, through its wholly owned subsidiary ARRIVA Danmark A/S, completed the purchase of Combis A/S from the Kingdom of Denmark for a nominal sum.

As announced on 2 April 2001, the sale of 50 per cent of the Combis A/S operations to Connex Transport AB was completed on 4 May 2001.

Other Information

During the year ARRIVA Trains Northern Limited, a subsidiary company of the Group, was notified of a proposed fine of £2 million from the Strategic Rail Authority in relation to the company's cancelled trains in the period from May 2001 to August 2001.

In January 2002, ARRIVA plc was fined £203,632 under the Competition Act 1998. This was as a consequence of a subsidiary company of the Group sharing routes with a competitor.

Directors' Report continued

Charitable and Political Donations

During the year the Group made charitable donations amounting to £107,502. There were no political donations.

Special Business

The Notice of Annual General Meeting contains as special business two Special Resolutions and one Extraordinary Resolution:

(i) Special Resolution

Amendment to the Articles of Association

This item, set out as Resolution 10 in the Notice of Meeting, seeks to amend the Articles of Association of the Company to permit the Company to communicate electronically with its shareholders particularly with regard to notices of general meetings, the appointment of proxies and the issue of the annual report and accounts. A circular to be dated 28 March 2002 which accompanies this annual report and accounts provides full details of the proposed changes to the Articles of Association.

(ii) Special Resolution

Disapplication of Pre-emption Rights

This item, set out as Resolution 11 in the Notice of Meeting, seeks to renew the authority granted at the previous Annual General Meeting for the Directors to take advantage of Section 95 of the Companies Act 1985 ('the Act'). Section 89 of the Act requires that an allotment of shares for cash may not be made unless the shares are first offered to existing shareholders on a pre-emptive basis in accordance with the Act. Section 95 of the Act permits the Directors to disapply these pre-emption requirements and accordingly a special resolution will be proposed at the Annual General Meeting which, if passed, will have the effect of granting the Directors the power, on similar terms to that granted by the special resolution passed at the Annual General Meeting held on 27 April 2001, to allot up to 5% of the present issued ordinary share capital otherwise than in accordance with Section 89 of the Act in addition to any issue by way of rights.

(iii) Extraordinary Resolution

Authority to Purchase Own Shares

This item, set out as Resolution 12 in the Notice of Meeting, seeks to renew the authority of the Company to make market purchases of up to 30,816,194 ordinary shares (15% of the issued ordinary shares at 31 December 2001) of 5p each at a price not exceeding 5% above the average of the mid-market quotation of the ordinary shares in the five business days preceding such purchase at a price not below 5p per share. Purchases will only be made on the London Stock Exchange and only in circumstances where they are, in the opinion of the Directors, in the best interests of the Company and the Group. Such purchases will be financed out of distributable profits and will only be made in circumstances which, in the opinion of the Directors, should result in an improvement in earnings per share. Subject to these criteria, your Directors propose to continue with the programme of purchasing the Company's shares.

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. The Group's policy includes, where applicable, the continued employment of those who may become disabled during their employment. The Group has continued its policy of employee involvement, by making information available to employees and encouraging their participation in schemes which are related to the Group's progress and profitability.

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 2001 the Company's trade creditors outstanding represented approximately 45 days' purchases (2000: 43 days).

Substantial Shareholdings

As far as the Directors are aware, the only notifiable holdings equal to or in excess of 3 per cent of the issued ordinary capital as at 28 February 2002 are:

	Per cent
FMR Corporation	6.96
Barclays PLC	4.40
Legal & General	3.16

Corporate Governance

A review of the Company's application of the principles and provisions of The Combined Code appears on pages 28 to 35.

Health, Safety and Environment

Details of the Company's approach to health, safety and environmental issues appears within the Corporate Governance report on pages 34 to 35.

Auditors

A resolution to re-appoint PricewaterhouseCoopers will be proposed at the Annual General Meeting.

By order of the Board
D P TURNER
Secretary
6 March 2002

Corporate Governance

Your Board is committed to achieving and maintaining the highest possible standards of corporate governance. Essentially, corporate governance is concerned with the direction and control of companies with particular reference to the Board of Directors. Good corporate governance means effective control through a balanced Board based on clear lines of responsibility with adequate control mechanisms providing appropriate checks and balances, all operating within a clearly understood and effective regime of accountability.

Best practice in corporate governance is evidenced by The Combined Code and companies are required by The Stock Exchange to review Annual Reports in their application of the principles and provisions of The Combined Code.

The Company has complied throughout the accounting period under review with the provisions of Section 1 of The Combined Code.

1. The Board

The Board, which currently comprises seven executive and four independent non-executive Directors, normally meets ten times a year. A specific schedule of matters is reserved for the Board for decision, the principal elements being strategic investment and divestment, treasury policy, major property transactions, health & safety and risk management. Information of an appropriate quality is made available to the Board in a timely manner to assist it in performing its duties.

The roles of the Chairman and the Chief Executive are quite distinct from one another and are clearly defined.

Mr J S Ward, who was appointed to the Board on 1 December 1994, has announced that he will be retiring on 26 April 2002 at the conclusion of the Annual General Meeting.

Four standing committees are maintained and operated by the Board: the Audit, Remuneration, Nomination and Health & Safety Committees.

The Audit Committee meets at least twice a year to review reports from both the external auditors, PricewaterhouseCoopers, and the Group Internal Auditor. The Remuneration Committee will normally meet twice a year and review the remuneration arrangements for the executive Directors and senior management. The Nomination Committee meets on an ad hoc basis according to the circumstances and whilst it is the responsibility of the Nomination Committee to make recommendations, approval of all appointments to the Board will be made by the Board as a whole. With the exception of the Health & Safety Committee membership of the Board committees comprises the non-executive Directors. Mr W G Cooper chairs the Health & Safety Committee and the Nomination Committee; the Audit Committee and the Remuneration Committee are chaired by Mr J S Ward and Mr M J Allen respectively. Mr M J Allen will assume the Chairmanship of the Audit Committee following Mr Ward's retirement.

Membership of the Health & Safety Committee comprises senior representatives from the operating divisions, three executive Directors, (Mr E A R Cameron, Mr S J Clayton and Mr A M Saxton), Mr M J Allen, the Company Secretary and the Group Health & Safety Manager. The Committee meets four times a year and is charged by the Board with the responsibility of providing assurance to the Board of the adequacy and effectiveness of the application of the overall health, safety and environmental strategies of the Group.

All Directors have access to the advice and services of the Company Secretary who administers the Board and Board Committee meetings and ensures that relevant procedures and regulations are followed.

An agreed procedure has been established for any of the Directors (both executive and non-executive) to obtain independent professional advice at the Company's expense.

One third of the Directors are required to submit themselves for re-election each year and all Directors will have submitted themselves for re-election every three years. Newly appointed Directors will be subject to election by the shareholders at the first opportunity after their appointment.

With reference to Provision A.2.1 of The Combined Code, Mr J S Ward is the senior independent Director. Following Mr Ward's retirement, Mr M J Allen will assume this responsibility.

2. Directors' Remuneration

All matters relating to the remuneration of the executive Directors is determined by the Remuneration Committee. Membership of the Committee is restricted to the non-executive Directors and is chaired by Mr M J Allen. The objective of the Remuneration Committee is to ensure that the executive Directors are both highly motivated and fairly rewarded for their contribution to the Group's overall performance having due regard to the interests of the shareholders, the overall remuneration structure within the Group and practices adopted by comparator companies.

The Remuneration Committee considers all elements comprising executive remuneration, including basic salary, performance related bonus, share option scheme grants, awards under the Company's Long Term Incentive Plan, pension provision, benefits in kind and service agreement terms.

The executive Directors are each paid an annual salary which is open to annual review in January. The Directors took no increase in their annual salaries at the January 2002 review. In addition the executive Directors participate in a performance related bonus arrangement with bonus being paid on the attainment of specified targets established by the Remuneration Committee and agreed with the Director. The bonus targets comprise three elements: Group performance, divisional performance and personal performance. The Group performance and divisional performance elements are based on the achievement of budgeted earnings per share and budgeted divisional profit. The personal performance element is entirely at the discretion of the Remuneration Committee and is a qualitative element reflecting individual performance against key personal objectives. For service after 1 January 2000 directors' bonus is not taken into account in computing pension benefits.

Benefits in kind are awarded as the Remuneration Committee considers appropriate and currently comprise company cars, fuel, medical insurance and telephone costs.

The non-executive Directors' fees are limited to £200,000 per annum in the aggregate by the Articles of Association. Within this aggregate the annual fee for each non-executive Director is determined by the Board, the non-executive Director in question taking no part in the deliberations.

Each of the executive Directors has a service contract which is subject to 12 months' notice. All the executive Directors' service contracts contain an explicit provision for compensation payment on termination, except in the case of misconduct. Each of the non-executive Directors is appointed for a fixed term not exceeding three years. The appointments are renewable with the agreement of both parties again for terms not exceeding three years. The maximum period of aggregate service for a non-executive Director is nine years.

In principle the Board will permit the executive Directors to accept appointments outside the Company. However before accepting such appointments the Director(s) involved must receive the prior written 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 as in the case of Mr R J Davies' two external appointments with Geest plc and T & S Stores plc, where the non-executive Directors' annual fees of £24,000 and £22,050 (£25,000 with effect from 1 January 2002) respectively are paid directly to the Company on a quarterly basis.

In accordance with best practice an ordinary resolution to consider, and if thought fit approve this Remuneration Report, will be proposed at the Annual General Meeting.

Directors' remuneration – Year ended 31 December 2001

	Fees £	Salary £	Bonus £	Benefits in kind £	Total £	Prior year £
W G Cooper	70,000	–	–	–	70,000	70,000
R J Davies	–	316,725	201,000	23,627	541,352	527,459
E A R Cameron (Appointed 3 May 2001)	–	116,667	78,000	7,543	202,210	N/A
S J Clayton	–	180,250	70,000	17,457	267,707	281,122
S P Lonsdale	–	175,100	85,000	15,931	276,031	270,338
D R Martin	–	180,250	86,000	16,453	282,703	260,658
J A Ray	–	169,950	94,000	13,941	277,891	253,272
A M Saxton	–	164,800	80,000	15,019	259,819	219,345
M J Allen	27,500	–	–	–	27,500	27,500
A V M Palmer (Appointed 1 September 2001)	9,167	–	–	–	9,167	N/A
J S Ward	27,500	–	–	–	27,500	27,500
Total	134,167	1,303,742	694,000	109,971	2,241,880	1,937,194

A pension of £5,000 (2000: £5,000) was paid to a former Director.

