

# Arriva plc Annual report and accounts 2002



# Financial Highlights

Summary	2002	2001
Turnover	£2,084m	£1,998m
Operating profit*†	£108.5m	£100.8m
Profit before tax*	£102.1m	£92.0m
Earnings per share*	36.8p	30.0p
Dividends per share	17.2p	16.4p

\* 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

## Contents

2	Arriva at a glance	32	Directors' Remuneration Report
4	Chairman's Statement	37	Corporate Governance
8	Operating Review	39	Independent Auditors' Report to the Members of Arriva plc
14	Financial Review	40	Financial Statements
20	Corporate Social Responsibility	44	Accounting Policies
26	Board of Directors	45	Notes to the Accounts
28	Directors' Report	63	Group Five Year Financial Summary
31	Statement of Directors' Responsibilities	64	Notice of Annual General Meeting
		IBC	Financial Calendar

## Arriva at a glance

### 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 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 Passenger Services International



Arriva is one of the largest private sector providers of passenger transport in mainland Europe with some 5,000 vehicles operating in Denmark, Sweden, the Netherlands, Spain, Italy and Portugal. An extensive range of services includes trains, buses, commuter coaches and water buses.

### Arriva Vehicle Rental



Arriva Vehicle Rental has over 11,000 vehicles available for rent from 42 locations across the UK.

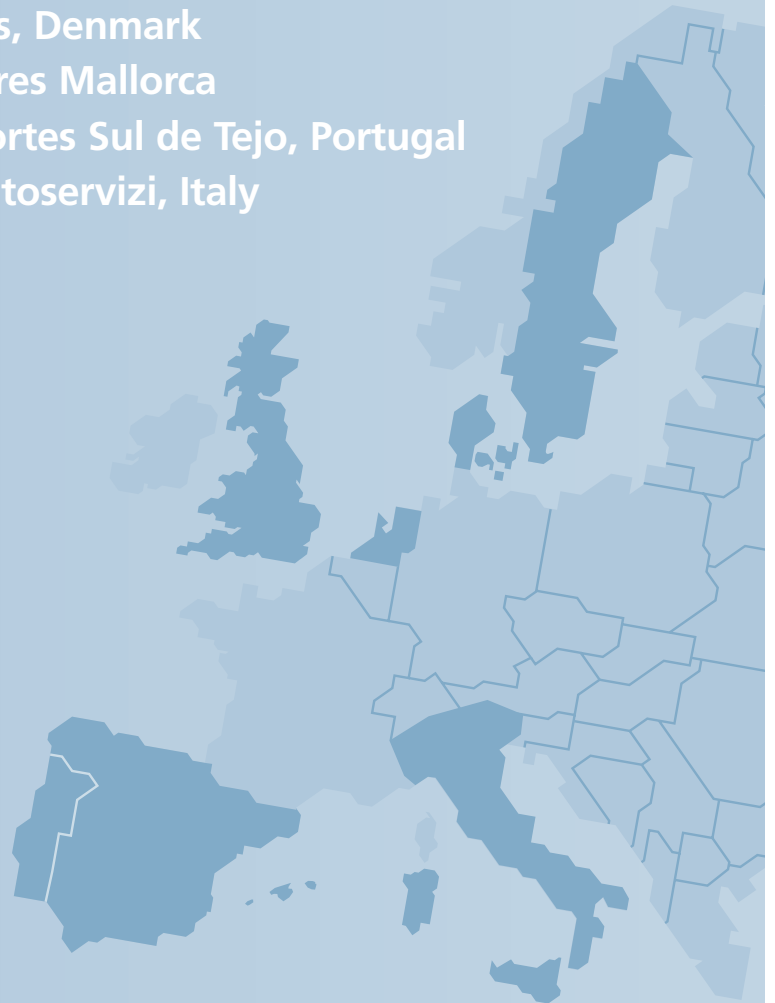
### Arriva Bus and Coach



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.

## Arriva's principal acquisitions in mainland Europe

- September 1997 – Unibus Holdings, Denmark
- January 1998 – Vancom Nederland
- December 1998 – Veonn & Hanze, the Netherlands
- March 1999 – Bus Danmark
- July 1999 – Mercancias Ideal Gallego, Spain
- September 1999 – Transportes Finisterre, Spain
- November 2000 – Ami-Transportes, Portugal
- December 2000 – Abilio da Costa Moreira, Portugal
- April 2001 – Combus, Denmark
- January 2002 – Autocares Mallorca
- June 2002 – Transportes Sul de Tejo, Portugal
- July 2002 – SAB Autoservizi, Italy



## Chairman's Statement



**“The Group is well-positioned with a strong balance sheet and excellent prospects.”**

## Key events 2002



### January

Arriva's new £5.3 million bus depot and offices in Luton were opened.

I am pleased to report on the Group's further significant progress and strong financial performance. We have improved earnings per share, excluding goodwill amortisation and exceptional items, by 32 per cent in the last two years to a record 36.8 pence. From a strong base in the UK we have developed a unique position in mainland Europe to benefit from the increasingly liberalised passenger transport markets. The Group has the financial strength to continue to capitalise on these opportunities with the focus on growing profits and cash flow, and delivering substantial value to our shareholders. The key highlights of 2002 were:

- Pre-tax profit, excluding goodwill amortisation and exceptional items, up by 11 per cent to £102.1 million
- Earnings per share, on the same basis, up by 23 per cent to 36.8 pence
- Operating cash inflow of £224.1 million
- Establishment of further significant market positions in Italy and Portugal
- Final dividend up by 5 per cent to 12.8 pence.

Pre-tax profit excluding goodwill amortisation and exceptional items was £102.1 million (2001: £92.0 million) with earnings per share on the same basis showing growth from 30.0 pence to 36.8

pence, an increase of 23 per cent. Profit before tax for the year was £80.6 million (2001: £76.0 million) and basic earnings per share was 38.0 pence (2001: 23.1 pence). Total Group turnover grew by 4 per cent to £2,084 million (2001: £1,998 million).

With year end net debt of £310.1 million and EBITDA (earnings before interest, tax, depreciation and amortisation) increasing by 10 per cent to £209.1 million, the Group's financial strength is clear. The debt to equity ratio also improved from 75 per cent to 68 per cent whilst the interest charge for the year was £17.1 million (2001: £20.0 million) representing an improvement in interest cover from five and a half to seven times. In October 2002, the Group was in a position to recommence its share buy-back programme. By the end of the year, 3 per cent of the issued share capital (5.9 million shares) had been purchased for cancellation, representing a return of value, before stamp duty and expenses, of £17.2 million.

In October 2002, we announced a formal process for the disposal of the Group's Motor Retailing operations. We have already realised £33 million from the disposal of 14 dealerships, realising around book value in the process. The conclusion, within the next few months, of this disposal programme will mark the completion of the strategic refocusing of the business.

The Board is recommending a final dividend of 12.8 pence per share, which together

with the interim dividend of 4.4 pence per share paid in October 2002, makes a total dividend of 17.2 pence per share, an increase of 5 per cent. The final dividend will be paid on 1 May 2003 to all shareholders on the Register at the close of business on 4 April 2003.

We announced in January 2003 that the triennial actuarial review of the Group's defined benefit pension schemes would be completed towards the end of 2003. As already announced, it is anticipated that the charge to the profit and loss account in 2003, in respect of Arriva defined benefit schemes, could be in the order of £20 million, an increase of £12 million over the charge for 2002. This primarily reflects the deterioration in the performance of the equity markets. The cash contribution made by the Group to these schemes is expected to increase from £11 million to £13 million in 2003.

The UK Bus operations continue to be a substantial cash generator for the Group. The London business is benefiting from the initiatives taken by Transport for London to increase the number and quality of bus services in the capital as the new congestion charging scheme is introduced. The market outside London however is mature and, in common with other operators, insurance costs and wage inflation have impacted on financial performance. While focusing investment on increasing patronage through innovative marketing and improved



#### February

Twenty-four hour, seven days a week, customer relations helpline launched by Arriva Trains Northern.



customer services, the business is tightly managed to eliminate unacceptably low margin and loss-making operations. Early indications of success in London of congestion charging are encouraging and it may prompt other areas of the country to adopt similar schemes that can only be of benefit to our passengers and the industry.

Our two UK rail franchises achieved a significant turnaround during the year. Arriva Trains Merseyside was rated the best mainland operator in terms of punctuality and reliability in the latest figures published by the Strategic Rail Authority (SRA) whilst Arriva Trains Northern has delivered substantial improvements. When the SRA announced the new franchise agreements commencing in February 2003, it acknowledged that Arriva had improved performance by addressing the many fundamental problems that existed in the businesses when we took them over three years ago. Whilst we were disappointed that our bids for the new Trans-Pennine Express and the Merseyrail franchises were unsuccessful, the Board believes that the UK rail sector can provide long-term growth opportunities for the Group. This is, however, dependent on a structure that allows the operator to provide robust services for customers whilst at the same time generating appropriate returns for our shareholders.

Arriva's business in mainland Europe has grown substantially this year and is now a major contributor to the Group's results. Following two strategically important acquisitions in Portugal and Italy we now have significant positions in the Netherlands, Denmark, Portugal and Italy with smaller positions in Spain and Sweden.

We maintained our strategy of expansion through successful tendering and acquisitions. In June we announced the acquisition of a 51 per cent interest in Transportes Sul de Tejo S.A. (TST), which

increased substantially our previously modest market position in Portugal.

The Group's first acquisition in Italy was completed in July with the purchase of SAB Autoservizi S.r.l. (SAB), the country's largest private bus operator. The passenger transport market in Italy is one of the largest in Europe with both bus and rail sectors moving rapidly to a competitive tendering environment.

Our businesses in Denmark, the Netherlands and Sweden have continued to win contracts through local tendering opportunities. In Denmark, Arriva is the first private company to be awarded passenger rail franchises by the Danish State. The two franchises serving Jutland commenced in January 2003 for a seven-year period.

Arriva Vehicle Rental continues to deliver excellent performance. This growing business has again achieved record profits with its continued focus on high utilisation of its fleet of around 11,000 vehicles and meeting the needs of its major corporate and public sector customers.