Corporate Governance continued

2.1 Directors' Pensions and Related Benefits

The executive Directors are provided with pension and related arrangements as follows:

Structure of pension benefits	R J Davies		S J Clayton		S P Lonsdale		D R Martin		J A Ray		A M Saxton		E A R Cameron	
Scheme*	1	4	3	1	2	4	1	1	4	1	4	1	4	
Normal retirement age	–	65	65	65	65	–	65	65	65	65	65	65	65	
Director's contribution	–	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	
Early retirement rights	–	–	On or after age 50, with the consent of the Company	On or after age 50, with the consent of the Company	On or after age 50, with the consent of the Company	–	On or after age 50, with the consent of the Company	On or after age 50, with the consent of the Company	–	On or after age 50, with the consent of the Company	–	On or after age 50, with the consent of the Company	–	
Lump sum and death in service	4 x 'earnings cap'	–	4 x rostered earnings	4 x gross earnings	4 x previous tax years' gross pay	–	4 x gross earnings	4 x 'earnings cap'	–	4 x 'earnings cap'	–	4 x 'earnings cap'	–	
Spouse's pension on death in retirement	–	–	50% pre commutation pension	50% pre commutation pension	50% pre commutation pension	–	50% pre commutation pension	50% pre commutation pension	–	50% pre commutation pension	–	50% pre commutation pension	–	
Increases to pensions in payment	–	–	Limited Price Indexation	Limited Price Indexation	3% pre 1997; 3% – 5% post 1997	–	Limited Price Indexation	Limited Price Indexation	–	Limited Price Indexation	–	Limited Price Indexation	–	
Allowance for discretionary benefits in transfer value	–	–	None	None	None	–	None	None	–	None	–	None	–	
Company contribution to FURBS and/or personal pension during the year	–	£153,084	–	–	–	–	£3,600	–	–	–	–	£36,256	–	£25,667
Premium for additional life cover paid in the year	–	£3,027	–	–	–	–	–	–	–	–	–	£2,150	–	£458

- * 1 ARRIVA Pension Scheme
 2 ARRIVA Passenger Services Pension Plan
 3 ARRIVA London North & ARRIVA London South Pension Scheme
 4 FURBS and/or Personal Pension Plan

Mr S P Lonsdale is entitled to benefits which are accruing at a rate which will provide him with a pension benefit of two thirds of final pensionable salary at age 65. Mr S J Clayton, Mr D R Martin and Mr J A Ray are, with effect from 1 January 2000, accruing benefits in their respective schemes at the rate of 1/30th of basic annual salary. Prior to January 2000 their benefits accrued at the rate of 1/60th of pensionable salary. The aggregate benefit accruing to Mr E A R Cameron and Mr A M Saxton from the ARRIVA Pension Scheme and the FURBS is equivalent to 1/30th of basic annual salary for each year of service.

	Accrued pension as at 31/12/01 (£ pa)	Increases in accrued pension in the year (£)	Age as at 31/12/01
E A R Cameron	1,458	1,458	48
S J Clayton	30,568	9,080	48
S P Lonsdale	67,994	5,844	44
D R Martin	74,344	12,642	50
J A Ray	51,917	7,148	50
A M Saxton	2,915	1,598	49

2.2 Directors' Share Options

	Options at 1/1/01			During the year		Options at 31/12/01	Market value at date of		Period of exercise
	Number	Date of grant	Exercise price (p)	Number granted	Exercise price (p)		Exercised	Exercise (p)	
R J Davies	8,021*	30/12/98	374.00			8,021	–	378.00	30/12/01 to 30/12/08
	312,834†	30/12/98	374.00			312,834	–	378.00	30/12/01 to 30/12/05
Total	320,855			Nil		Nil		320,855	
E A R Cameron	Nil			Nil		Nil	–	–	N/A
S J Clayton	20,744*	10/04/95	228.97			–	294.75	265.50	10/04/98 to 10/04/05
	10,000†	15/04/97	398.50		20,744	10,000	–	401.00	15/04/00 to 14/04/04
	99,256†	04/03/98	418.50			99,256	–	427.00	04/03/01 to 04/03/05
	2,289§	18/05/98	393.07			2,289	–	439.00	01/07/03 to 01/01/04
	83,944†	08/12/99	288.00			83,944	–	288.00	08/12/02 to 08/12/06
	2,567§	29/04/96	268.79		2,567	–	350.00	383.50	01/06/01 to 30/11/01
Total	218,800			Nil	23,311	195,489			
S P Lonsdale	34,574*	10/04/95	228.97			–	350.00	265.50	10/04/98 to 10/04/05
	3,850§	29/04/96	268.79		34,574	–	350.00	383.50	01/06/01 to 30/11/01
	60,000†	15/04/97	398.50		3,850	60,000	–	401.00	15/04/00 to 14/04/04
	55,426†	04/03/98	418.50			55,426	–	427.00	04/03/01 to 04/03/05
	8,177†	08/12/99	288.00			8,177	–	288.00	08/12/02 to 08/12/06
Total	162,027			Nil	38,424	123,603			
D R Martin	30,000†	15/04/97	398.50			30,000	–	401.00	15/04/00 to 14/04/04
	100,000†	04/03/98	418.50			100,000	–	427.00	04/03/01 to 04/03/05
	3,816§	18/05/98	393.07			3,816	–	439.00	01/07/03 to 01/01/04
	71,681†	08/12/99	288.00			71,681	–	288.00	08/12/02 to 08/12/06
Total	205,497			Nil	Nil	205,497			
J A Ray	15,558*	10/04/95	228.97			–	345.00	265.50	10/04/98 to 10/04/05
	50,000†	15/04/97	398.50		15,558	50,000	–	401.00	15/04/00 to 14/04/04
	84,442†	04/03/98	418.50			84,442	–	427.00	04/03/01 to 04/03/05
	3,816§	18/05/98	393.07			3,816	–	439.00	01/07/03 to 01/01/04
	37,239†	08/12/99	288.00			37,239		288.00	08/12/02 to 08/12/06
Total	191,055			Nil	15,558	175,497			
A M Saxton	16,488*	02/05/00	181.95			16,488	–	190.00	02/05/03 to 02/05/10
	83,512†	02/05/00	181.95			83,512	–	190.00	02/05/03 to 02/05/07
Total	100,000			Nil	Nil	100,000			

* Executive Share Option Scheme

† Share Incentive Scheme

§ Savings Related Share Option Scheme

The executive Directors participate in one or more of the Group's share option schemes. The Executive Share Option Scheme and the Share Incentive Scheme both incorporate performance target requirements which must be achieved before the exercise of the share option is permitted. The performance targets are set by the Remuneration Committee and may be varied from time to time. The current target requires the Company's earnings per share over a period of three consecutive years prior to any exercise to exceed the Retail Price Index by a minimum of 2 per cent p.a. i.e. 6 per cent over the three year period.

Corporate Governance *continued*

2.3 The ARRIVA plc Long Term Incentive Plan 2000 ('The LTIP')

Conditional share awards under the terms of The LTIP have been made to the executive Directors as follows:

Name	Number of conditionally awarded ordinary shares		Total
	02/05/00	09/03/01	
R J Davies	169,002	116,208	285,210
E A R Cameron	–	64,208	64,208
S J Clayton	96,180	66,134	162,314
S P Lonsdale	93,432	64,245	157,677
D R Martin	96,180	66,134	162,314
J A Ray	90,684	62,355	153,039
A M Saxton	87,936	60,465	148,401

The market value of the ordinary shares on 2 May 2000 and 9 March 2001 was 190 pence and 294.75 pence respectively.

The vesting of the shares will depend upon the performance of the Company's earnings per share when compared with the growth in the retail price index and of the Total Shareholder Return ('TSR') of the Company when compared with the TSR of the Peer Comparator Group comprising the constituent companies of the FTSE 250 (excluding investment companies) over a period of three years. The vesting will be on a sliding scale of 25 per cent – 100 per cent and no share will vest unless the TSR of ARRIVA plc is at least equal to the median TSR of the Peer Comparator Group, and that ARRIVA's earnings per share in the same period has exceeded the growth in the retail price index by at least 6 per cent.

3. Relations with Shareholders

Your Board has for many years considered the continuation of a dialogue with the major institutional investors to be a very important activity in the Company's development. There can be little doubt that wherever practicable continuing clear communications with the institutional investors is a positive and mutually beneficial exercise. It is your Board's intention to ensure that these arrangements, subject to any statutory or regulatory limitations, continue and are developed in a way designed to be helpful and constructive both to the Company and the institutions.

The Chairmen of the Remuneration, Audit, Nomination and Health & Safety Committees will be available to answer questions at the Annual General Meeting.

The Annual General Meeting will include, following each resolution, the provision to the meeting of the number of proxy votes submitted in respect of each resolution.

4. Accountability and Audit

Companies are required to report to shareholders that they have conducted an annual review of the effectiveness of their system of internal control. The review required 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 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, with an executive Director of ARRIVA plc having direct line management responsibility for one or more of these activities. 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 key functions including company secretarial, legal, taxation, internal audit, treasury, insurance and health & safety are undertaken centrally.

(b) Financial Reporting

The Group operates a comprehensive financial control system with each operating division's performance being closely monitored against both budget and prior period performance through regular monthly meetings with an executive Director of ARRIVA plc. Monthly management accounts are prepared for consideration by the Board as a whole.

(c) 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 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 in a professional manner independent appraisals leading to reports detailing findings, implications and agreed actions. Group Internal Audit engages in a cycle of financial, operational and risk reviews both on scheduled and random bases; the Group Internal Auditor reports directly to the Audit Committee.

(d) Risk Assessment and Risk Control

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 your Directors involves a process which is designed to encourage 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.

In the development of this programme there are a number of fundamental issues that the Board has identified as being absolutely critical to the success and effectiveness of the risk management and control programme, and in formulating its approach 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 Department in facilitating and formally documenting the process and its results
- Regular review of the process and continual assessment of the outstanding actions in addressing those risks and the changing nature of the risks identified by the business.

As part of the risk management regime a disaster recovery plan has been developed and tested for the Group's key locations and provides for recovery procedures for all the primary business functions.

There is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group. The process, which is regularly reviewed by the Board, has been in place for the whole of the year under review and up to the date of the approval of this Annual Report and Accounts, and accords with the guidance contained in the publication *Internal Control: Guidance for Directors on the Combined Code* published by the Internal Control Working Party of the Institute of Chartered Accountants in England & Wales.

5. Going Concern

The Directors confirm that, after having made appropriate enquiries, they have a 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.

Corporate Governance *continued*

6. Health, Safety and Environment

'The Board of ARRIVA plc recognises that it is the responsibility of managers at all levels to prevent personal injury, or harm, by providing a safe working environment and effective training and supervision.' *(Extract from Group Health & Safety Policy Statement)*

ARRIVA plc operates a safety management system in all UK subsidiaries; the two rail franchises operate embedded rail safety systems, as required by the Railway Safety Case Regulations. The safety management system is being introduced within the Group's mainland Europe subsidiaries where it is being adapted to accommodate local legislative requirements. The ARRIVA approach is a simple and practical means to deliver on one of the Group's key brand values – the safety of employees and customers comes first.

The system enables management and staff to resolve risks and reduce hazards through clear advice and close working relationships. It is managed and updated by a small team of safety and environment professionals who report directly to the Group's human resources director.

Following the guidance set out in the Health & Safety Executive publication HS[G]65 – *Successful Health & Safety Management* – the key elements of the system include policy, organisation, planning, measuring performance and audit and review.

Providing advice and information on all aspects of safety and environmental legislation and best practice the safety and environment team maintains links with appropriate industry, trade and regulatory bodies to ensure that the business is well informed and well placed to meet all legislative requirements.

A sub-committee of the Board monitors the overall effectiveness of the arrangements, meeting quarterly to review compliance and the safety performance benchmarking process.

The sub-committee's terms of reference were defined with advice from the environment and risk management consultants Arthur D. Little Limited and reflect the Board's robust approach to governance in this complex and specialist business area.

During the last five years we have dealt with a small number of incidents in respect of minor welfare matters and the activities of contractors on company sites. These were all resolved locally, within the required timescales and in full consultation with the enforcing authorities.

Hazards are present throughout the Group's operations and these are minimised through the implementation of appropriate controls. Wherever possible hazards are engineered out of the environment. All premises are subject to routine inspection to ensure policies are implemented.

As operators and suppliers of a wide range of vehicles it is essential that there is a consistent and robust focus on the safety of customers and employees. Risks are minimised through the development of close working relationships with vehicle manufacturers and other suppliers. Within the Group's businesses the focus is on high quality engineering processes and standards.

To support its commitment to safety ARRIVA seeks to recruit, train and retain professional engineers, technicians, drivers and managers who are committed to delivering high quality service, safely.

As one of the largest transport services organisations in Europe and operating in many local communities, ARRIVA is committed to helping to protect the environment; the Company's environmental policy ensures that all bus and train depots, as well as motor dealerships and offices, comply with the latest environmental legislation.

All operational locations are subject to routine inspections to ensure the environmental policy is being implemented.

6.1 ARRIVA Passenger Services – UK and Europe

- All new vehicles that ARRIVA acquires comply with stringent EU emissions standards, helping to reduce the further levels of emissions produced from the Group's overall bus fleet.
- ARRIVA's entire UK bus fleet of over 6,000 vehicles uses ultra-low sulphur diesel, which reduces sulphur emissions by 90 per cent. This enables the bus to achieve up to a 30 per cent reduction in smoke emissions and cuts particulates by 18 per cent.
- At bus depots, energy and resource consumption is being reduced through bus wash recycling units and low energy lighting systems.
- In the Netherlands and Denmark, ARRIVA operates vehicles using Liquefied Petroleum Gas (LPG) fuel, which show a substantial reduction in emissions and do not have acceleration smoke or diesel smells. In the UK LPG easy access buses are being piloted in Glasgow, Watford and North Wales.
- ARRIVA worked closely with the Environment Agency, supporting their Millennium Project – the 'Envirobus 2000'. An environmentally friendly bus, running on LPG, the Envirobus housed an eco-classroom and a range of interactive displays and learning resources, detailing the actions people can take to protect the environment.
- ARRIVA is working with several local authorities through Quality Partnerships, to improve the efficiency of bus travel in town centres. People are encouraged to switch from their cars to public transport, to reduce the overall environmental burden caused by traffic congestion.

6.2 ARRIVA Trains

ARRIVA achieved the ISO 14001: *Environmental Management Systems – Specifications with Guidance for Use*, accreditation for its environmental management system at the Neville Hill train maintenance depot in Leeds. The aim of this environmental management system is to minimise environmental impacts and continually improve overall environmental performance. The system is now being extended to other operations. This was the first train maintenance depot in the country to achieve the accreditation.

6.3 ARRIVA Motor Retailing

ARRIVA Motor Retailing sites with bodyshops operate under strict air pollution control legislation. Over 80 per cent of bodyshops are using the latest waterborne paint technology, with plans in place to continue this development across all bodyshops. Using water as the solvent in paint reduces the amount of Volatile Organic Compounds (VOC) emitted into the atmosphere. VOC are precursors of ground level ozone (photochemical smog), which is linked with adverse effects on human health, plant growth and building materials. The equipment necessary to apply waterborne material also reduces overspray and results in significantly reduced particulate emissions.

In all of these businesses, a wide range of waste material is generated. The waste is sorted, stored and transported in accordance with strict environmental procedures and is disposed of in line with best practice. Where practicable material is recycled or reprocessed for further use. Waste contractors are audited to ensure compliance with the appropriate standards and regulations.

No prosecutions relating to environmental issues were brought against the Company throughout the reporting period.

Group Profit and Loss Account

for the year ended 31 December 2001

	notes	2001 £m	2001 £m	2000 £m	2000 £m
Turnover					
Continuing operations		1,958.2		1,743.1	
Acquisitions		40.2		–	
	1		1,998.4		1,743.1
Cost of sales	2		(1,735.9)		(1,508.3)
			262.5		234.8
Gross profit					
Net operating expenses before exceptional items		(159.1)		(140.2)	
Exceptional items charged to net operating expenses	1	(7.0)		(6.0)	
Total net operating expenses			(166.1)		(146.2)
Operating profit					
Continuing operations		96.1		88.6	
Acquisitions		0.3		–	
			96.4		88.6
Exceptional items					
Profit on the disposal of properties in continuing operations		0.4		2.1	
Amounts written off investments in continuing operations		(0.8)		–	
Loss on the disposal of business in continuing operations		–		(1.2)	
			(0.4)		0.9
Profit on ordinary activities before interest					
Interest payable and similar charges	1		(20.0)		(17.4)
Profit on ordinary activities before taxation					
Tax on profit on ordinary activities	4		(16.8)		(16.0)
Profit for the financial year					
Dividends paid and proposed	6		(33.8)		(33.4)
Transfer to reserves					
	21		25.4		22.7
Basic earnings per share					
	26		28.3p		25.3p
Diluted earnings per share					
	26		28.0p		25.3p
Basic earnings per share before goodwill amortisation and exceptional items					
	26		35.2p		30.0p

Balance Sheets

at 31 December 2001

	notes	The Group		The Company	
		2001 £m	2000 £m	2001 £m	2000 £m
Fixed assets					
Goodwill	9	152.0	153.0	–	–
Tangible assets	10	691.3	650.3	11.7	14.7
Investments	11	3.2	4.0	553.1	553.9
		<u>846.5</u>	<u>807.3</u>	<u>564.8</u>	<u>568.6</u>
Current assets					
Stocks	12	62.0	58.9	–	–
Debtors	13	213.3	201.8	25.6	21.6
Instalment credit agreements	14	17.6	34.6	–	–
Finance lease receivables	15	6.8	14.7	–	–
Cash at bank and in hand		15.9	9.1	219.7	195.7
		<u>315.6</u>	<u>319.1</u>	<u>245.3</u>	<u>217.3</u>
Creditors					
Amounts falling due within one year	16	377.4	322.0	45.2	39.6
		<u>(61.8)</u>	<u>(2.9)</u>	<u>200.1</u>	<u>177.7</u>
Net current (liabilities) / assets					
		<u>784.7</u>	<u>804.4</u>	<u>764.9</u>	<u>746.3</u>
Total assets less current liabilities					
Creditors					
Amounts falling due after more than one year	16	300.2	316.4	389.8	348.5
Provisions for liabilities and charges					
	18	10.0	18.7	1.6	1.8
		<u>474.5</u>	<u>469.3</u>	<u>373.5</u>	<u>396.0</u>
Represented by:					
Capital and reserves					
Called up equity share capital	20	10.3	10.5	10.3	10.5
Capital redemption reserve fund	21	1.1	0.8	1.1	0.8
Share premium account	21	5.4	4.3	5.4	4.3
Special reserve	21	59.1	59.1	59.1	59.1
Revaluation reserve	21	12.4	8.9	–	–
Profit and loss account	21	386.2	385.7	297.6	321.3
		<u>474.5</u>	<u>469.3</u>	<u>373.5</u>	<u>396.0</u>
Equity shareholders' funds					

R J Davies | Directors
S P Lonsdale

Approved by the Board on 6 March 2002.

Group Cash Flow Statement

for the year ended 31 December 2001

	notes	2001 £m	2001 £m	2000 £m	2000 £m
Net cash inflow from operating activities	22		231.1		174.0
Returns on investments and servicing of finance					
Interest and finance charges paid		(20.0)		(17.4)	
Dividends received		0.3		0.3	
			(19.7)		(17.1)
Taxation					
Corporation tax paid			(12.4)		(31.2)
Capital expenditure and financial investment					
Inception of instalment credit and finance lease agreements		(3.0)		(23.2)	
Disposal of short-term rental vehicles		45.9		47.0	
Disposal of other fixed assets		18.4		14.4	
Purchase of short-term rental vehicles		(67.5)		(75.8)	
Purchase of other fixed assets		(101.1)		(74.8)	
			(107.3)		(112.4)
Acquisitions and disposals					
Acquisitions of businesses	23	(7.5)		(53.2)	
Cash / (overdraft) received on acquisitions	23	1.1		(32.9)	
Disposal of business		-		0.2	
			(6.4)		(85.9)
Equity dividends paid			(33.3)		(33.9)
Cash inflow / (outflow) before use of liquid resources and financing			52.0		(106.5)
Financing					
Issue of ordinary share capital	20	1.2		0.1	
Loans due within one year	22	(0.9)		7.5	
Loans due after one year	22	(29.6)		32.1	
Finance lease obligations	22	2.9		0.7	
Purchase of own shares	20	(20.6)		(34.7)	
			(47.0)		5.7
Increase / (decrease) in cash for the year	22		5.0		(100.8)

Reconciliation of Movements in Shareholders' Funds

for the year ended 31 December 2001

	2001 £m	2000 £m
Profit for the financial year	59.2	56.1
Dividends paid and proposed	(33.8)	(33.4)
	25.4	22.7
New share capital subscribed (net of expenses)	1.2	0.1
Purchase of own shares	(20.6)	(34.7)
Currency translation differences on foreign currency net investments	(0.8)	(0.9)
Net addition to / (reduction in) shareholders' funds	5.2	(12.8)
Opening shareholders' funds	469.3	482.1
Closing shareholders' funds	474.5	469.3

Statement of Total Recognised Gains and Losses

for the year ended 31 December 2001

	2001 £m	2000 £m
Profit for the financial year	59.2	56.1
Currency translation differences on foreign currency net investments	(0.8)	(0.9)
Total gains relating to the year	58.4	55.2

Note of Historical Cost Profits and Losses

for the year ended 31 December 2001

	2001 £m	2000 £m
Profit on ordinary activities before taxation	76.0	72.1
Difference between historical cost and revalued amount on properties sold during the year	–	(0.9)
Difference between historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	0.1	0.1
Historical cost profit on ordinary activities before taxation	76.1	71.3
Historical cost profit for the year retained after taxation and dividends	25.5	21.9

Accounting Policies

(a) Basis of accounting

The accounts are prepared in accordance with applicable accounting standards. The Group prepares its accounts on the historical cost basis of accounting as modified by the revaluation of certain tangible fixed assets.

(b) Consolidation

(i) The Group profit and loss account and balance sheet include the accounts of ARRIVA plc and all its group undertakings from 1 January 2001 (or date of acquisition) to 31 December 2001 (or date of disposal).

(ii) Intra-group sales and profits are eliminated on consolidation so that sales and profits relate to third party sales only.

(c) Goodwill

For acquisitions after 1 January 1998, goodwill, which represents the excess of cost of acquisitions of subsidiary companies and businesses over the value attributed to their net assets, is amortised through the profit and loss account by equal instalments over its estimated useful life of up to a maximum of 20 years. Goodwill previously eliminated against reserves has not been reinstated. Goodwill relating to businesses acquired prior to 1998 and previously eliminated against reserves is only charged to the profit and loss account on the subsequent disposal of any business to which it related.

(d) Stocks

Stocks are valued at the lower of cost and net realisable value.

(e) Depreciation

Depreciation is calculated to write off the cost or valuation of tangible fixed assets on the following basis:

Freehold properties	2% per annum on cost or valuation
Leasehold properties	In equal annual instalments over life of lease
Fixtures, fittings, plant and machinery	10% to 33% per annum on cost
Company vehicles	24% to 48% per annum on cost
Short-term rental vehicles	20% to 24% per annum on cost
Buses and coaches	Over periods up to 15 years

(f) Deferred taxation

Provision is made on a liability basis for tax deferred by timing differences to the extent that there is a reasonable probability that the tax deferral will crystallise in the foreseeable future.