The Group's strategy is clear. Over the past four years we have refocused the business on the passenger services sector. In the process, we have realised some £600 million from the disposal of our Motor Finance and Retailing businesses. These proceeds have been used to strengthen our position in the UK market and to build a strong business in the growing European passenger transport sector. At the same time we have halved our debt and bought back shares returning value to shareholders. The Group is well-positioned with a strong balance sheet and excellent prospects. Our shares offer an attractive yield backed by a robust cashflow. Going forward we will continue to target acquisitions in our chosen markets whilst at the same time delivering further value to shareholders through our share buy-back programme.

The success of the Group relies on the provision of quality service and value for money to our customers and I would like to record the Board's appreciation to all our employees who, individually and collectively, have contributed to the Group's development.

**Gareth Cooper**  
Chairman

**March**  
Arriva Trains Northern signalled customer commitment through a new Passenger's Charter.



## Operating Review



**“We have a clear strategy with a good mix of cash generative and growth businesses underpinned by a strong balance sheet.”**



**April**  
Arriva Vehicle Rental's on-line booking service goes live.

### UK Bus

Our UK Bus operations achieved an operating profit of £65.4 million, before goodwill amortisation, (2001: £68.4 million) on a turnover of £559.8 million (2001: £548.6 million). The division is a consistent and substantial cash generator and in 2002 achieved EBITDA of £103.1 million, around 50 per cent of the total for the Group.

As reported in our Interim Results, the decline in operating profit was a first half year issue and largely reflected the sale, required by the Office of Fair Trading following our acquisition of MTL, of the Gilmoor bus depot in Liverpool, and the impact of increased insurance costs. Encouragingly, trading in the second half matched the performance in the comparable period in 2001.

Our operations in London, where we are the largest operator, represent over 25 per cent of the division's turnover. In preparation for the congestion charging scheme, over the past two years Transport for London has driven a major investment programme to increase the number and quality of bus services in the capital. As a result, we have seen significant volume growth in this part of our business. In 2001 we operated some 1,200 buses, and by the end of 2003 this fleet will have grown to over 1,400 vehicles. In July, we re-opened our Stamford Hill depot to provide increased garaging, maintenance and engineering facilities and

we have also expanded facilities elsewhere in the capital to accommodate the growth.

We now employ over 3,000 drivers in our London operations, an increase of some 400 since 2001. This substantial increase, achieved against the background of a buoyant employment market, reflects the success of a major recruitment programme combined with actions taken to reduce staff turnover and enhance our training arrangements.

Clearly, over the past two years the growth achieved in London has not been seen elsewhere in the country. However, during 2002, often as a result of working in partnership with local authorities and demographic changes, we have seen strong growth in some areas. Our focus remains on eliminating low margin and loss-making operations while retaining the ability to respond quickly to opportunities. Steps have also been taken to consolidate some of our operations and management structures have been streamlined. These disciplines will remain fundamental as increased National Insurance and pension costs will continue to put pressure on margins.

We continue to work to increase patronage through improvements in service delivery, information and marketing. During 2002 our marketing campaign 'Going your way' continued in the North East and was introduced across the North West, in

Leicestershire and parts of Cheshire. At the same time we improved customer feedback procedures and made all of our timetables available on the web. A successful pilot exercise in September saw the campaign targeted on specific corridors in Derby, Luton and Maidstone, and this was followed by a programme of 26 similar projects across England and Scotland in November. In 2003, we have extended the campaign with some 2.6 million households, living within a ten minute walk of 80 of our most heavily used routes and networks, receiving information about services and discounted travel vouchers this Spring.

The recent evolution of congestion charging may perhaps mark a turning point. National and local governments can make a significant contribution to resolving the problems of traffic congestion and pollution. It is imperative that all parties build on recent developments and work together to deliver on their commitments.

### UK Trains

UK Trains achieved an operating profit of £14.9 million (2001: £11.5 million) on a turnover of £419.0 million (2001: £425.5 million). A significant improvement in operational performance at Arriva Trains Merseyside, together with an improved performance at Arriva Trains Northern, more than offset the financial impact of industrial action at the Northern franchise.



### May

Arriva develops the 'Bus of Tomorrow' with a range of suppliers following extensive consumer research.

# Operating Review continued

In July 2002 we completed the purchase of SAB, Italy's largest private bus company, our first acquisition in that country.



**May**  
Arriva North East opened a new bus station in Peterlee bringing road safety and environmental improvements to more than 37,000 passengers each week.

In February 2003 we reached agreement with the SRA on the level of funding for interim franchises for the two businesses. The Northern franchise will operate to September 2004 and Arriva Trains Merseyside to July 2003.

Both franchises achieved improvements in customer service during 2002. At Arriva Trains Merseyside the introduction of a new timetable, together with better traincrew management and fleet reliability, has contributed to higher levels of performance and the increase in employees, including drivers, at Arriva Trains Northern resulted in a more stable and reliable service. Since we took over these franchises in 2000 we have made considerable progress in improving overall performance. Our focus will be to maintain the high level of performance achieved by the Merseyside franchise and continue to deliver further improvements in punctuality and reliability at Arriva Trains Northern.

Throughout 2002 we experienced industrial action at Arriva Trains Northern in respect of pay demands by conductors, station and retail staff, and we regret the inconvenience caused to our customers. In February 2003, both disputes were resolved and we will now be working with all of our employees and their representatives to deliver further improvements for our customers.

We have been shortlisted for the new Wales and Borders franchise and our bid is due to be submitted shortly. In addition we are seeking to pre-qualify for a number of other franchises.

The UK rail industry clearly has some considerable challenges, both financial and operational. We are an established operator and will be seeking to develop our role in the future of the sector.

#### International

Our International division achieved an operating profit of £19.0 million, before goodwill amortisation and exceptional items, (2001: £12.8 million) on a turnover of £303.5 million (2001: £256.0 million). The previously established businesses improved operating profit from £12.8 million to £13.5 million whilst the first time contribution from acquisitions in Portugal, Spain and Italy was £5.5 million. Turnover from the acquisitions was £43.0 million.

In June we announced that we had consolidated our position in Portugal with the acquisition of a 51 per cent interest in TST from the Barraqueiro Group. TST is the leading operator of scheduled bus and coach services in the growing commuter region to the south of Lisbon. TST, together with our operations in the north of the country, positions Arriva as one of Portugal's leading bus companies with a fleet of nearly 1,000 vehicles. The Portuguese passenger transport market provides opportunities for further growth in both bus and rail sectors and we have a sound base to take full advantage of those opportunities. We have

an option to purchase the remaining 49 per cent of TST at any time up to 31 December 2003.

We completed the acquisition of SAB, Italy's largest private bus company, in July. Purchased from its parent company Italmobiliare, SAB operates to the east of Milan principally in the Lombardy Region. The company employs some 1,200 people and operates a fleet of over 900 vehicles, managing a further 400 vehicles and 800 people in associated companies. In a rapidly evolving market the acquisition of SAB provides an excellent foundation to develop and grow the business in northern Italy.

In January 2002 we acquired two small bus operators in Majorca, Autocares Mallorca SL and Donate Amenguel Ramis SL.

The integration of the new businesses has gone according to plan and they will make a significant contribution to this year's performance.

In Denmark, where Arriva is the major bus operator, our move into the rail sector commenced in January 2003 when we took over the operation of two franchises serving Jutland. We have experienced some issues in relation to the availability of train drivers from the previous operator. However we are working closely with the transport ministry and others to overcome this short-term issue. Orders have been placed for 30 new Coradia Lint trains, which will be delivered in 2004.



#### June

Left: Order placed for 30 new trains to operate on Arriva's Danish rail franchises.

#### June

Right: Arriva Trains Merseyside successfully introduced a new timetable designed to improve performance.

## Operating Review continued



**Arriva Vehicle Rental is performing strongly in the growing corporate and public sector markets.**



**June**

Arriva acquired a majority interest in Portugal's Transportes Sul de Tejo.

Our business in the Netherlands has developed a strong position in the north of the country. During 2002 the focus was to build on that position and take advantage of opportunities elsewhere in the country. The business has made good progress winning two contracts in the Rotterdam region. We have also won a number of bus tenders in Sweden and Denmark.

Mainland Europe continues to provide profitable opportunities for growth and we are increasing our involvement with the European Union (EU) institutions and the governments of member states, in order to play a part in influencing the development of transport policies. We are one of the largest international operators in mainland Europe with an annualised turnover approaching £400 million. There remain significant opportunities as the market, which the EU estimates to be worth £35 billion for buses alone (EU statistics: 1999), increasingly opens to competitive tendering.

#### Vehicle Rental

Operating profit from Arriva Vehicle Rental increased by 10 per cent to £11.6 million, before goodwill amortisation (2001: £10.5 million). Net profit, after financing costs, increased by 25 per cent to £7.4 million. Headline turnover of £83.1 million (2001: £85.5 million) was down slightly reflecting a lower level of vehicle disposals in the period. Underlying vehicle rental income was up 6 per cent to £48.7 million.

This business has grown profits organically by 70 per cent over the last four years and we continue to see significant opportunities for its further expansion. With a fleet of some 11,000 vehicles and 600 employees it operates from 42 locations and continues to perform strongly in the growing corporate and public sector markets. Arriva Vehicle Rental has been trading with six business

brands, however, each business is now migrating to the Arriva brand with an increasing focus on expanding its range of product and service offerings. The 'Arriva freedom' product, which was launched in 2001, has performed well in 2002 by attracting new corporate customers with its flexibility to provide a range of new and used vehicles to meet their changing requirements.

The market is expected to grow strongly over the next five years and the Government's 'Best Value Initiative' is encouraging the public sector to outsource vehicle fleets which provides the business with opportunities to build on its relationships with local authorities and other public bodies.

#### Bus and Coach

Arriva Bus and Coach achieved an operating profit of £3.5 million, before goodwill amortisation, (2001: £3.6 million) on a reduced turnover of £23.1 million (2001: £25.2 million). The business continues to be impacted by the weakness in the UK tourism market. Accordingly we have continued to reduce the size of the rental fleet and the capital employed to reflect market conditions. It achieved a return on capital of 18 per cent (2001: 13 per cent).

#### Discontinuing Operations

Our Motor Retailing and Motor Finance businesses achieved a combined operating profit of £10.7 million (2001: £11.2 million) on a turnover of £695.9 million (2001: £657.6 million).

We announced a formal process for the disposal of the 35 Motor Retailing dealerships in October 2002. To date we have realised £33 million from the disposal of 14 dealerships and progress has been in line with our expectations.