(g) Deferred revenue

In respect of the instalment credit agreements where the interest and charges are added to the amount financed at the commencement of the agreement, unearned interest and charges are calculated on the 'rule of 78' which attributes an appropriate part of the interest and charges to instalments receivable after the date of the balance sheet.

(h) Finance lease income and receivables

Income from finance leasing contracts is credited to the profit and loss account in proportion to the funds invested. Finance lease receivables are stated in the balance sheet at the net investment in the leases after deduction of unearned charges.

(i) Finance lease and operating lease contracts

Assets utilised by the Group which are acquired under finance lease contracts are recorded in the balance sheet as tangible fixed assets and the related obligations to pay future rentals (net of finance charges) are included in creditors. Rentals under operating leases are charged to the profit and loss account on a straight line basis over the lease term.

(j) Pensions

The Group operates retirement benefit schemes, both defined benefit and defined contribution schemes, which cover the majority of its full-time employees including the executive Directors. In respect of the defined benefit schemes the expected regular cost of pensions is charged to the profit and loss account so as to spread the cost of pensions over the average expected service period of employees. The pension cost is assessed in accordance with the advice of independent qualified actuaries. Contributions payable under the money purchase schemes are charged to the profit and loss account as they arise.

(k) Foreign currencies

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 year end. Differences on exchange arising from the retranslation of the opening net investment in subsidiary undertakings and the associated borrowings or hedging instruments, and from the translation of the results of those companies, are taken to reserves and are included within the statement of total recognised gains and losses.

Foreign currency transactions arising during the year are translated into sterling at the rate of exchange ruling on the date of the transaction. Any exchange differences so arising are dealt with through the profit and loss account.

Notes to the Accounts

1 Segmental report

	Year ended 31 December 2001				Year ended 31 December 2000			
	Gross turnover £m	Inter-segment turnover £m	Turnover £m	Operating profit £m	Gross turnover £m	Inter-segment turnover £m	Turnover £m	Operating profit £m
(a) Segmental results:								
Passenger Services								
UK Bus (i)	548.6	–	548.6	68.4	520.5	–	520.5	69.0
Overseas Bus (ii)	256.0	–	256.0	12.8	202.6	–	202.6	12.0
Total Bus	804.6	–	804.6	81.2	723.1	–	723.1	81.0
UK Rail	425.5	–	425.5	11.5	296.8	–	296.8	–
Total Passenger Services	1,230.1	–	1,230.1	92.7	1,019.9	–	1,019.9	81.0
Motor								
Retailing	687.0	(34.0)	653.0	9.5	644.1	(36.7)	607.4	7.0
Daily Rental	86.1	(0.6)	85.5	10.5	84.7	(4.1)	80.6	9.3
Total Motor	773.1	(34.6)	738.5	20.0	728.8	(40.8)	688.0	16.3
Bus & Coach Distribution	37.5	(12.3)	25.2	3.6	41.3	(14.0)	27.3	4.5
Head Office and Miscellaneous				(6.0)				(4.9)
Continuing operations* (iii)	2,040.7	(46.9)	1,993.8	110.3	1,790.0	(54.8)	1,735.2	96.9
Discontinuing operations – Motor Finance	4.6	–	4.6	1.7	7.9	–	7.9	4.7
Total operations*	2,045.3	(46.9)	1,998.4	112.0	1,797.9	(54.8)	1,743.1	101.6
Interest payable and similar charges				(20.0)				(17.4)
Profit on ordinary activities before taxation*				92.0				84.2
Goodwill amortisation (iv)				(8.6)				(7.0)
Exceptional costs (see note 1(c))				(7.0)				(6.0)
Profit on disposal of properties				0.4				2.1
Amounts written off investments				(0.8)				–
Loss on disposal of business				–				(1.2)
Profit on ordinary activities before taxation				76.0				72.1

*before goodwill amortisation and exceptional items

(i) During the year ended 31 December 2001, there is £4.2 million of turnover and £0.5 million of operating profit, before goodwill amortisation and exceptional items, relating to the acquisition of London Pride Sightseeing Limited.

(ii) During the year ended 31 December 2001, there is £36.0 million of turnover and £2.3 million of operating profit, before goodwill amortisation and exceptional items, relating to the acquisition of Combust A/S.

(iii) Continuing operations, for the purpose of the segmental analysis, exclude the results from the discontinuing Motor Finance businesses.

(iv) Goodwill amortisation of £7.6 million arises in the Passenger Services Division (2000: £6.0 million), £0.3 million within the Motor Division (2000: £0.3 million) and £0.7 million within the Bus & Coach Distribution Division (2000: £0.7 million).

Notes to the Accounts continued

1 Segmental report (continued)

	2001	2000
	£m	£m
(b) Interest payable and similar charges:		
Cost of funding for finance and rental activities:		
Daily Rental	4.6	5.2
Bus & Coach Distribution	1.5	2.0
Other continuing operations	11.9	6.6
Discontinuing operations – Motor Finance	2.0	3.6
	20.0	17.4
Analysed as:		
Finance lease charges	3.0	3.0
Interest payable on bank and other borrowings repayable within five years	13.7	10.9
Interest payable on bank and other borrowings repayable after five years	3.3	3.5
	20.0	17.4

(c) Exceptional costs in 2001 relate to the restructuring of continuing overseas operations (£5.4 million), the restructuring of acquired UK Bus operations (£0.3 million) and additional charges associated with the administrative receivership of the Group's then principal insurer, Independent Insurance Group PLC (£1.3 million).

	2001	2000
	£m	£m
(d) Segmental net assets:		
Passenger Services		
UK Bus	433.2	407.6
Overseas Bus	174.8	149.0
Total Bus	608.0	556.6
UK Rail	(20.6)	(6.2)
Total Passenger Services	587.4	550.4
Motor		
Retailing	68.0	62.2
Daily Rental	84.4	87.8
Total Motor	152.4	150.0
Bus & Coach Distribution	23.5	32.0
Other	7.9	33.8
Discontinuing operations – Motor Finance	19.1	42.2
Total capital employed	790.3	808.4
Total net borrowings	(315.8)	(339.1)
Total net assets	474.5	469.3

2 Profit on ordinary activities before taxation

	Continuing £m	Acquisitions £m	Total 2001 £m	Total 2000 £m
(a) Cost of sales	<u>1,704.2</u>	<u>31.7</u>	<u>1,735.9</u>	<u>1,508.3</u>
(b) Net operating expenses:				
Distribution costs	4.2	–	4.2	3.3
Administrative costs	154.6	8.2	162.8	143.3
Other operating income	(0.9)	–	(0.9)	(0.4)
	<u>157.9</u>	<u>8.2</u>	<u>166.1</u>	<u>146.2</u>
(c) Profit on ordinary activities before taxation is stated after charging / (crediting):			2001 £m	2000 £m
Auditors' remuneration – audit of Group (including audit of Company £0.1 million)			0.5	0.4
– non audit			0.2	0.4
Depreciation			84.9	78.1
Amortisation of goodwill			8.6	7.0
Rents receivable			(0.6)	(0.4)
Income from listed investments			(0.3)	(0.3)
Operating lease rentals – land and buildings			25.5	19.3
Operating lease rentals – other			<u>186.8</u>	<u>184.7</u>

3 Employee information

	2001 Number	2000 Number
(a) Average number of employees by business:		
Passenger Services		
UK Bus	17,117	17,359
Overseas Bus	7,653	5,817
Total Bus	<u>24,770</u>	<u>23,176</u>
UK Rail	3,635	3,282
Total Passenger Services	<u>28,405</u>	<u>26,458</u>
Motor		
Retailing	2,062	2,083
Daily Rental	517	479
Total Motor	<u>2,579</u>	<u>2,562</u>
Bus & Coach Distribution	56	58
Head Office	186	166
Total continuing operations	<u>31,226</u>	<u>29,244</u>
Discontinuing operations – Motor Finance	27	37
Total	<u>31,253</u>	<u>29,281</u>

Notes to the Accounts continued

3 Employee information (continued)

	2001	2000
	£m	£m
(b) Staff costs:		
Wages and salaries	547.2	477.5
Social security costs	46.2	42.1
Other pension costs	19.9	15.7
	613.3	535.3

4 Tax on profit on ordinary activities

	2001	2000
	£m	£m
Tax on profit on ordinary activities comprises the following:		
Corporation tax at 30% (2000: 30%)	19.1	12.5
Overseas taxation	(0.9)	2.8
Deferred taxation (see note 18)	(1.4)	0.7
	16.8	16.0

The effective rate of tax is less than the standard rate principally as a result of the excess of capital allowances over depreciation in the bus and short-term rental vehicle fleets.

5 Directors' remuneration

Details of the Directors' remuneration are given on pages 29 to 32 in the report on Corporate Governance.

6 Dividends paid and proposed on equity shares

	2001	2000
	£m	£m
Interim dividend paid of 4.2 pence per share (2000: 4.0 pence)	8.8	8.9
Final dividend proposed of 12.2 pence per share (2000: 11.6 pence)	25.0	24.5
	33.8	33.4

7 Lease rentals

	2001	2000
	£m	£m
Rentals receivable under operating leases	62.2	61.0
Rentals receivable under finance leases	6.7	14.9

8 ARRIVA plc profit and loss account

ARRIVA plc has not presented its own profit and loss account as permitted by Section 230(1)-(4) of the Companies Act 1985. The amount of the consolidated profit for the financial year dealt with in the accounts of ARRIVA plc is £30.7 million (2000: £57.6 million).

9 Goodwill

	The Group £m
Cost	
At 1 January 2001	165.4
Additions	8.4
Currency translation adjustments	(0.9)
At 31 December 2001	172.9
Amortisation	
At 1 January 2001	12.4
Amortisation for the year	8.6
Currency translation adjustments	(0.1)
At 31 December 2001	20.9
Net book amount	
At 31 December 2001	152.0
At 1 January 2001	153.0

10 Tangible fixed assets

	Land & buildings £m	Plant, company vehicles, fixtures & fittings £m	Buses & coaches £m	Short term rental vehicles £m	Total £m
(a) The Group					
Cost or valuation					
At 1 January 2001	182.2	89.4	693.3	139.0	1,103.9
Acquisitions	3.7	3.6	50.5	–	57.8
Additions	13.5	11.6	76.0	67.5	168.6
Disposals	(7.8)	(6.4)	(63.4)	(70.2)	(147.8)
Currency translation adjustments	(1.1)	(0.5)	(6.0)	–	(7.6)
At 31 December 2001	190.5	97.7	750.4	136.3	1,174.9
Comprising:					
Cost	105.0	97.7	750.4	136.3	1,089.4
Valuation 1997	85.5	–	–	–	85.5
	190.5	97.7	750.4	136.3	1,174.9
Accumulated depreciation					
At 1 January 2001	18.3	63.3	332.7	39.3	453.6
Acquisitions	1.3	3.0	28.5	–	32.8
Amounts provided	3.1	8.7	46.8	26.3	84.9
Disposals	(1.5)	(4.0)	(54.1)	(24.3)	(83.9)
Currency translation adjustments	(0.3)	(0.4)	(3.1)	–	(3.8)
At 31 December 2001	20.9	70.6	350.8	41.3	483.6
Net book amounts					
At 31 December 2001	169.6	27.1	399.6	95.0	691.3
At 1 January 2001	163.9	26.1	360.6	99.7	650.3

Notes to the Accounts *continued*

10 Tangible fixed assets *(continued)*

The net book amount of assets held under finance leases included in plant, company vehicles, buses and coaches is £84 million (2000: £76 million). The depreciation provided in the year in respect of these assets was £10.1 million (2000: £8.6 million).

The gross cost of assets held for the purpose of letting under operating leases amounts to £136.3 million (2000: £139 million). The accumulated depreciation on these assets was £41.3 million (2000: £39.3 million).

	2001	2000
	£m	£m
Net book amount of land and buildings comprises:		
Freehold	160.9	155.3
Long leasehold	4.0	4.1
Short leasehold	4.7	4.5
	169.6	163.9

On an historical cost basis land and buildings would have been included at cost of £177.8 million (2000: £173.1 million) and accumulated depreciation of £20.6 million (2000: £18.1 million).

	Land & buildings £m	Plant, company vehicles, fixtures & fittings £m	Total £m
(b) The Company			
Cost or valuation			
At 1 January 2001	13.4	3.9	17.3
Additions	–	1.2	1.2
Disposals	(2.7)	(0.9)	(3.6)
At 31 December 2001	10.7	4.2	14.9
Comprising:			
Cost	8.3	4.2	12.5
Valuation 1997	2.4	–	2.4
	10.7	4.2	14.9
Accumulated depreciation			
At 1 January 2001	0.6	2.0	2.6
Amounts provided	0.2	1.0	1.2
Disposals	(0.1)	(0.5)	(0.6)
At 31 December 2001	0.7	2.5	3.2
Net book amounts			
At 31 December 2001	10.0	1.7	11.7
At 1 January 2001	12.8	1.9	14.7

The net book amount of assets held under finance leases included in plant, company vehicles, fixtures and fittings is £0.1 million (2000: £0.4 million). The depreciation provided in the year in respect of these assets was £0.3 million (2000: £0.4 million).

	2001	2000
	£m	£m
Net book amount of land and buildings comprises:		
Freehold	9.9	12.7
Short leasehold	0.1	0.1
	10.0	12.8

10 Tangible fixed assets (continued)

On an historical cost basis land and buildings would have been included at cost of £10.7 million (2000: £13.4 million) and accumulated depreciation of £0.7 million (2000: £0.6 million).

During 1997 all of the freehold and long leasehold properties were revalued by Grimley International Property Advisers, an Associate of the Royal Institute of Chartered Surveyors, on an existing use basis.

11 Fixed asset investments

	Quoted investments £m
(a) The Group	
At 1 January 2001	4.0
Amounts written off	(0.8)
At 31 December 2001	3.2

	Shares in subsidiaries at cost £m	Adjustment to carrying value £m	Shares in subsidiaries net book amount £m	Quoted investments £m	Total £m
(b) The Company					
At 1 January 2001	563.8	(13.9)	549.9	4.0	553.9
Amounts written off	–	–	–	(0.8)	(0.8)
At 31 December 2001	563.8	(13.9)	549.9	3.2	553.1

Particulars of fixed asset investments are shown in notes 24 and 25.

12 Stocks

	The Group	
	2001 £m	2000 £m
Raw materials, consumables and work in progress	12.6	12.7
Finished goods, goods for resale and deposits with motor manufacturers	49.4	46.2
	62.0	58.9

Where vehicles on consignment are deemed in substance to be assets of the Group they have been included in stocks. The principal criterion used is whether the assets bear interest. The Group has included £3.9 million (2000: £2.7 million) of consignment stock in finished goods and a corresponding amount in trade creditors.

13 Debtors

	The Group		The Company	
	2001 £m	2000 £m	2001 £m	2000 £m
Amounts falling due within one year:				
Trade debtors	88.3	80.7	0.3	0.2
Prepayments and accrued income	39.4	33.3	4.9	0.5
Other debtors	26.2	29.1	3.6	4.5
	153.9	143.1	8.8	5.2
Amounts falling due after more than one year:				
Prepayments and accrued income	59.0	58.4	16.8	16.4
Other debtors	0.4	0.3	–	–
	213.3	201.8	25.6	21.6

16 Creditors (continued)

The total of the loans, any part of which fall due for repayment after 5 years, is £133.4 million (2000: £126.2 million). £104 million (2000: £104 million) is a private placement of US\$170 million with US investors, the repayment of which is fixed at £104 million, of which £57 million is repayable on 30 July 2005, at a fixed interest rate of 6.99 per cent and £47 million is repayable on 30 July 2008, at a fixed interest rate of 7.02 per cent. £1.6 million (2000: £0.1 million) represents bank loans in overseas bus operations, with varying repayment dates and interest rates. The remaining £27.8 million (2000: £22.1 million) represents fixed interest hire purchase and finance lease funding of the bus fleets, with varying repayment dates and at interest rates ranging between 3.8 per cent and 8.8 per cent.

Security and guarantees

Borrowings amounting to £175.7 million (2000: £186.1 million), principally relating to the bus fleet, are secured by charges over the related assets. The Group has performance bonds of £19 million (2000: £19 million) backed by the Group's bankers which have been provided to the Strategic Rail Authority in support of the Group's franchise obligations relating to the ARRIVA Trains Northern and ARRIVA Trains Merseyside franchises.

The Company provides cross guarantees in respect of the bank borrowings of a number of the Group's UK subsidiaries.

Interest rate and currency profile

The interest rate and currency profile, after taking account of interest rate and cross currency swaps, of the financial liabilities of the Group at 31 December 2001 was as follows:

	Total £m	Floating rate financial liabilities £m	Fixed rate interest financial liabilities		
			Principal £m	Weighted average interest rate %	Weighted average period for which rate is fixed Years
Sterling	247.3	4.3	243.0	6.6	4.0
Euro	36.8	13.1	23.7	5.3	2.7
Danish Krone	44.2	28.6	15.6	4.9	8.0
Swedish Krone	9.4	–	9.4	5.2	1.4
Currency swaps:					
Euro liability	71.2	–	71.2	3.8	0.6
Danish Krone liability	19.8	–	19.8	5.1	0.8
Sterling asset	(97.0)	–	(97.0)	6.1	0.6
All currencies	331.7	46.0	285.7	5.7	4.1

Although the Group only has a net exposure under the currency swaps, in order to fairly present the impact of the currency swaps on the interest payable on the Group's financial liabilities, the gross notional liability and asset arising from the currency swap transactions are shown in the table above.

The floating rate financial liabilities comprise Euro bank borrowings linked to 1 month EURIBOR, Sterling Loan Notes bearing interest at rates linked to 3 months and 6 months LIBOR, Danish Krone bank borrowings bearing interest at rates linked to 1 month and 3 months CIBOR, Portuguese Escudo bank borrowings bearing interest at rates linked to 1 month EURIBOR, and Spanish Peseta bank borrowings bearing interest at rates linked to 12 months EURIBOR.

The Group had short-term cash deposits of £15.9 million, of which £9.8 million was in Sterling, £1.8 million in Dutch Guilders, £3.8 million in Danish Krone, £0.2 million in Portuguese Escudos and £0.3 million in Spanish Pesetas, which earn interest at both fixed and variable rates.

Creditors and debtors relating to normal trading activities have been excluded from this analysis, as allowed under FRS 13 'Derivatives and Other Financial Instruments: Disclosures'.

Notes to the Accounts *continued*

16 Creditors *(continued)*

The interest rate and currency profile, after taking account of interest rate and cross currency swaps, of the financial liabilities of the Group at 31 December 2000, was as follows:

	Total £m	Floating rate financial liabilities £m	Fixed rate interest financial liabilities		
			Principal £m	Weighted average interest rate %	Weighted average period for which rate is fixed Years
Sterling	302.6	34.4	268.2	7.1	4.5
Euro	26.4	5.6	20.8	5.8	4.0
Danish Krone	17.9	5.4	12.5	5.8	7.2
Swedish Krone	4.9	–	4.9	5.0	3.1
Currency swaps:					
Euro liability	73.2	–	73.2	3.8	1.6
Danish Krone liability	20.2	–	20.2	5.1	1.8
Sterling asset	(97.0)	–	(97.0)	6.1	1.6
All currencies	348.2	45.4	302.8	6.3	4.6

At 31 December 2000 the floating rate financial liabilities comprised Sterling and Dutch Guilder bank borrowings based on the relevant national inter bank rate, Sterling Loan Notes bearing interest at rates linked to 3 months and 6 months LIBOR, Danish Krone bank borrowings bearing interest at rates linked to 3 months CIBOR and Portuguese Escudo bank borrowings bearing interest at rates linked to 3 months Lisbon EURIBOR.

At 31 December 2000 the Group had Dutch Guilder short-term cash deposits of £9.1 million which earned interest at a fixed rate.

Creditors and debtors relating to normal trading activities have been excluded from this analysis, as allowed under FRS 13 'Derivatives and Other Financial Instruments: Disclosures'.

At 31 December 2001 and 31 December 2000 there were no material net transaction exposures. The Group's treasury policy, including the management of interest and exchange rate risks, is disclosed in the Financial Review on pages 16 to 19.

The undrawn committed facilities of the Group at 31 December 2001 were £86.7 million (2000: £94.7 million). These facilities expire during 2002.

Fair values of financial liabilities and assets

Set out below is a comparison of the book values and fair values of the Group's financial liabilities and assets:

	2001		2000	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Primary financial instruments held to finance the Group's operations:				
Short-term borrowings	(95.4)	(95.4)	(86.7)	(86.7)
Long-term borrowings	(255.1)	(255.1)	(274.9)	(274.9)
Cash deposits	15.9	15.9	9.1	9.1
Derivative financial instruments held to manage the interest rate and currency profile:				
Cross currency and interest rate swaps (US private placement)	12.8	14.4	9.8	8.0
Cross currency swaps (other)	6.0	6.9	3.6	5.4

The fair value of long-term borrowings, interest rate swaps and cross currency swaps have been determined using market values where available. Where market values are not available, fair values have been estimated based upon the net present value of the discounted future cash flows.

Foreign currency assets and liabilities that are hedged using currency swaps are translated at the contracted rates. Consequently, the book value of the relevant asset or liability effectively includes the book value of the hedging instrument. For the purpose of the above table, the book value of the relevant asset or liability is shown gross of the effect of the hedging instrument.

17 Pensions

At 31 December 2001 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 respective actuaries. For the purpose of arriving at the pension cost charged in the accounts the defined benefit funds were last assessed on 5 April 2000 (excluding the Merseyside Pension Fund, details of which are provided below) by their respective actuaries, using the Projected Unit Method. The principal actuarial assumptions were that: (i) the annual rate of return on investment would be 2.5 per cent higher than the annual increase in total pensionable remuneration and, where relevant, (ii) there would be no variation from a scheme's rules regarding pensions in payment. On the basis of these assumptions the actuarial value of the funds at 5 April 2000 was sufficient to cover 114 per cent of the benefits then accrued to members. A prepayment of £37.7 million (2000: £33.7 million) is included in the accounts and represents the excess of the amount of the fund over the estimated accumulated cost of accrued benefits at the year end date. The market value of the various schemes' assets at 5 April 2000 was £270 million.