#### Outlook

Despite the tough economic conditions, we have grown earnings per share, excluding goodwill amortisation and exceptional items, by 32 per cent over the past two years to a record 36.8 pence. We have a clear strategy with a good mix of cash generative and growth businesses underpinned by a strong balance sheet. This enables us to target acquisitions in our chosen markets and to undertake share buy-backs whilst offering an attractive dividend yield to shareholders.

**Bob Davies**  
Chief Executive

#### June

Arriva Trains Northern celebrated the 200th new driver trained. Pictured from the left: Cllr Mick Lyons, chairman of Metro – the West Yorkshire Passenger Transport Executive; Graham van Heeswyk – the 200th driver, and Ray Price, managing director of Arriva Trains Northern.



## Financial Review



**“To reinforce its strong financial position and defensive characteristics, the Group maintains a prudent approach towards its capital structure, and its levels of interest cover and debt.”**

### **July**

Arriva entered the Italian passenger transport market with the acquisition of the largest private sector bus operator – SAB Autoservizi S.r.L.



### Introduction

The Group's strong cash generation has enabled it to expand its International division in Europe, take advantage of growth in the London bus market, and continue its programme of share buy-backs.

The interest in TST was acquired in June 2002 for £32.4 million, including assumed debt of £8.8 million, with an option to acquire the remaining 49 per cent by 31 December 2003. Goodwill on acquisition was £31.3 million. The purchase price for SAB was £37.1 million satisfied in cash out of existing facilities, with deferred consideration of up to €10 million dependent on the growth of SAB over the next 24 months. Goodwill on acquisition was £14.8 million, after taking account of net cash of £8.8 million.

In October 2002 the Group announced its decision to seek expressions of interest in its Motor Retailing operations which together with the sale of the contract hire division in 1999 and the discontinuance of our Motor Finance operations in 2000, will complete the exit of the Group from its Motor Retailing and Finance operations. The disposal of the nine motor dealerships sold before the year end, together with costs incurred in the disposal process, resulted in an exceptional charge of £2.7 million. We are making good progress in our aim of completing the disposal at around book value.

More than offsetting the charges in respect of Motor Retailing, there were positive exceptional items totalling £29.3 million. These comprised £2.8 million of profits from property disposals, £2.5 million of proceeds from a claim connected with a business previously sold by the Group and £24.0 million of recovered corporation tax in respect of the 1999 disposal of our contract hire business, Arriva Automotive Solutions (AAS).

During 2002 the Group bought back 3 per cent (2001: 3 per cent) of its shares at a cost, including expenses, of £17.4 million (2001: £20.6 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 once again seek authority to purchase up to 15 per cent of the Company's shares at the forthcoming Annual General Meeting.

The financial position of the Group remains robust. Gearing, the ratio of debt to equity, is 68 per cent (2001 restated: 75 per cent) with interest cover (operating profit before goodwill amortisation and exceptional items, as a multiple of interest costs) of seven times compared to five and a half times last year.

### Financial Reporting

FRS 19 'Deferred Tax' became mandatory for the Group for the year ended 31

December 2002. The Standard requires full provision to be made for deferred tax where capital allowances exceed depreciation, even when no future cash outflow is anticipated. This differs significantly to SSAP 15, which only required a provision to be made where a cash outflow was foreseeable. As required by the Standard, a prior year adjustment has been made to reflect the impact on earlier years, and comparative results are restated accordingly. Provisions previously reported in the 2001 Accounts have been increased by £51.3 million from £10.0 million to £61.3 million, and the tax charge for 2001 is increased from £16.8 million to £27.7 million. Opening shareholders' funds for 2002 are reduced from £474.5 million as previously reported to £423.2 million as restated.

During 2002 the Accounting Standards Board announced its decision to delay the full implementation of FRS 17 'Retirement Benefits'. FRS 17 will become mandatory for the Group's 2005 year end, although the Standard requires a greater level of disclosure incorporating what would have been shown in the profit and loss account, the statement of total recognised gains and losses, and the balance sheet, had the Standard been implemented in full. For the Group's defined benefit schemes, FRS 17 will require that the schemes' assets, mainly quoted investments, be calculated at their market value on each balance sheet date and that accrued pension liabilities be

### July

Scarborough's MP, Lawrie Quinn, and regular Scarborough visitor, Faye Hargrave, promoted Arriva Trains Northern's campaign to attract more people to the town by train.



## Financial Review continued

calculated using the projected unit method, discounted using an AA corporate bond rate. On this basis, at 31 December 2002, the combined schemes' net pension liability was £125.7 million (2001: £25.7 million), and the pension charge for the year would have been £13.0 million.

FRS 10 'Goodwill and Intangible Assets' requires any goodwill previously written off to reserves to be charged against the profit and loss account on the subsequent disposal of the business to which it relates. Goodwill of £13.7 million has been charged to the profit and loss account in relation to the ongoing disposal of Motor Retailing, with a corresponding increase to profit and loss account reserves leaving no impact on the Group's net assets.

Arriva continues its preparations for the introduction of International Accounting Standards, which will become effective for its 2005 year end. As well as changes in UK financial reporting, we are closely monitoring the developments in international financial reporting and their potential impact on the financial position of the Group. At present, with the exception of FRS 17, the Group foresees no substantial changes to its reported results.

### Segmental Analysis

The segmental analysis is prepared on the basis that operating results are reported before goodwill amortisation and exceptional items. All material acquisitions relate to the International division and account for £5.5 million of operating profit, before goodwill amortisation and exceptional items, for the year.

The results of Motor Retailing for the year, and comparatives, have been reclassified to discontinuing operations and combined with the results of the Motor Finance division.

### Cash Flows

EBITDA (earnings before interest, tax, depreciation and amortisation of goodwill) was substantially higher at £209.1 million (2001: £189.9 million) reflecting the strong cash generation from the Group's operating activities.

The net cash inflow from operating activities for the year was £224.1 million, a reduction of £4.0 million compared with 2001. The reduction is mainly attributable to running off the Motor Finance receivables book which contributed £13.2 million compared with £24.8 million in the previous year, offset by increased EBITDA and movements in working capital.

Capital expenditure was £150.5 million compared with £168.6 million in the previous year, including £34.7 million of expenditure on buses in the UK (2001: £44.7 million). The high level of capital expenditure on new fleet in the UK over recent years has brought the average age of the fleet down to an optimum level, and as indicated in last year's report, capital expenditure on buses has been reduced in the year. Capital expenditure on short-term rental vehicles increased from £67.5 million in 2001 to £76.4 million in 2002 as the Vehicle Rental division expanded, and further increases are anticipated this year. Proceeds from disposal of short-term rental vehicles were £40.7 million (2001: £45.9 million).

The Group invested £75.1 million (2001: £19.4 million) including debt assumed, on acquisitions during the year, mainly relating to SAB and TST.

Interest and dividend payments were £51.2 million (2001: £53.0 million), and there were net tax receipts of £10.2 million, largely as a result of the repayment of tax of £24.0 million previously paid in respect of

the AAS disposal in 1999 (2001: net payment £12.4 million). Under the share buy-back programme we acquired 3 per cent of the issued share capital at an average price of 292 pence per share. This utilised funds of £17.4 million, including costs of £0.2 million. There was a small decrease in net debt to £310.1 million (2001: £315.8 million), despite the acquisition activity and share buy-backs.

### Capital Structure

Equity shareholders' funds were £464.6 million (2001 restated: £423.2 million) at the end of the year. Retained profits contributed £43.2 million to distributable reserves, offset by the utilisation of £17.4 million of reserves for the share buy-back programme. Gearing at 31 December 2002 was 68 per cent (2001 restated: 75 per cent). The 2002 interest cover was seven times compared with five and a half times in 2001.

Arriva 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 and exceptional items of around four times.

At the year end, the ratio of net debt to EBITDA for 2002 was 1.5 times. Excluding our UK rail operations, which are on relatively short franchises, the ratio was 1.8 times, a level consistent with the previous year. The Group recognises that at debt levels above two times EBITDA, the cost of debt increases for companies with similar characteristics to Arriva and will therefore take this into account before allowing net debt to exceed these levels, other than on a temporary basis.



### August

Arriva, in partnership with Leicestershire County Council and the Borough of Charnwood, provided an investment boost for bus infrastructure.



Arriva Trains Northern has signed up to the 'Access for All' charter, which aims to make rail travel easier and a more positive experience for customers who are blind or partially sighted.



**September**

Leeds United and England International footballer Danny Mills officially opened Arriva Trains Northern's refurbished Travel Centre at Leeds Station.

## Financial Review continued

**Arriva Vehicle Rental has been appointed by civil engineering firm Costain to be the dedicated supplier of its national fleet.**

### Borrowing facilities

Long-term finance for the Group 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 UK rail franchising arrangements the Group has provided guarantees of £10 million. The rolling stock of the UK rail businesses is provided through operating leases with annual commitments of approximately £50 million. All material commitments will cease on expiry of the UK rail franchises. Our Danish subsidiary has provided £12 million of bonds in respect of its new rail operations.

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



### September

Arriva donated £10,000 towards Business in the Community's 'Rural Action' initiative in Yorkshire, which works to revive the countryside and reinvigorate the local community. Pictured from the left: Deborah Siswick from Business in the Community; Anne McIntosh, MP for the Vale of York and Arriva's Peter Limbert.

### Treasury

Major cash flows as well as risks arising from interest rate and foreign exchange rate fluctuations are managed by the Group's treasury function. 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.

Arriva's bus fleet is financed through £175.8 million of facilities (2001: £175.7 million) with fixed interest rates between 3.2 per cent and 7.2 per cent, with an average cost of 5.8 per cent.

The passenger transport businesses use a fuel hedging strategy to reduce the impact of any future volatility in fuel prices. The strategy is targeted to fix the cost of fuel to the Group annually in advance, through a number of part volume fixed price contracts.

### Taxation

Excluding the effect of the corporation tax repayment of £24.0 million, and the charge to profits of goodwill previously written off to reserves, the tax charge for the Group was £25.6 million representing an effective rate of tax of 27 per cent. Of this, around £5 million, or 5 per cent, arises from the implementation of FRS 19. Due to the increased proportion of Group profits derived from overseas operations, where standard tax rates are higher, an increase in the underlying effective rate of tax is anticipated in future.