Certain employees of ARRIVA Trains Northern Limited and ARRIVA Trains Merseyside Limited participate in a funded defined benefit section which forms part of the overall Railways Pension Scheme ('RPS'). The accounting policy is to charge the contributions to these pension sections to the profit and loss account in accordance with actuarial advice. This is on the basis that there is no recourse to the companies for any over or under funding of their sections of the RPS following expiry of the franchises in 2003. During 2001 the section to which ARRIVA Trains Northern Limited and ARRIVA Trains Merseyside Limited contribute was subject to a pensions contribution holiday.

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 was carried out as at 31 March 1998 using the Attained Age Method. The market value of the assets notionally attributed to the ARRIVA Merseyside Limited section was £136 million, which represented 118 per cent of the accrued liabilities. The pension cost and provision are assessed in accordance with the advice of an independent qualified actuary. The principal assumptions for valuing accrued liabilities were that investment returns would exceed salary increases by 2.6 per cent per annum and pension increases by 3.6 per cent per annum. Assets were taken at market value. For accruing benefits, the principal assumptions were that investment returns would exceed salary increases by 3.0 per cent per annum and pension increases by 4.0 per cent per annum. A prepayment of £20.6 million (2000: £24.4 million) is included within debtors, representing the excess of the payment contributions to the pension fund over the accumulated pension cost.

FRS 17 'Retirement Benefits'

The full disclosures and accounting treatment required under FRS 17 'Retirement Benefits' will be mandatory for the Group in its accounts for the year ended 31 December 2003. Prior to this, transitional disclosures are required, and these are set out below.

The calculations used to assess FRS 17 liabilities of the retirement benefit schemes are based on actuarial valuations to 5 April 2000 (and the 31 March 1998 valuation for the Merseyside Pension Fund) updated by the respective actuaries to 31 December 2001. The schemes' assets are stated at their market value at 31 December 2001. The following financial assumptions have been used for each of the schemes:

Valuation method	Projected Unit
Discount rate	6.0%
Inflation rate	2.5%
Increases to deferred benefits during deferment	2.5%
Increases to pensions in payment	2.5%
Salary increases	4.0%
Expected long-term rate of return at 31 December 2001, before deduction for scheme expenses:	
Equities	8.0%
Bonds	5.1%
Other	5.0%
Weighted average expected long-term rate of return by scheme at 31 December 2001	7.3%

Notes to the Accounts *continued*

17 Pensions *(continued)*

The following amounts at 31 December 2001 were measured in accordance with the requirements of FRS 17:

	£m
Equities	292.3
Bonds	62.5
Other	32.4
Total market value of assets	387.2
Present value of liabilities	(423.9)
Deficit	(36.7)
Related deferred tax asset	11.0
Net pension liability	(25.7)

If the above amounts had been recognised in the financial statements, the Group's net assets and profit and loss reserve at 31 December 2001 would be as follows:

	£m	£m
Net assets:		
Group net assets		474.5
Pension prepayments	58.3	
Pension accruals	(17.7)	
	40.6	
Related deferred tax	(12.2)	
Less: net pension asset under SSAP 24		28.4
Group net assets excluding net pension asset under SSAP 24		446.1
Net pension liability under FRS 17		(25.7)
Group net assets including net pension liability under FRS 17		420.4
Reserves:		
Group reserves		386.2
Less: net pension asset under SSAP 24		28.4
Group reserves excluding net pension asset under SSAP 24		357.8
Net pension liability under FRS 17		(25.7)
Group net assets including net pension liability under FRS 17		332.1

18 Provisions for liabilities and charges

	1 January 2001 £m	On acquisition £m	Transfer to profit & loss a/c £m	31 December 2001 £m
(a) The Group				
Provision for future rail losses	6.4	0.4	(6.8)	–
Provision for deferred taxation (see note 19)	12.3	(0.9)	(1.4)	10.0
	18.7	(0.5)	(8.2)	10.0

	1 January 2001 £m	Transfer to profit & loss a/c £m	31 December 2001 £m
(b) The Company			
Provision for deferred taxation (see note 19)	1.8	(0.2)	1.6

19 Deferred taxation

	The Group		The Company	
	2001 £m	2000 £m	2001 £m	2000 £m
Deferred taxation provided in the accounts:				
Accelerated capital allowances	2.6	4.7	–	–
Short-term timing differences	7.4	7.6	1.6	1.8
	<u>10.0</u>	<u>12.3</u>	<u>1.6</u>	<u>1.8</u>

The potential liability to deferred taxation not provided in the accounts, calculated at the rate of tax in force at the year end is as follows:

Accelerated capital allowances	51.3	40.4	2.1	2.0
Potential corporation tax in respect of revaluation surplus on properties and capital gains rolled over	4.5	5.9	–	–
	<u>55.8</u>	<u>46.3</u>	<u>2.1</u>	<u>2.0</u>

20 Called up equity share capital

	Authorised		Allotted – fully paid	
	2001	2000	2001	2000
Ordinary shares of 5 pence each	£14,500,000	£14,500,000	£10,272,065	£10,562,315
Number of shares	290,000,000	290,000,000	205,441,296	211,246,292

Reconciliation of Movement in Issued Share Capital:

Shares in issue 1 January 2001	211,246,292
Share allotments on exercise of options	462,504
Shares purchased	(6,267,500)
Shares in issue 31 December 2001	<u>205,441,296</u>

Consideration of £1.2 million was received in respect of the above issues and an amount of £20.6 million was paid in respect of the shares purchased during the year.

At 31 December 2001 there were outstanding options to receive allotments of 7,188,574 ordinary shares under the Executive and Savings Related share option schemes, the Share Incentive scheme and the Long Term Incentive Plan at subscription prices ranging from 175 pence to 418.5 pence. The options are exercisable up to May 2010.

At 31 December 2001 the middle market quotation of the ordinary share, as derived from the Stock Exchange Official List, was 336.25 pence. The highest price attained by the ordinary share in 2001 was 368 pence and its lowest level during 2001 was 263 pence.

21 Reserves

(a) The Group	Capital redemption reserve fund £m	Share premium account £m	Special reserve £m	Revaluation reserve £m	Profit & loss account £m	Total £m
At 1 January 2001	0.8	4.3	59.1	8.9	385.7	458.8
Currency translation adjustments	–	–	–	–	(0.8)	(0.8)
Arising on issue of shares	–	1.1	–	–	–	1.1
Purchase of own shares	0.3	–	–	–	(20.6)	(20.3)
Retained profit for the year	–	–	–	–	25.4	25.4
Transfers	–	–	–	3.5	(3.5)	–
At 31 December 2001	<u>1.1</u>	<u>5.4</u>	<u>59.1</u>	<u>12.4</u>	<u>386.2</u>	<u>464.2</u>

The transfers between the revaluation reserve and the profit & loss account are in respect of properties sold in previous years.

Notes to the Accounts continued

21 Reserves (continued)

(b) The Company	Capital redemption reserve fund £m	Share premium account £m	Special reserve £m	Profit & loss account £m	Total £m
At 1 January 2001	0.8	4.3	59.1	321.3	385.5
Arising on issue of shares	–	1.1	–	–	1.1
Purchase of own shares	0.3	–	–	(20.6)	(20.3)
Retained loss for the year	–	–	–	(3.1)	(3.1)
At 31 December 2001	1.1	5.4	59.1	297.6	363.2

The cumulative goodwill amortised through the profit and loss account (£20.9 million) and written off directly to reserves in prior years (£250 million) is £270.9 million (2000: £262.4 million).

22 Cash flow

(a) Reconciliation of net debt:	2001 £m	2000 £m
At 1 January	339.1	173.1
(Increase) / decrease in cash	(5.0)	100.8
(Decrease) / increase in loans due within one year	(0.9)	7.5
(Decrease) / increase in loans due after one year	(29.6)	32.1
Increase in finance leases	2.9	0.7
Loans acquired	8.2	5.2
Finance leases acquired	4.8	19.7
Currency translation adjustments	(3.7)	–
At 31 December	315.8	339.1

(b) Reconciliation of operating profit to net cash inflow from operating activities:	2001 £m	2000 £m
Operating profit	96.4	88.6
Depreciation of tangible fixed assets	84.9	78.1
Amortisation of goodwill	8.6	7.0
(Increase) / decrease in stocks, excluding acquisitions and disposal	(2.9)	6.3
Increase in debtors, excluding acquisitions and disposal	(6.7)	(7.4)
Repayments of capital from instalment credit agreements and finance lease receivables	27.9	40.2
Increase / (decrease) in creditors, excluding acquisitions and disposal	30.0	(14.9)
Decrease in provisions, excluding acquisitions and disposal	(6.8)	(23.6)
Dividends received	(0.3)	(0.3)
Net cash inflow from operating activities	231.1	174.0

(c) Analysis of net debt:	1 January 2001 £m	Cash flow £m	Acquisitions (excluding cash and overdrafts) £m	Currency translation adjustments £m	31 December 2001 £m
Net cash and overdrafts	14.7	(5.0)	–	–	9.7
Loans due within one year	45.4	(0.9)	8.2	(2.6)	50.1
Loans due after one year	226.4	(29.6)	–	(0.4)	196.4
Finance leases	52.6	2.9	4.8	(0.7)	59.6
	339.1	(32.6)	13.0	(3.7)	315.8

23 Acquisitions

(a) Analysis of the net cash outflow in respect of current year acquisitions:

	Total £m
Cash consideration (including expenses)	7.5
Cash acquired	(1.1)
Net cash outflow in respect of acquisitions	<u>6.4</u>

	Acquired book value £m	Fair value adjustments £m	Net cost £m
(b) Current year acquisitions:			
Tangible fixed assets	33.1	(9.6)	23.5
Stocks	0.5	(0.3)	0.2
Debtors	7.6	(0.8)	6.8
Cash	1.1	–	1.1
Finance leases	(4.8)	–	(4.8)
Creditors	(18.4)	(1.1)	(19.5)
Loans	(8.2)	–	(8.2)
	<u>10.9</u>	<u>(11.8)</u>	<u>(0.9)</u>
Goodwill			8.4
Satisfied by cash			<u>7.5</u>

The value of tangible fixed assets has been adjusted to comply with the Group's depreciation policy for buses & coaches. Certain of the fair value adjustments are provisional, pending the final determination of the value of the related assets and liabilities.

The current year acquisitions contributed a net operating cash inflow of £3.3 million, paid £1.1 million in respect of returns on investments and servicing of finance, paid £6.4 million in respect of capital expenditure and financial investment and paid £4.5 million in respect of financing.

Further details of the principal acquisitions made during the year are provided in the Directors' Report on page 25.

	Acquired book value £m	Provisional fair value adjustments £m	Provisional net cost £m	Revised fair value adjustments £m	Net cost £m
(c) Prior year acquisition – MTL Services plc:					
Intangible fixed assets	42.9	(42.9)	–	–	–
Tangible fixed assets	47.6	(3.7)	43.9	1.5	45.4
Stocks	3.0	(0.5)	2.5	–	2.5
Debtors	57.3	4.2	61.5	(2.0)	59.5
Overdraft	(33.5)	–	(33.5)	–	(33.5)
Finance leases	(19.7)	–	(19.7)	–	(19.7)
Creditors	(71.8)	1.5	(70.3)	–	(70.3)
Loans	(5.2)	–	(5.2)	–	(5.2)
Provisions	–	(34.0)	(34.0)	0.5	(33.5)
	<u>20.6</u>	<u>(75.4)</u>	<u>(54.8)</u>	<u>–</u>	<u>(54.8)</u>
Goodwill			91.8		91.8
Satisfied by cash			<u>37.0</u>		<u>37.0</u>

Adjustments to the provisional fair value adjustments have been made to reflect pre-acquisition costs and revenues which have been paid and received by the Group in the period since 31 December 2000.

Notes to the Accounts *continued*

24 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 the UK, except where indicated:

Passenger Transport

ARRIVA Croydon & North Surrey Limited
 ARRIVA Cymru Limited
 ARRIVA Danmark A/S¹
 ARRIVA Derby Limited
 ARRIVA Durham County Limited
 ARRIVA East Herts & Essex Limited
 ARRIVA Fox County Limited
 ARRIVA Kent & Sussex Limited
 ARRIVA Kent Thameside Limited
 ARRIVA London North Limited
 ARRIVA London North East Limited
 ARRIVA London South Limited
 ARRIVA Manchester Limited
 ARRIVA Merseyside Limited
 ARRIVA Midlands North Limited
 ARRIVA Noroeste SL²
 ARRIVA North East Limited
 ARRIVA Northumbria Limited
 ARRIVA North West Limited
 ARRIVA Personvervoer Nederland B.V.³
 ARRIVA Portugal – Transportes, LDA⁶
 ARRIVA Scotland West Limited⁴
 ARRIVA Sverige AB⁵
 ARRIVA Tees & District Limited
 ARRIVA Teesside Limited
 ARRIVA The Shires Limited
 ARRIVA Trains Limited
 ARRIVA Trains Merseyside Limited
 ARRIVA Trains Northern Limited
 ARRIVA Yorkshire Limited
 ARRIVA Yorkshire West Limited
 Londonlinks Buses Limited
 London Pride Sightseeing Limited
 Stevensons of Uttoxeter Limited
 The Original London Sightseeing Tour Limited

Rental and Distribution of Buses and Coaches

ARRIVA Bus & Coach Rental (1) Limited
 ARRIVA Bus & Coach Rental (2) Limited
 ARRIVA Bus & Coach Rental (3) Limited
 ARRIVA Bus & Coach Rental (4) Limited
 ARRIVA Bus & Coach Limited

Investment

ARRIVA Findiv Limited*
 ARRIVA Motor Holdings Limited*
 ARRIVA Passenger Services Limited*
 British Bus Group Limited
 MTL Services Limited*

Distribution, Repair, Service and Rental of Motor Vehicles

ARRIVA Dealership Rentals Limited
 ARRIVA Motor Retailing plc
 L J Transit Limited
 Preston Hall Limited

Property

British Bus (Properties) Limited

Finance Leasing and Instalment Credit Financing

ARRIVA Finance Lease Limited
 Broadwood Finance Company Limited

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

¹Registered and operates in Denmark

²Registered and operates in Spain

³Registered and operates in The Netherlands

⁴Registered and operates in Scotland

⁵Registered and operates in Sweden

⁶Registered and operates in Portugal

25 Quoted investments

The market value of quoted investments at 31 December 2001 amounted to £3.2 million. The investments are quoted on the London Stock Exchange.

26 Earnings per share

	2001			2000		
	Per share p	Earnings £m	Shares m	Per share p	Earnings £m	Shares m
(a) Basic and diluted earnings per share:						
Profit for the financial year		59.2			56.1	
Weighted average number of shares			209.0			221.5
Basic earnings per share	28.3	59.2	209.0	25.3	56.1	221.5
Non-performance based share option schemes:						
Weighted average number of shares under option			0.6			–
Number of shares that would have been issued at fair value			(0.5)			–
Performance based share option schemes:						
Additional shares for earnings contingency			3.0			–
Number of shares that would have been issued at fair value			(0.7)			–
Diluted earnings per share	28.0	59.2	211.4	25.3	56.1	221.5
					2001	2000
(b) Basic earnings per share excluding exceptional items and goodwill amortisation:				p	p	
Basic earnings per share				28.3	25.3	
Earnings per share relating to:						
Profit on the disposal of properties				(0.2)	(0.9)	
Loss on disposal of business				–	0.5	
Amounts written off investments				0.4	–	
Exceptional items charged to net operating expenses				2.6	1.9	
Goodwill amortisation				4.1	3.2	
Basic earnings per share excluding exceptional items and goodwill amortisation				35.2	30.0	

These calculations are provided as additional information.

27 Commitments

Capital amounts contracted for but not provided amount to £24.6 million (2000: £38.4 million) for the Group. At 31 December 2001 the Group had annual commitments under non-cancellable operating leases, including access charges to the rail infrastructure and leases for rail rolling stock, as follows:

	2001			2000		
	Land & buildings £m	Other £m	Total £m	Land & buildings £m	Other £m	Total £m
Expiring in less than 1 year	1.3	0.1	1.4	0.9	0.4	1.3
Expiring between 2 and 5 years inclusive	21.4	178.7	200.1	18.5	225.0	243.5
Expiring in over 5 years	2.6	1.1	3.7	3.6	2.5	6.1
	25.3	179.9	205.2	23.0	227.9	250.9

Statement of Directors' Responsibilities

The following statement, which should be read in conjunction with the auditors' statement of their responsibilities set out on page 59, is made with a view to describing to shareholders the responsibilities of the Directors in relation to the financial statements.

The Directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss of the Group for the financial year.

Following discussions with the auditors, the Directors consider that in preparing the financial statements on pages 36 to 57, the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all accounting standards which they consider to be applicable have been followed (subject to any explanations and any material departures disclosed in the notes to the financial statements).

The Directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Company and which enable them to ensure that the financial statements comply with the Companies Act 1985.

The Directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Independent Auditors' Report to the Members of ARRIVA plc

Independent auditors' report to the members of ARRIVA plc

We have audited the financial statements which comprise the Group profit and loss account, the Group balance sheet, the Company balance sheet, the Group cash flow statement, the reconciliation of movements in shareholders' funds, the statement of total recognised gains and losses, the note of historical cost profits and losses and the related notes to the accounts which have been prepared under the historical cost convention, as modified by the revaluation of certain fixed assets, and the accounting policies set out in the statement on Accounting Policies.

Respective responsibilities of directors and auditors

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards issued by the Auditing Practices Board and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if 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 or the Listing Rules regarding Directors' remuneration and transactions is not disclosed.

We read the other information in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the Chairman's Statement, the Operating Review, the Financial Review, the Corporate Governance Statement and the Directors' Report.

We review whether the Corporate Governance Statement reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, 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 to form an opinion on the effectiveness of the Company's or Group's corporate governance procedures or its risk and control procedures.

The maintenance and integrity of the ARRIVA plc website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the 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 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 financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group at 31 December 2001 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers

Chartered Accountants and Registered Auditors
Newcastle upon Tyne
6 March 2002

Group Five Year Financial Summary

	1997 £m	1998 £m	1999 £m	2000 £m	2001 £m
Assets employed					
Goodwill	7.5	31.7	54.9	153.0	152.0
Tangible fixed assets	830.4	970.4	585.5	650.3	691.3
Other net (liabilities) / assets	(0.7)	13.9	107.4	28.9	(30.3)
Quoted investments	4.0	4.0	4.0	4.0	3.2
Unquoted investments	0.2	–	–	–	–
	841.4	1,020.0	751.8	836.2	816.2
Financed by					
Share capital	11.2	11.2	11.2	10.5	10.3
Reserves	279.7	321.8	470.9	458.8	464.2
Syndicated loans	335.0	370.0	–	–	–
Bank overdrafts	7.4	4.5	2.8	23.8	25.6
Other loans	84.7	185.7	188.9	226.4	196.4
Short-term loans	85.6	90.5	38.2	45.4	50.1
Obligations under finance leases	28.5	23.2	32.2	52.6	59.6
Deferred liabilities	9.3	13.1	7.6	18.7	10.0
	841.4	1,020.0	751.8	836.2	816.2
Trading					
Turnover	1,420.6	1,556.3	1,534.3	1,743.1	1,998.4
Profit before taxation	101.0	94.5	198.7	72.1	76.0
Taxation	20.2	18.9	43.9	16.0	16.8
Profit after taxation	80.8	75.6	154.8	56.1	59.2
Minority interests	–	0.5	–	–	–
Profit for the financial year	80.8	75.1	154.8	56.1	59.2
Dividends	30.3	31.9	33.5	33.4	33.8
Retained profit	50.5	43.2	121.3	22.7	25.4
Statistics					
Funds attributable to shareholders	290.9	333.0	482.1	469.3	474.5
Net assets per ordinary share	129.8p	148.4p	214.4p	222.2p	231.0p
Basic earnings per share	36.1p	33.5p	68.9p	25.3p	28.3p
Dividends per ordinary share	13.5p	14.2p	14.9p	15.6p	16.4p

Group Directory

ARRIVA Group Head Office

Admiral Way
Doxford International Business Park
Sunderland
Tel 0191 520 4000

ARRIVA Passenger Services

Divisional Head Office

5 Dominus Way
Meridian Business Park
Leicester
Tel 0116 240 5500

London

ARRIVA London North 16 Watsons Road
ARRIVA London South Wood Green, London
ARRIVA London North East **Tel** 0208 271 0101

The Original London Jews Row, London
Sightseeing Tour **Tel** 0208 877 1722
London Pride **Tel** 0208 877 1722

Scotland

ARRIVA Scotland West The Gatehouse
Porterfield Road, Renfrew
Tel 0141 885 4040

Northumberland and Newcastle upon Tyne

ARRIVA Northumbria Admiral Way
Doxford International Business Park
Sunderland
Tel 0191 520 4200

North East

ARRIVA Durham County Admiral Way
ARRIVA North East Doxford International Business Park
ARRIVA Teesside Sunderland
ARRIVA Tees & District **Tel** 0191 520 4200

Yorkshire

ARRIVA Yorkshire 24 Barnsley Road
ARRIVA Yorkshire West Wakefield
ARRIVA Yorkshire South **Tel** 01924 231300
ARRIVA Yorkshire North

North West

ARRIVA North West 73 Ormskirk Road
ARRIVA Merseyside Aintree, Liverpool
ARRIVA Manchester **Tel** 0151 522 2800
ARRIVA Cheshire

North Midlands

ARRIVA Midlands North Delta Way
Longford Road, Cannock
Tel 01543 466123

East Midlands

ARRIVA Fox County 852 Melton Road
ARRIVA Derby Thurmaston, Leicester
Tel 0116 264 0400

Wales

ARRIVA Cymru Imperial Buildings
Glan-y-Môr Road
Llandudno Junction
Tel 01492 592111

Home Counties

ARRIVA The Shires 487 Dunstable Road, Luton
ARRIVA Colchester **Tel** 01582 587000
ARRIVA East Herts & Essex
ARRIVA Southend
ARRIVA Watford

South East

ARRIVA Croydon & North Surrey Invicta House
ARRIVA Guildford & West Surrey Armstrong Road
ARRIVA Kent & Sussex Maidstone
ARRIVA Kent Thameside **Tel** 01622 697000
ARRIVA Southern Counties

Spain

ARRIVA Noroeste
Poligono de Sabon
Parcela 31-32
15142 Arteixo
La Coruña
Spain
Tel 00 34 981 600307