### Equity shareholders' funds

Equity shareholders' funds were £464.6 million (2001 restated: £423.2 million) at the end of the year representing 233 pence per share (2001 restated: 206 pence per share). The increase is due to retained profits for the year of £43.2 million, goodwill re-circulated through reserves of £13.7 million, offset by the purchase of own shares of £17.4 million.

Equity shareholders' funds exclude goodwill previously written off to reserves of £236.3 million (2001: £250.0 million). If this goodwill is capitalised then the equity shareholders' funds would be £700.9 million representing 351 pence per share.

### Summary

The markets in which we operate provide strong cash flows and general stability for the Group. To reinforce its strong financial position and defensive characteristics, the Group maintains a prudent approach towards its capital structure, and its levels of interest cover and debt. This will enable it to grow its existing operations and to take advantage of future acquisition opportunities whilst continuing its share buy-back programme.

### Steve Lonsdale

Finance Director

### October

Arriva marked a new community partnership with the national charity Changing Faces. Pictured from the left: the chief executive of Changing Faces James Partridge; Joan Ryan MP, who hosted the event at the House of Commons; Minister for Disabled People Maria Eagle MP and Arriva's chief executive Bob Davies.



## Corporate Social Responsibility



To explore new ways of improving safety Arriva, in partnership with Cranfield University and the Transport and General Workers' Union, has developed an innovative bus driving simulator.

### November

Arriva held its first parliamentary reception at the European Parliament in Brussels, hosted by Brian Simpson MEP for the North West of England.



The values underpinning the Arriva brand are focused on the interests of the Group's various stakeholders – customers, employees, shareholders, local and national government institutions, and the communities in which Arriva operates.

#### Health, Safety and Environment

Health, safety and environment issues are reviewed regularly by the Board. They are monitored by the Health & Safety Committee which is chaired by the Group's Chairman, Gareth Cooper, and composed of one other non-executive Director, three executive Directors, the Company Secretary and operational executives with specific responsibility for health, safety and environmental compliance in the divisions. Meeting quarterly, the 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.

There have been no safety or environmental prosecutions relating to the Group's activities in the last five years. Two prosecutions, relating to offences by the previous owners of businesses acquired by Arriva, have been recorded.

The Group's health and safety policies underline the importance of best practice for customers and employees. Safety of employees and customers is a primary value of the Arriva brand. The Board 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.

An in-house safety management system is operated by the Group, which has legal compliance as a minimum acceptable

standard. The system is based around comprehensive risk assessments combined with detailed Group policies. Each business is responsible for its safety performance and actions are reviewed regularly by the Group's central health and safety team.

Safety reviews have been conducted at all of the Group's mainland European businesses to ensure that effective policies and processes are in place. The businesses have clearly demonstrated their commitment through the systems in place and the arrangements for good dialogue with works and worker councils.

Working with Cranfield University and representatives from the Transport and General Workers' Union, Arriva funded the development of a bus driving simulator as part of a programme designed to examine ways in which thoughts, feelings and behaviour patterns can contribute to accidents. The results will be used to tailor selection, assessment and training methods. The simulator replicates a driver's cab and is complete with steering wheel and controls combined with a six feet high, 180 degree semi-circular screen onto which the road is projected. The trainee is given the same view as they would have in a real bus and can test their skills on a number of different scenarios covering congested roads, rural environments, reacting to everyday situations and getting an idea of the challenges faced when taking a bus out into service.

The Group's environmental policy is committed to legal compliance and environmental efficiency. The policy is reviewed regularly by the Board and is monitored by the Health & Safety Committee.

The policy is being expanded to create a more prescriptive, comprehensive and targeted approach. It will be supported by the capture of a wider range of key environmental statistics. Specific policies detailing the monitoring and management of water, fuel and energy use are being updated for implementation in 2003.

Arriva is focused on improvements to reduce environmental impact. The UK bus fleet is operating on ultra low sulphur diesel fuel. All new vehicles are specified with EURO IV engines and emission characteristics. Noise levels of vehicles are being reduced and new white noise reversing alarms are being introduced to minimise noise disturbance at operating locations. Arriva Trains Northern has ISO 14001 accreditation for its Neville Hill train depot.

Waste management is a key area of management control. Waste disposal will continue to be the responsibility of local management with recycling and reprocessing being the first priority. Landfill will continue to be the least acceptable option.

Arriva is implementing a more comprehensive reporting process on health, safety and environment matters with a view to providing a more detailed insight for its stakeholders.

#### People – training and development

Over the past five years Arriva has entered a number of new markets and new countries. The Group has grown significantly and now has around 30,000 employees, an increase of some 50 per cent since 1998. To respond to the need to develop a common set of values and ensure comprehensive training the company has been progressively introducing a wide range of training and development initiatives. These include the



#### November

Arriva London and Arriva Yorkshire won awards at the National Bus Industry Awards. Pictured on the left is Mark Yexley, managing director of Arriva London with Professor David Begg, chairman of the Commission for Integrated Transport.

## Corporate Social Responsibility continued



Arriva London now employs over 3,000 bus drivers, an increase of some 400 since 2001. Drivers receive hazard awareness and regular refresher training.



### November

UK Bus launches £400,000 worth of money-saving bus travel vouchers for households across the UK.

development of a customer service National Vocational Qualification (NVQ) in the UK Bus operations, which has now been rolled out to the Group's international businesses. The NVQ is also being introduced in the UK Trains division. A pilot scheme was established within Arriva Trains Northern last year in West Yorkshire and it is now being made available across South Yorkshire, Greater Manchester, Humberside and Lincolnshire.

In the UK, Arriva is licensed to deliver Institute of Occupational Safety and Health (IOSH) courses – Managing Safely and Working Safely. Over 360 safety training days were delivered in 2002 and the Group is planning to develop this area of activity.

The roll out of the Group's performance management process - Working With Others - continued during 2002. An additional 50 managers received training in support of the process. A working party has been established to develop the approach to performance management for other levels of managers, supervisory and administrative employees. Employees continue to have access to Arriva's Learning and Development Gateway, which provides a wide range of courses via the Internet.

Over 200 managers from across the Group have taken part in an Executive Development Programme (EDP) which has been designed around Arriva's brand values. The company also operates the Arriva Development College for Talent (ADC) which helps to identify and develop people who can make a significant contribution to the Group's success. In 2002 over 40 people attended ADCs. Both initiatives are delivered by external partners and have been designed to develop and enhance management skills and behaviours.

Recognising the changes in the world in which it operates, which impact on both its customer and employee base, the Group has launched a programme focusing on diversity. The Arriva approach to diversity is about acknowledging, understanding and valuing the differences in people, whether customers or employees.

The programme aims to gain advantage for the Group by creating an environment that maximises the potential of all employees and future employees without anyone being disadvantaged.

To deliver success, a Diversity Committee has been established, which reports directly to the Board, together with a Best Practice Forum with representation from across the Group. Arriva is a member of Opportunity Now and Race for Opportunity and will be playing an increasing role in their activities during 2003. The mainland European businesses are identifying similar organisations within their own countries.

Since 2001 the company has developed a partnership with Common Purpose. The organisation helps people in leadership and decision-making roles to be more effective in their own organisations, in the community and the wider society. Programmes look at the local issues that impact on communities, such as housing, transport and crime. Involvement also provides an excellent opportunity to build networks. The Group has gradually increased the number of employees taking part in Common Purpose programmes.

#### Community relations

Arriva seeks to build sustainable relationships that are relevant to the Group's activities. The aim is to deliver best value for the communities it serves whilst reinforcing their relationship with the Group.

Specifically, the Group provides financial and practical support to charities and projects that help people with disabilities, the elderly, the young and the environment.

Mark Saxton, the Group's Human Resources Director, chairs the Community Relations committee which has two other executive Directors and four senior managers as members. The committee meets three times a year to review progress and consider support for new projects.

#### Partnerships

Two new partnerships were launched in 2002 with Age Concern and Changing Faces. Arriva is supporting Age Concern's 'Get Fit for Life' campaign, funding exercise classes in Shropshire. The campaign aims to help older people keep mobile, improve their health and enhance their quality of life by providing opportunities to socialise. Changing Faces is a national charity committed to providing help and support for people who have facial disfigurements as well as working for better healthcare and raising public awareness. Arriva has been supporting intensive workshops for teenagers in London with the aim of helping them face their futures with more confidence. Maria Eagle MP, Minister for Disabled People, launched the partnership in October, at the House of Commons.

Arriva supports the work of the Foundation for Citizenship at Liverpool John Moores University by sponsoring 'Citizenship Awards' for children and young people attending primary and secondary schools in the Knowsley area. The awards recognise the achievements of youngsters. Examples include those who have helped with the care of an ill relative or have overcome a disability and succeeded at school. A special ceremony is held annually at Liverpool Town Hall when Lord David Alton, who chairs the



#### December

Arriva Trains Merseyside became the first train company to complete the installation of a train protection and warning system. Pictured Arriva's Bob Hind (left) with Tim Clark from Network Rail.

## Corporate Social Responsibility continued



Employees from across the UK have voted Macmillan Cancer Relief as the company's Charity of the Year 2003. Arriva's operations in Denmark, Italy, the Netherlands, Portugal, Spain and Sweden operate similar schemes.



### December

Andrew Jordan, aged 10, became the youngest participant in Arriva Trains Northern's innovative 'Adopt a Station' scheme which involves passengers suggesting improvements and identifying issues at the company's stations.

Foundation, presents the awards. Other community partners include the Royal National Institute for the Blind, Community Foundation and Encams, an environmental charity.

#### Involving employees

Every year, Arriva receives many requests for support from charities in the UK. To focus resources more effectively, it was decided to involve employees in selecting a 'Charity of the Year'. Employees receive information on the charities that have contacted the company and then vote for their preference. The 2003 charity is Macmillan Cancer Relief. Macmillan works to improve the quality of life of people living with cancer. It also funds specialist nurses and doctors. The 'Charity of the Year' scheme has been extended to the Group's mainland European operations who select their own charities or projects.

The Community Relations committee recognises the valuable contribution that employees in the UK make to their local communities through voluntary work. Employees are invited to apply for Community Action Awards, and if successful, they receive a certificate and a donation for the organisation they support. For 2002, 43 awards were made, ranging from £50 to £500. The three awards for £500 went to PHAB - which works for people with disabilities, SPACE - a charity supporting children with epilepsy, and Marie Curie Cancer Care. Community Action Awards will be introduced in our mainland European operations during 2003.

#### Business in the Community

The Group is a member of Business in the Community (BitC) and is actively supporting a number of the initiatives promoted by the organisation. For the last three years employees based at the Group's head office

in Sunderland have been involved in a mentoring scheme which provides support for pupils at a local secondary school – Sandhill View. The project has been very worthwhile benefiting the pupils, the school and Arriva's employees. During 2003 similar projects will be developed with employees in other parts of the Group including Arriva North West and Arriva Trains Northern.

A number of senior managers are supporting the BitC scheme 'Partners in Leadership' which links individuals with headteachers to provide an opportunity for the teachers to draw on experience from the business world. BitC has increased its focus on rural issues and the company is supporting initiatives in the North East and Wales. Arriva Trains has donated £20,000 over two years to support the North Yorkshire Market Towns project. The initiative is helping to improve the retention and growth of services and business in market towns across Yorkshire – Pateley Bridge, Thirsk, Bentham, Malton, Norton and Whitby. As well as providing funding Arriva Trains is represented on the project's steering group.

Along with other business leaders, Arriva's Chief Executive, Bob Davies, is a member of BitC's North East Leadership Team, which develops strategy and direction for BitC in the region. He is also a member of BitC's National Rural Steering Group.

#### 'Online Nation'

The Group's UK Bus and Trains divisions are supporting the Government's 'Online Nation' campaign. The campaign's aim is to ensure that by 2005 everyone who wants it has access to the Internet. Currently, some 38 per cent of UK adults have never used the Internet - 17 million people - and the campaign is particularly focused on the elderly, unemployed, disabled, English

speaking ethnic minorities and people on low incomes. Arriva is one of the partners of the Office of the e-Envoy, which is leading the drive to get the UK online. In early March this year Arriva, along with a number of other private, public and voluntary organisations, took part in a seminar at 10 Downing Street to review plans for a major drive, in May and June 2003, to promote the use of the Internet. Other partners include Age Concern, BBC, BT, Dixons Stores Group, the Prince's Trust and Microsoft.

#### Summary

The Board of Arriva has a clear commitment to Corporate Social Responsibility and fully recognises that it is fundamental to the success of the Group.

#### December

The Strategic Rail Authority rated Arriva Trains Merseyside as the best mainland operator for punctuality and reliability.



## Board of Directors

### 1 Gareth Cooper BSc, FCIT

Aged 59. Gareth was appointed to the Board in 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.

### 2 Bob Davies LLB, FCMA

Aged 54. Bob was appointed to the Board as chief executive in 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.

### 3 Steve Lonsdale BA, FCA

Aged 45. 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.

### 4 Michael Allen FRICS

Aged 58. Appointed to the Board as an independent non-executive director in June 1997. Michael sits on the Board's Audit, Nomination, Remuneration and Health & Safety Committees and chairs the Remuneration Committee and the Audit Committee. Michael was formerly deputy chairman of Persimmon plc until his retirement on 31 December 2000. Following John Ward's retirement Michael assumed the role of senior independent director.

### 5 Euan Cameron MSc

Aged 49. Appointed to the Board in 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.

### 6 Steve Clayton BA, FCIT, MiMgt

Aged 49. 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 and the Community Relations Committee.



**7 David Martin BA, FCMA, MiMgt**

Aged 51. 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.

**8 Veronica Palmer OBE**

Aged 62. Veronica was appointed to the Board in 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.

**9 John Ray**

Aged 51. 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. John is a member of the Community Relations Committee.

**10 Mark Saxton BA, MSc**

Aged 50. Appointed 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, chairs the Community Relations Committee and is a member of the Diversity Committee.

**Secretary & Registered Office**

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

**Company registration number**

3471103

**Auditors**

PricewaterhouseCoopers LLP  
89 Sandyford Road  
Newcastle upon Tyne  
NE99 1PL

**Stockbrokers**

Merrill Lynch International  
2 King Edward Street  
London  
EC1A 1HQ

**Solicitors**

Dickinson Dees  
St Ann's Wharf  
112 Quayside  
Newcastle upon Tyne  
NE99 1SB

Pinsent Curtis Biddle  
1 Park Row  
Leeds  
LS1 5AB

**Principal Bankers**

Barclays Bank PLC  
31 Grey Street  
Newcastle upon Tyne  
NE99 1SB

HSBC Bank plc  
10 Lower Thames Street  
London  
EC3R 6AE

**Merchant Bankers**

N M Rothschild  
& Sons Limited  
New Court  
St Swithin's Lane  
London  
EC4P 4DU

**Financial Public Relations**

Gavin Anderson  
& Company  
85 Strand  
London  
WC2R 0DW

**Registrar and Transfer Office**

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



# Directors' Report

The Directors submit their report and the audited accounts of Arriva plc for the year ended 31 December 2002.

## Principal Activities of the Group

The principal activities of the Group at 31 December 2002 comprised:

### Passenger Services

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

### Vehicle Rental

Corporate vehicle rental and personal self-drive hire.

### Bus & Coach

Bus and coach distribution, rental and finance.

### Motor Retailing

The sale, service and repair of motor vehicles and the supply of automotive parts.

## Review of Operations

A review of operations, together with an indication of future prospects, is given in the Operating Review on pages 8 to 13.

## Results and Dividends

The profit for the year before taxation amounted to £80.6 million (2001: £76.0 million). The Directors recommend the payment of a final dividend on the ordinary shares of the Company of 12.8 pence per share (2001: 12.2 pence) which, together with the interim dividend of 4.4 pence (2001: 4.2 pence) represents a total of 17.2 pence per ordinary share (2001: 16.4 pence). The proposed final dividend, if approved, will be payable on 1 May 2003 to shareholders on the Register at the close of business on 4 April 2003.

The total amount proposed to be distributed is £34.6 million (2001: £33.8 million). After payment of these dividends, the retained profit for the year attributable to shareholders of the Company is £43.2 million (2001 restated: £14.5 million).

## Share Capital

The movement in the share capital during the year is detailed in Note 18 to the Accounts.

## Directors

The names of the present Directors appear on pages 26 and 27.

Mr. R.J. Davies, Mr. E.A.R. Cameron, Mr. S.J. Clayton and Mr. D.R. Martin (each having a service contract subject to twelve months' notice) retire by rotation, and, being eligible, offer themselves for re-election.

Mr. J.S. Ward retired from the Board on 26 April 2002.

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 Directors' Remuneration Report on pages 32 to 36.

Ordinary Shares	1/1/02	31/12/02	25/2/03
W.G. Cooper	Nil	Nil	Nil
R.J. Davies	50,000	50,000	50,000
E.A.R. Cameron	10,000	10,000	10,000
S.J. Clayton	10,000	10,000	10,000
S.P. Lonsdale	149,188	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	12,500	12,500	12,500
M.J. Allen	1,158	1,158	1,158
A.V.M. Palmer	Nil	Nil	Nil
J.S. Ward	Nil	N/A	N/A

### Purchase of Own Shares

Pursuant to the authority granted to the Directors at the Annual General Meeting held on 26 April 2002 the Company purchased 5,890,000 ordinary shares (representing 2.87 per cent of the issued ordinary share capital at 1 January 2002) at an average price of 292 pence per share (exclusive of expenses) during the period 14 October 2002 – 30 December 2002. The purchase exercise was undertaken to further optimise the Group's capital structure. The nominal value of the ordinary shares purchased was £294,500.

### Acquisitions and Disposals

On 21 June 2002 Arriva International Limited, a wholly owned subsidiary of the Company acquired a 51% interest in the share capital of Transportes Sul de Tejo S.A. for a consideration of £23.6 million with an option to acquire the remaining 49% by 31 December 2003 at a consideration not exceeding €37.7 million; the consideration was financed in cash out of existing debt facilities.

On 31 July 2002 Arriva International Limited completed the acquisition of the entire issued share capital of SAB Autoservizi S.r.L. (SAB) for a consideration of £37.1 million. The consideration was financed in cash from the Group's existing facilities. Deferred consideration of up to a maximum of €10.0 million will be payable subject to the profitability of SAB in the thirty month period following the date of the acquisition.

On 14 October 2002 the Company announced that it had decided formally to seek expressions of interest in its Motor Retailing operations. On 31 December Arriva Motor Retailing Limited (a wholly owned subsidiary of the Company) completed the sale to Hartwell Automotive Group Limited, a subsidiary of Hartwell plc, of seven Ford dealerships in Chippenham, Halifax, Holmfirth, Huddersfield, Nottingham (2) and Swindon. Together with the disposal of two Renault dealerships in November, approximately £18.5 million had been realised by 31 December 2002. On 31 January 2003 the Jaguar and Land Rover dealerships in Perth and Cupar were sold to Reg Vardy plc and on 4 February 2003 the BMW dealership in Stockton-on-Tees was sold to Malton Motors Limited, a wholly owned subsidiary of European Motor Holdings plc. As at the date of this report a total of £33.4 million has been realised from the disposal of fourteen dealerships.

### Charitable and Political Donations

During the year the Group made charitable donations amounting to £102,280. There were no political donations.

### Special Business

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

#### (i) Special Resolution

##### Disapplication of Pre-emption Rights

This item, set out as Resolution 9 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 26 April 2002, 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.

#### (ii) Extraordinary Resolution

##### Authority to Purchase Own Shares

This item, set out as Resolution 10 in the Notice of Meeting, seeks to renew the authority of the Company to make market purchases of up to of 29,945,533 ordinary shares (15% of the issued ordinary shares at 31 December 2002) 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 on a regular basis.

# Directors' Report continued

## 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 2002 the Company's trade creditors outstanding represented approximately 36 days' purchases (2001: 45 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 25 February 2003 are:

	Per cent
Barclays PLC	3.87
Legal & General	3.25
Prudential plc	3.07

## Corporate Governance

A review of the Company's application of the principles and provisions of The Combined Code appears on pages 32 to 38.

## Health, Safety and Environment

Details of the Company's approach to health, safety and environmental issues appear within the Corporate Social Responsibility Report on pages 20 to 25.