Portugal

ARRIVA Portugal
Edificio Guimares
Rua Eduardo de Almeida
4810-440 Guimares
Portugal
Tel 00 351 253 439800

Sweden

ARRIVA Sverige
Florettgatan 4
25467 Helsingborg
Sweden
Tel 00 46 42 165866

The Netherlands

ARRIVA Nederland
Trambaan 3
PO Box 626
NL-8440 AP Heerenveen
Netherlands
Tel 00 31 513 655855

Denmark

ARRIVA Danmark
Hervstvedvang
7c Second Floor
2620 Albertslund
Denmark
Tel 00 45 43 868100

ARRIVA Rail Franchises

Divisional Head Office

Princes Exchange
Princes Square
Leeds
Tel 0113 280 5811

ARRIVA Trains Merseyside

Rail House
Lord Nelson Street
Liverpool
Tel 0151 702 2071

ARRIVA Trains Northern

Station Rise
York
Tel 08700 005151

ARRIVA Bus & Coach

ARRIVA Bus & Coach

Lodge Garage
Whitehall Road West, Gomersal,
Cleckheaton, West Yorkshire
Tel 01274 681144

ARRIVA Motor Retailing

Divisional Head Office

Admiral Way
Doxford International Business Park
Sunderland
Tel 0191 520 4000

BMW

Preston Hall
Concorde Way
Preston Farm Motor Village
Stockton on Tees
Tel 01642 618618

Ford

ARRIVA Ford Chippenham
Cocklebury Road
Chippenham
Wiltshire
Tel 01249 653255

Group Directory continued

Ford (continued)

ARRIVA Ford Commercials
North Hylton Road
Sunderland
Tel 0191 549 1111

ARRIVA Ford Holmfirth
Dunford Road
Holmfirth
Tel 01484 682576

ARRIVA Ford Nottingham
London Road
Nottingham
Tel 0115 955 7400

ARRIVA Ford Sunderland
North Hylton Road
Sunderland
Tel 0191 549 1111

ARRIVA Ford Swindon (Service and Parts)
30 Marlborough Road
Swindon
Tel 01793 520002

Honda

ARRIVA Honda Bristol
Eastgate Road
Eastville, Bristol
Tel 0117 952 0000

Kawasaki

ARRIVA Kawasaki Bristol
64-66 Avon Street
Bristol
Tel 0117 977 2272

Lexus

ARRIVA Lexus Bristol
Pioneer Park
Whitby Road, Brislington
Bristol
Tel 0117 916 5555

Peugeot

ARRIVA Hartlepool
Brenda Road
Hartlepool
Tel 01429 230900

Peugeot (continued)

ARRIVA Stockton
Church Road
Stockton on Tees
Tel 01642 612621

Renault (continued)

ARRIVA Worcester
Everoak Estate
Bromyard Road, Worcester
Tel 01905 748282

Toyota

ARRIVA Toyota Bristol
186 Gloucester Road
Bristol
Tel 0117 969 3704

ARRIVA Toyota Wakefield
675 Leeds Road
Outwood
Wakefield
Tel 01924 825882

ARRIVA Ford Halifax
Skircoat Road
Halifax
Tel 01422 365790

ARRIVA Ford Huddersfield
St Andrews Road
Huddersfield, West Yorkshire
Tel 01484 429675

ARRIVA Ford Nottingham
75 Mansfield Road
Daybrook, Nottingham
Tel 0115 955 7500

ARRIVA Ford Swindon (Motor Retail)
Fleming Way Roundabout
Swindon
Tel 01793 520002

Jaguar

Rossleigh
168 Dunkeld Road
Perth
Tel 01738 636605

Land Rover

Tay Land Rover
192 Dunkeld Road
Perth
Tel 01738 474200

Nissan

ARRIVA Nissan
Newark Road
Eastern Industry, Peterborough
Tel 01733 555670

ARRIVA Middlesbrough

Longlands Road
Middlesbrough
Tel 01642 242873

Renault

ARRIVA Cheltenham
Mackenzie Way
Manor Park Industrial Estate
Manor Road, Cheltenham
Tel 01242 222400

Rover

ARRIVA High Wycombe
320 London Road
High Wycombe
Tel 01494 520531

ARRIVA Toyota Bristol

Pioneer Park
Whitby Road, Brislington
Bristol
Tel 0117 916 5500

ARRIVA Toyota Worcester

Everoak Estate
Bromyard Road
Worcester
Tel 01905 427686

Vauxhall

ARRIVA Vauxhall Aldershot
Bakers Corner
Lower Farnham Road, Aldershot
Tel 01252 369200

ARRIVA Vauxhall Bury
Cotton Lane
Bury St Edmunds
Tel 01284 777222

ARRIVA Vauxhall Farnham
48-50 Shortheath Road
Farnham
Tel 01252 711365

ARRIVA Vauxhall Leamington Spa
Spa Corner, Rugby Road
Milverton, Leamington Spa
Tel 01926 420861

ARRIVA Vauxhall Redcar

Trunk Road
Redcar
Tel 01642 486161

Fleet Sales

ARRIVA Fleet Sales
Admiral Way
Doxford International Business Park
Sunderland
Tel 0191 520 4021

ARRIVA Rental

Car and van rental available at the following locations:

Aldershot	Leicester
Birmingham	Lincoln
Blackburn	Merstham
Bristol	Middlesbrough
Bromley	Northampton
Bury St Edmunds	Norwich
Cambridge	Nottingham
Canterbury	Paignton
Chelmsford	Peterborough
Colchester	Plymouth
Croydon	Rochester
Derby	Slough
Ely	St Helens
Exeter	Stockport
Folkestone	Stoke on Trent
Huddersfield	Sunderland
Huntingdon	Swindon
Ipswich	Taunton
Kidderminster	Thetford
King's Lynn	Warrington
Leamington Spa	Wigan

Miscellaneous

ARRIVA Motor Factors
160/2 Freeman's Common Road
Aylestone Road, Leicester
Tel 0116 252 1220

Motor Finance

**Broadwood Finance
and ARRIVA Finance Lease**
Admiral Way
Doxford International Business Park
Sunderland
Tel 0191 525 2000 & 0191 525 2100

ARRIVA Vauxhall Bristol
Avon Street
Bristol
Tel 0117 977 0411

ARRIVA Vauxhall Clevedon
54 Old Church Road
Clevedon
Tel 01275 872201

ARRIVA Vauxhall Haverhill
Duddery Hill
Haverhill
Tel 01440 703606

ARRIVA Vauxhall Leicester
160/2 Freeman's Common Road
Aylestone Road, Leicester
Tel 0116 255 7567

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the 58th Annual General Meeting of the Company will be held at The Ramside Hall Hotel, Carrville, Durham, DH1 1TD on Friday 26 April, 2002 at 11.30 am to transact the following business:

1. To consider and adopt the Accounts for the year ended 31 December 2001, together with the reports of the Directors and Auditors thereon. (Resolution 1)
2. To declare a final dividend for the year ended 31 December 2001, on the ordinary shares of the Company, of 12.2p per share. (Resolution 2)
3. To approve the Remuneration Report of the Directors for the year ended 31 December 2001. (Resolution 3)
4. To re-elect Directors retiring by rotation under the terms of the Articles of Association
 - (a) Mr W G Cooper. (Resolution 4)
 - (b) Mr S P Lonsdale. (Resolution 5)
 - (c) Mr A M Saxton. (Resolution 6)
 - (d) Mr M J Allen. (Resolution 7)
5. To elect Mrs A V M Palmer a Director of the Company. (Resolution 8)
6. To re-appoint Messrs PricewaterhouseCoopers as Auditors of the Company and to authorise the Directors to fix their remuneration. (Resolution 9)
7. As special business to consider and if thought fit pass the following resolutions:

(a) Special Resolution (Resolution 10)

'That the Articles of Association be and they are hereby amended in accordance with the details contained in the circular to Shareholders dated 28 March 2002.'

(b) Special Resolution (Resolution 11)

'That the Directors, pursuant to the general authority conferred by an ordinary resolution passed at the Annual General Meeting of the Company held on 27 April 2001, be and they are hereby empowered under Section 95 of the Companies Act 1985 to allot equity securities as if Section 89(1) of that Act did not apply to such allotment, PROVIDED THAT this power shall:

(i) be limited to the allotment of equity securities, pursuant to a rights issue, in favour of ordinary shareholders, where the equity securities, respectively attributable to the interests of all ordinary shareholders, are proportionate as nearly as practicable to the number of ordinary shares held by them (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or legal or practical problems under the laws or the requirements of any recognised regulatory body or any stock exchange in any territory overseas); and

(ii) be limited to the allotment (otherwise than pursuant to sub paragraph (i) above or pursuant to The ARRIVA plc Share Incentive Scheme, The ARRIVA plc Savings Related Share Option Scheme, The ARRIVA plc 1994 Executive Share Option Scheme and The ARRIVA plc Long Term Incentive Plan 2000) of equity securities to an aggregate nominal amount of £513,603; and

(iii) expire at the conclusion of the next Annual General Meeting of the Company (or, if earlier, the day which is 15 months from the passing of this Resolution), save that the Company is hereby enabled to make an offer or agreement before such expiry, which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired.'

(c) Extraordinary Resolution (Resolution 12)

'That the Company be and is hereby granted general and unconditional authority to make market purchases (within the meaning of Section 163 of the Companies Act 1985) on the London Stock Exchange of ordinary shares of 5p each in its capital PROVIDED THAT:

(i) this power shall be limited so that the number of ordinary shares of 5p each which may be acquired pursuant to this authority does not exceed 30,816,194 ordinary shares and shall expire on 26 July 2003, or if earlier, at the conclusion of the next Annual General Meeting; and

(ii) the price which may be paid for such ordinary shares does not exceed 5% above the average of the middle market quotations as derived from The Stock Exchange Official List for the five business days before the purchase is made and is not less than 5p per share (in each case exclusive of expenses).'

By order of the Board

D P TURNER Secretary

Registered Office:
Admiral Way
Doxford International Business Park
Sunderland
SR3 3XP

28 March 2002

NOTES

1. A member entitled to attend and vote at this meeting may appoint one or more proxies, who need not be members of the Company, to attend and vote on his behalf.
2. A proxy form is enclosed for use in respect of Resolutions 1 to 12. Forms of proxy must be received at the transfer office of the Company at least 48 hours before the meeting. Completion and submission of the proxy form will not preclude the shareholder from attending and voting at the Annual General Meeting or any adjournment thereof.
3. A statement of transactions of the Directors in the shares of the Company together with copies of any Directors' service contracts, will be available for inspection during business hours from the date hereof until the day of the Annual General Meeting at the registered office and at the venue of the Annual General Meeting from 11.15 am until its conclusion.
4. If approved, the proposed final dividend of 12.2p per ordinary share will be paid on 1 May 2002, to shareholders on the register at 5 pm on 5 April 2002.

Financial Calendar

Results for 6 months to 30 June 2001

Announced	6 September 2001
Interim Report posted to shareholders	13 September 2001

Interim ordinary dividend

Declared	6 September 2001
Paid	5 October 2001

Results for the year ended 31 December 2001

Announced	7 March 2002
Report and Accounts posted to shareholders	28 March 2002

Final ordinary dividend

Recommended	7 March 2002
Record date	5 April 2002
To be paid	1 May 2002

Annual General Meeting

To be held	26 April 2002
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