## Auditors

Following the conversion of the Company's auditors PricewaterhouseCoopers to a Limited Liability Partnership ('LLP') from 1 January 2003, PricewaterhouseCoopers resigned on 23 January 2003 and the Directors appointed its successor, PricewaterhouseCoopers LLP, as auditors to fill the casual vacancy. A resolution to re-appoint PricewaterhouseCoopers LLP as auditors to the Company will be proposed at the Annual General Meeting.

By order of the Board  
D.P. TURNER  
Secretary  
6 March 2003

## Statement of Directors' Responsibilities

The following statement, which should be read in conjunction with the auditors' statement of their responsibilities set out on page 39, 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 40 to 62, 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.

# Directors' Remuneration Report

## 1 Introduction

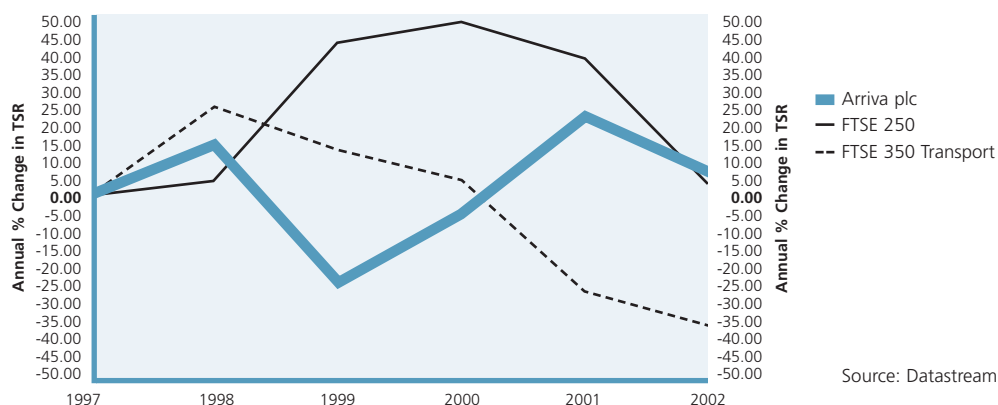
All matters relating to the remuneration of the executive Directors are determined by the Remuneration Committee. Membership of the Committee is restricted to the non-executive Directors and for the year under review comprised Mr. M.J. Allen (Chairman of the Committee), Mr. W.G. Cooper, Mr. J.S. Ward (until 26 April 2002) and Mrs. A.V.M. Palmer. 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.

In assessing the remuneration of the Directors, the Remuneration Committee pays particular attention to the value added to shareholders' interests by the Company when compared with suitable comparator groups.

The graph below charts the performance of the Arriva Total Shareholder Return (share value growth plus re-invested dividends) over the past 5 years compared with that of:

- (a) The FTSE 250; and
- (b) The FTSE 350 Transport Sector

**TSR Return: Arriva plc vs Median FTSE Indices 1998 - 2002**



In assessing the performance of the Company's Total Shareholder Return the Board believes the two comparator groups it has chosen represent a fair benchmark both in terms of the nature of the business activity and size of company.

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

The executive Directors are each paid a salary which is open to annual review in January. The Directors received no increase in their annual salaries at the January 2002 review; in January 2003 the salaries of the executive Directors were increased by 3%. In addition the executive Directors participate in a performance related pay arrangement with payment being made on the attainment of specified targets established by the Remuneration Committee and agreed with the Director. The performance related targets focus on 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 the performance related element of the Directors' remuneration 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 and 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. With effect from 1 January 2003 the fees for the non-executive Directors were increased as follows:

	Increased from	Increased to
W.G. Cooper	£70,000 p.a.	£72,500 p.a.
M.J. Allen	£27,500 p.a.	£28,500 p.a.
A.V.M. Palmer	£27,500 p.a.	£28,500 p.a.

### 1 Introduction (continued)

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 limited to nine years.

Each of the executive Directors has a service contract which is subject to twelve months' notice. With the exception of Mr. S.P. Lonsdale, all the executive Directors have contracts dated 19 November 2001; Mr Lonsdale's contract is dated 5 September 1997. Each of the executive Directors' service contracts contain an explicit provision for compensation payment on termination, except in the case of misconduct. Where a Director's service contract is terminated by the Company, a severance payment will be made comprising the sum of:

- (i) the Director's basic annual salary at the time of notice; and
- (ii) the performance related element estimated to be payable to the Director in respect of the financial year in which notice is served; and
- (iii) an amount representing the value of 'benefits in kind' in the audited accounts of the Company for the financial year immediately preceding the date of termination.

Additionally, the Company will procure a further twelve months' service (or, where appropriate, a further twelve months' Company contribution) to the relevant Director's pension arrangement.

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 are assigned to the Company as in the case of Mr. R.J. Davies' two external appointments with Geest plc and T & S Stores plc ('T & S'), where the non-executive Directors' annual fees of £24,000 and £25,000 respectively are paid directly to the Company on a quarterly basis. Mr. Davies resigned from his directorship of T & S on 6 January 2003 following the acquisition of T & S by Tesco plc.

The remaining sections of the Directors' Remuneration Report have been audited.

### Directors' remuneration – Year ended 31 December 2002

	Emoluments				Total £	Prior Year £
	Fees £	Salary £	Performance Related £	Benefits in Kind £		
W.G. Cooper	70,000	–	–	–	70,000	70,000
R.J. Davies	–	316,725	216,000	21,871	554,596	541,352
E.A.R. Cameron	–	175,000	95,000	10,258	280,258	202,210
S.J. Clayton	–	180,250	90,000	19,812	290,062	267,707
S.P. Lonsdale	–	175,100	105,000	19,699	299,799	276,031
D.R. Martin	–	180,250	90,000	22,261	292,511	282,703
J.A. Ray	–	169,950	95,000	14,506	279,456	277,891
A.M. Saxton	–	164,800	90,000	15,603	270,403	259,819
M.J. Allen	27,500	–	–	–	27,500	27,500
A.V.M. Palmer	27,500	–	–	–	27,500	9,167
J.S. Ward (retired 26 April 2002)	9,167	–	–	–	9,167	27,500
<b>Total</b>	<b>134,167</b>	<b>1,362,075</b>	<b>781,000</b>	<b>124,010</b>	<b>2,401,252</b>	<b>2,241,880</b>

A pension of £5,000 (2001: £5,000) was paid to a former Director.

# Directors' Remuneration Report continued

## 2 Directors' share options

	Options at 1/1/02			During the Year			Options at	Market Value#		Period of exercise	
	Number	Date of grant	Exercise price (p)	Number granted	Exercise price (p)	Number lapsed	Number exercised	31/12/02	As at date of Exercise (p)		As at date of Grant (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
<b>Total</b>	<b>320,855</b>			<b>Nil</b>	<b>–</b>	<b>Nil</b>	<b>Nil</b>	<b>320,855</b>			
E.A.R. Cameron	<b>Nil</b>	–	–	<b>Nil</b>	–	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>	–	–	N/A
S.J. Clayton	10,000†	15/04/97	398.50					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
<b>Total</b>	<b>195,489</b>			<b>Nil</b>	<b>–</b>	<b>Nil</b>	<b>Nil</b>	<b>195,489</b>			
S.P. Lonsdale	60,000†	15/04/97	398.50					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
<b>Total</b>	<b>123,603</b>			<b>Nil</b>	<b>–</b>	<b>Nil</b>	<b>Nil</b>	<b>123,603</b>			
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
<b>Total</b>	<b>205,497</b>			<b>Nil</b>	<b>–</b>	<b>Nil</b>	<b>Nil</b>	<b>205,497</b>			
J.A. Ray	50,000†	15/04/97	398.50					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
<b>Total</b>	<b>175,497</b>			<b>Nil</b>	<b>–</b>	<b>Nil</b>	<b>Nil</b>	<b>175,497</b>			
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
<b>Total</b>	<b>100,000</b>			<b>Nil</b>	<b>–</b>	<b>Nil</b>	<b>Nil</b>	<b>100,000</b>			

No Director was required to pay for the award of any share option.

\* Executive Share Option Scheme

† Share Incentive Scheme

§ Savings Related Share Option Scheme

# The closing mid market price of the ordinary share on 31 December 2002 was 273.5p

The highest price achieved by the Arriva plc ordinary share in the year ended 31 December 2002 was 390p; the lowest price of the Arriva plc ordinary share in the same period was 262.5p.

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% over the three year period.

Following the introduction of The Long Term Incentive Plan, the Directors are no longer eligible to participate in future option grants under the Company's executive share option schemes.

### 3 Directors' pensions and related benefits

	R.J. Davies	E.A.R. Cameron	S.J. Clayton	S.P. Lonsdale	D.R. Martin	J.A. Ray	A.M. Saxton
<i>Scheme*</i>	<b>4</b>	<b>1</b>	<b>4</b>	<b>3</b>	<b>1</b>	<b>2</b>	<b>4</b>
Normal retirement age	65	65	65	65	65	65	65
Director's contribution	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Increase in accrued pension during the year (allowing for indexation) (£ pa)	–	1,622	–	7,955	6,426	9,120	–
Gross increase in accrued pension (£ pa)	–	1,647	–	8,475	7,582	11,090	–
Accrued pension at 31/12/2002 (£ pa)	–	3,105	–	39,043	75,576	85,434	–
Value of net increase in accrual over period (£)	–	11,056	–	53,479	36,338	55,895	–
Value of accrued pension at 31/12/2001 (£)	–	9,793	–	202,211	390,303	476,915	–
Value of accrued pension at 31/12/2002 (£)	–	21,162	–	263,490	430,034	545,800	–
Total change in accrued value during period (£)	–	11,369	–	61,279	39,731	68,885	–
Company contribution to FURBS and/or personal pension during the year (£)	153,444	–	38,500	–	–	–	3,600
Premium for additional life cover paid in the year (£)	3,171	–	2,128	–	–	–	–

\* **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

Subject to Inland Revenue limits, Mr. S.J. Clayton, Mr. S.P. Lonsdale, 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 their respective FURBS is equivalent to 1/30th of basic annual salary for each year of service.

### 4 The Arriva plc Long Term Incentive Plan 2000 ('The LTIP')

The interests of the Directors in conditional share awards made under The LTIP are as follows:

Name	Number of conditionally awarded ordinary shares						
	Date of Award 2 May 2000	9 March 2001	Interest as at 1 January 2002	Awarded 30 October 2002	Interest as at 31 December 2002	Awarded 6 March 2003	Interest as at 6 March 2003
R.J. Davies	169,002	116,208	<b>285,210</b>	105,311	<b>390,521</b>	115,283	<b>505,804</b>
E.A.R. Cameron	N/A	64,208	<b>64,208</b>	58,187	<b>122,395</b>	63,693	<b>186,088</b>
S.J. Clayton	96,180	66,134	<b>162,314</b>	59,933	<b>222,247</b>	65,636	<b>287,883</b>
S.P. Lonsdale	93,432	64,245	<b>157,677</b>	58,221	<b>215,898</b>	63,781	<b>279,679</b>
D.R. Martin	96,180	66,134	<b>162,314</b>	59,933	<b>222,247</b>	65,636	<b>287,883</b>
J.A. Ray	90,684	62,355	<b>153,039</b>	Nil	<b>153,039</b>	61,837	<b>214,876</b>
A.M. Saxton	87,936	60,465	<b>148,401</b>	54,796	<b>203,197</b>	60,071	<b>263,268</b>

The performance measurement periods in respect of the conditional share awards are as follows:

Award Date	Performance Measurement Period
2 May 2000	Three years ended 31 December 2002
9 March 2001	Three years ending 31 December 2003
30 October 2002	Three years ending 31 December 2004
6 March 2003	Three years ending 31 December 2005

# Directors' Remuneration Report continued

## 4 The Arriva plc Long Term Incentive Plan 2000 ('The LTIP') (continued)

The market value of the ordinary shares on the dates of the conditional share awards was as follows:

2 May 2000:	190p
9 March 2001:	294.75p
30 October 2002:	305.25p
6 March 2003:	302p

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 also 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. The Remuneration Committee believes the FTSE 250 to be an appropriate and challenging target which closely aligns the interests of The LTIP participants with those of the shareholders.

With regard to the two performance conditions governing the award made on 2 May 2000, the earnings per share of the Company over the three year period increased by 25.5 per cent and the Retail Price Index over the same period increased by 6.69 per cent. The Company's Total Shareholder Return over the same period achieved upper quartile performance (37 per cent) when compared with the Peer Comparator Group.

	Maximum	Minimum
1st Quartile	207%	20%
2nd Quartile	19%	-33%
3rd Quartile	-34%	-64%
4th Quartile	-65%	-100%

Source: Datastream

As a consequence, the Remuneration Committee confirmed on 6 March 2003 the vesting of the whole of the conditional share awards made on 2 May 2000; the market price of the Arriva plc ordinary share on the date of vesting was 302p. It is an objective of the Remuneration Committee that the Directors will utilise awards under The LTIP to build up an interest in the share capital of the Company which is broadly equivalent to one year's base annual salary from time to time.

The Remuneration Committee has considered the impact that the short-term volatility in pension costs, caused by changes in bond yields and equity market fluctuations, has on the Group's reported financial performance and the consequent impact on the performance measures underlying the Group's long-term management incentive schemes. Without amendment of the performance measures that are related to earnings per share growth, the Committee believes that attainment of long-term performance targets might prove too easily achievable in some circumstances and almost impossible in others. This is contrary to the fundamental objective of the Long Term Incentive Plan which is to motivate and reward management to achieve objectives that support the pursuit of shareholder value. The Committee has therefore determined that the calculation of earnings per share growth for all conditional awards, made after January 2003, will exclude the impact on the annual pension charge of gains or losses arising from movements in the equity and bond markets. In making this assessment the Remuneration Committee received advice from Mercer Human Resource Consulting Limited. The adjustment required will be subject to external audit.

## 5 Remuneration Report Approval

An ordinary resolution to consider, and if thought fit approve this Remuneration Report, will be proposed at the Annual General Meeting.

For and on behalf of the Board

M.J. ALLEN  
Chairman, Remuneration Committee  
6 March 2003

# Corporate Governance

Your Board continues its commitment 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 in their Annual Reports their application of the principles and provisions of The Combined Code.

Following the retirement of Mr. J.S. Ward on 26 April 2002 the Board has not maintained non-executive representation of one third for the whole of the period under review.

## 1 The Board

The Board, which currently comprises seven executive and three 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 and 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.

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

The Audit Committee meets three times a year to review reports from both the external auditors, PricewaterhouseCoopers LLP, and the Group Internal Auditor and to review the external audit plan. The Remuneration Committee will normally meet twice a year and reviews 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. M.J. Allen.

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 following their appointment.

With reference to Provision A.2.1 of The Combined Code, Mr. M.J. Allen is the senior independent Director.

## 2 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.

# Corporate Governance continued

## 3 Accountability and Audit

Companies are required to report to shareholders that they have conducted an annual review of the effectiveness of the system of internal control. The review 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 independent appraisals leading to reports detailing findings, implications and recommendations. 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 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 internal audit function
- Regular review of the process and continual assessment of the changing nature of the risks presenting themselves to 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.

## 4 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.

# 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 equity 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. We have also audited the disclosures required by Part 3 of Schedule 7A to the Companies Act 1985 contained in the Directors' Remuneration Report ('the auditable part').

## 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. The Directors are also responsible for preparing the Directors' Remuneration Report.

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

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the auditable part of the Directors' Remuneration Report have been 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 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, the Directors' Report and the unaudited part of the Directors' Remuneration 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 of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or 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 and the auditable part of the Directors' Remuneration Report. 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 and the auditable part of the Directors' Remuneration Report 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 the Group at 31 December 2002 and of the profit and cash flows of the Group for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- those parts of the Directors' Remuneration Report required by Part 3 of Schedule 7A to the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.

## PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors  
Newcastle upon Tyne  
6 March 2003

# Group Profit and Loss Account

for the year ended 31 December 2002

	notes	2002 £m	2002 £m	2001 restated £m	2001 restated £m
<b>Turnover</b>					
Continuing operations		2,041.4		1,998.4	
Acquisitions		43.0		–	
Cost of sales	1 2		2,084.4 (1,813.0)		1,998.4 (1,735.9)
			271.4		262.5
<b>Gross profit</b>					
Net operating expenses before exceptional items		(162.6)		(159.1)	
Exceptional items charged to net operating expenses		–		(7.0)	
Total net operating expenses	2		(162.6)		(166.1)
			108.8		96.4
<b>Operating profit</b>					
Continuing operations		104.7		96.4	
Acquisitions		4.1		–	
			108.8		96.4
<b>Exceptional items</b>					
Deficit on sale of discontinuing operations		(2.7)		–	
Goodwill previously written off to reserves in discontinuing operations		(13.7)		–	
Loss on sale of discontinuing operations		(16.4)		–	
Profit on sale of discontinued operations		2.5		–	
Profit on the disposal of properties in continuing operations		2.8		0.4	
Amounts written off investments in continuing operations		–		(0.8)	
			(11.1)		(0.4)
			97.7		96.0
<b>Profit on ordinary activities before interest</b>					
Interest payable and similar charges	1		(17.1)		(20.0)
			80.6		76.0
<b>Profit on ordinary activities before taxation</b>					
Tax on profit on ordinary activities	4		(1.6)		(27.7)
			79.0		48.3
<b>Profit on ordinary activities after taxation</b>					
Minority interests			(1.2)		–
			77.8		48.3
<b>Profit for the financial year</b>					
Dividends paid and proposed	6		(34.6)		(33.8)
			43.2		14.5
<b>Transfer to reserves</b>					
			38.0p		23.1p
<b>Basic earnings per share</b>					
			37.5p		22.8p
<b>Diluted earnings per share</b>					
			36.8p		30.0p
<b>Basic earnings per share excluding exceptional items and goodwill amortisation</b>					

# Balance Sheets

at 31 December 2002

	notes	The Group		The Company	
		2002 £m	2001 restated £m	2002 £m	2001 restated £m
<b>Fixed assets</b>					
Goodwill	9	198.3	152.0	–	–
Tangible assets	10	736.7	691.3	11.5	11.7
Investments	11	5.7	3.2	549.2	553.1
		<b>940.7</b>	846.5	<b>560.7</b>	564.8
<b>Current assets</b>					
Stocks	12	57.3	62.0	–	–
Debtors	13	247.8	237.7	45.7	25.6
Cash at bank and in hand		65.9	15.9	254.4	219.7
		<b>371.0</b>	315.6	<b>300.1</b>	245.3
<b>Creditors</b>					
Amounts falling due within one year	14	(495.0)	(377.4)	(51.3)	(45.2)
		<b>(124.0)</b>	(61.8)	<b>248.8</b>	200.1
<b>Net current (liabilities) / assets</b>					
		<b>816.7</b>	784.7	<b>809.5</b>	764.9
<b>Total assets less current liabilities</b>					
<b>Creditors</b>					
Amounts falling due after more than one year	14	(288.9)	(300.2)	(452.3)	(389.8)
<b>Provisions for liabilities and charges</b>					
	16	(69.4)	(61.3)	(3.1)	(3.7)
		<b>458.4</b>	423.2	<b>354.1</b>	371.4
<b>Represented by:</b>					
<b>Capital and reserves</b>					
Called up equity share capital	18	10.0	10.3	10.0	10.3
Capital redemption reserve fund	19	1.4	1.1	1.4	1.1
Share premium account	19	5.6	5.4	5.6	5.4
Special reserve	19	59.1	59.1	59.1	59.1
Revaluation reserve	19	8.9	12.4	–	–
Profit and loss account	19	379.6	334.9	278.0	295.5
		<b>464.6</b>	423.2	<b>354.1</b>	371.4
<b>Equity shareholders' funds</b>					
Equity minority interests		(6.2)	–	–	–
		<b>458.4</b>	423.2	<b>354.1</b>	371.4

R J Davies | Directors  
S P Lonsdale

Approved by the Board on 5 March 2003.

# Group Cash Flow Statement

for the year ended 31 December 2002

	notes	2002 £m	2002 £m	2001 £m	2001 £m
<b>Net cash inflow from operating activities</b>	20		<b>224.1</b>		228.1
<b>Returns on investments and servicing of finance</b>					
Interest and finance charges paid		<b>(17.1)</b>		(20.0)	
Dividends received		–		0.3	
			<b>(17.1)</b>		(19.7)
<b>Taxation</b>					
Corporation tax received / (paid)			<b>10.2</b>		(12.4)
<b>Capital expenditure and financial investment</b>					
Disposal of short-term rental vehicles		<b>40.7</b>		45.9	
Disposal of other fixed assets		<b>14.7</b>		18.4	
Purchase of short-term rental vehicles		<b>(76.4)</b>		(67.5)	
Purchase of other fixed assets		<b>(74.1)</b>		(101.1)	
Sale of fixed asset investments		<b>3.2</b>		–	
			<b>(91.9)</b>		(104.3)
<b>Acquisitions and disposals</b>					
Acquisitions of businesses	21	<b>(68.8)</b>		(7.5)	
Cash received on acquisitions	21	<b>6.9</b>		1.1	
Disposals of businesses (net of costs)	21	<b>20.1</b>		–	
			<b>(41.8)</b>		(6.4)
<b>Equity dividends paid</b>			<b>(34.1)</b>		(33.3)
<b>Cash inflow before use of liquid resources and financing</b>			<b>49.4</b>		52.0
<b>Financing</b>					
Issue of ordinary share capital	18	<b>0.2</b>		1.2	
Loans due within one year	20	<b>0.8</b>		(0.9)	
Loans due after one year	20	<b>6.0</b>		(29.6)	
Finance lease obligations	20	<b>(6.8)</b>		2.9	
Purchase of own shares	18	<b>(17.4)</b>		(20.6)	
			<b>(17.2)</b>		(47.0)
<b>Increase in cash for the year</b>	20		<b>32.2</b>		5.0

## Reconciliation of Movements in Equity Shareholders' Funds

for the year ended 31 December 2002

	2002 £m	2001 restated £m
Profit for the financial year	77.8	48.3
Dividends paid and proposed	(34.6)	(33.8)
	43.2	14.5
New share capital subscribed (net of expenses)	0.2	1.2
Purchase of own shares	(17.4)	(20.6)
Goodwill previously written off to reserves in discontinuing operations	13.7	–
Currency translation differences on foreign currency net investments	1.7	(0.8)
<b>Net addition to / (reduction in) equity shareholders' funds</b>	<b>41.4</b>	<b>(5.7)</b>
Opening equity shareholders' funds	423.2	428.9
<b>Closing equity shareholders' funds</b>	<b>464.6</b>	<b>423.2</b>

## Statement of Total Recognised Gains and Losses

for the year ended 31 December 2002

	2002 £m	2001 restated £m
Profit for the financial year	77.8	48.3
Currency translation differences on foreign currency net investments	1.7	(0.8)
<b>Total gains relating to the year</b>	<b>79.5</b>	<b>47.5</b>
Prior year adjustment	(51.3)	
<b>Total recognised gains since last annual report</b>	<b>28.2</b>	

## Note of Historical Cost Profits and Losses

for the year ended 31 December 2002

	2002 £m	2001 restated £m
Profit on ordinary activities before taxation	80.6	76.0
Difference between historical cost and revalued amount on properties sold during the year	3.4	–
Difference between historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	0.1	0.1
<b>Historical cost profit on ordinary activities before taxation</b>	<b>84.1</b>	<b>76.1</b>
<b>Historical cost profit for the year retained after taxation, minority interests and dividends</b>	<b>46.7</b>	<b>14.6</b>

# 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 2002 (or date of acquisition) to 31 December 2002 (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

FRS 19 'Deferred Tax' has now been adopted. Previously, provision was made for deferred tax to the extent that there was a reasonable probability that the tax deferral would crystallise in the foreseeable future. The new policy is to provide for deferred tax on all timing differences except those arising from the revaluation of fixed assets for which there is no binding agreement to sell or on the undistributed profits of overseas subsidiaries. Deferred tax is calculated at the rates at which it is estimated the tax will arise. The deferred tax provision is not discounted to net present value.

## (g) 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.

## (h) 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.

## (i) 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 in the schemes. 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.

## (j) 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 2002				Year ended 31 December 2001			
	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:								
<b>Passenger Services</b>								
UK Bus	559.8	–	559.8	65.4	548.6	–	548.6	68.4
UK Trains	419.0	–	419.0	14.9	425.5	–	425.5	11.5
International (i)	303.5	–	303.5	19.0	256.0	–	256.0	12.8
<b>Total Passenger Services</b>	<b>1,282.3</b>	<b>–</b>	<b>1,282.3</b>	<b>99.3</b>	1,230.1	–	1,230.1	92.7
Vehicle Rental	87.6	(4.5)	83.1	11.6	86.1	(0.6)	85.5	10.5
Bus & Coach	34.6	(11.5)	23.1	3.5	37.5	(12.3)	25.2	3.6
Head Office & Miscellaneous				(5.9)				(6.0)
<b>Continuing operations* (ii)</b>	<b>1,404.5</b>	<b>(16.0)</b>	<b>1,388.5</b>	<b>108.5</b>	1,353.7	(12.9)	1,340.8	100.8
<b>Discontinuing operations</b>	<b>730.3</b>	<b>(34.4)</b>	<b>695.9</b>	<b>10.7</b>	691.6	(34.0)	657.6	11.2
<b>Total operations*</b>	<b>2,134.8</b>	<b>(50.4)</b>	<b>2,084.4</b>	<b>119.2</b>	2,045.3	(46.9)	1,998.4	112.0
Interest payable and similar charges				(17.1)				(20.0)
Profit on ordinary activities before taxation*				102.1				92.0
Goodwill amortisation (iii)				(10.4)				(8.6)
Exceptional items charged to net operating expenses				–				(7.0)
Deficit on sale of discontinuing operations				(2.7)				–
Goodwill previously written off to reserves in discontinuing operations				(13.7)				–
Profit on sale of discontinued operations				2.5				–
Profit on the disposal of properties in continuing operations				2.8				0.4
Amounts written off investments in continuing operations				–				(0.8)
Profit on ordinary activities before taxation				80.6				76.0

\* excluding goodwill amortisation and exceptional items

(i) During the year ended 31 December 2002, there is £43.0 million of turnover and £5.5 million of operating profit, before goodwill amortisation and exceptional items, relating to the acquisitions made by the International Division during the year.

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

(iii) Goodwill amortisation of £9.4 million arises in the Passenger Services Division (2001: £7.6 million), £0.3 million within the Vehicle Rental Division (2001: £0.3 million) and £0.7 million within the Bus & Coach Division (2001: £0.7 million).

# Notes to the Accounts continued

## 1 Segmental report (continued)

	2002 £m	2001 £m
(b) Interest payable and similar charges:		
Cost of funding for finance and rental activities:		
Vehicle Rental	4.2	4.6
Bus & Coach	1.1	1.5
Other continuing operations	11.0	11.9
Discontinuing operations	0.8	2.0
	<b>17.1</b>	<b>20.0</b>
Analysed as:		
Finance lease charges	3.5	3.0
Interest payable on bank and other borrowings repayable within five years	10.1	13.7
Interest payable on bank and other borrowings repayable after five years	3.5	3.3
	<b>17.1</b>	<b>20.0</b>

Interest payable has been reduced in the year by £2.0 million representing prior period interest on the over provision for current taxation (note 4).

	2002 £m	2001 restated £m
(c) Segmental net assets:		
Passenger Services		
UK Bus	379.1	389.4
UK Trains	(51.5)	(19.7)
International	267.8	172.0
Total Passenger Services	<b>595.4</b>	<b>541.7</b>
Vehicle Rental	96.0	77.8
Bus & Coach	19.0	20.7
Other	2.8	12.6
Discontinuing operations	55.3	86.2
Total capital employed	<b>768.5</b>	<b>739.0</b>
Total net borrowings	<b>(310.1)</b>	<b>(315.8)</b>
Total net assets	<b>458.4</b>	<b>423.2</b>

The capital employed figures for 2001 have been restated to take into account the impact of FRS 19 'Deferred Taxation'.

## 2 Profit on ordinary activities before taxation

	Continuing £m	Acquisitions £m	Total 2002 £m	Total 2001 £m
(a) Cost of sales	<b>1,781.6</b>	<b>31.4</b>	<b>1,813.0</b>	<b>1,735.9</b>

	Continuing £m	Acquisitions £m	Total 2002 £m	Total 2001 £m
(b) Net operating expenses:				
Distribution costs	4.7	–	4.7	4.2
Administrative costs	150.4	7.5	157.9	161.9
	<b>155.1</b>	<b>7.5</b>	<b>162.6</b>	<b>166.1</b>

	2002 £m	2001 £m
(c) Profit on ordinary activities before taxation is stated after charging / (crediting):		
Auditors' remuneration – audit of Group (including audit of Company £0.1 million)	0.5	0.5
– non audit	0.3	0.2
Depreciation	89.9	84.9
Amortisation of goodwill	10.4	8.6
Income from listed investments	–	(0.3)
Operating lease rentals – land and buildings	26.4	25.5
Operating lease rentals – other	<b>177.7</b>	<b>186.8</b>

### 3 Employee information

(a) Average number of employees by business:

	<b>2002</b>	2001
	<b>Number</b>	Number
Passenger Services		
UK Bus	<b>16,747</b>	17,117
UK Trains	<b>3,972</b>	3,635
International	<b>7,833</b>	7,653
Total Passenger Services	<b>28,552</b>	28,405
Vehicle Rental	<b>534</b>	517
Bus & Coach	<b>55</b>	56
Head Office	<b>169</b>	186
Total continuing operations	<b>29,310</b>	29,164
Discontinuing operations	<b>1,958</b>	2,089
Total	<b>31,268</b>	31,253

(b) Staff costs:

	<b>2002</b>	2001
	<b>£m</b>	£m
Wages and salaries	<b>590.7</b>	547.2
Social security costs	<b>52.9</b>	46.2
Other pension costs	<b>19.5</b>	19.9
	<b>663.1</b>	613.3

### 4 Tax on profit on ordinary activities

Tax on profit on ordinary activities comprises the following:

United Kingdom:

Corporation tax at 30% (2001: 30%)

Recovery of corporation tax on prior period disposal

Overseas taxation:

Corporation taxes

Total current tax

Deferred taxation:

Origination and reversal of timing differences – United Kingdom

Tax on profit on ordinary activities

Tax on recognised gains and losses not included in the profit and loss account:

UK Corporation tax at 30% (2001: 30%):

Current tax credit / (charge) on exchange movements offset in reserves

	<b>2002</b>	2001
	<b>£m</b>	restated £m
	<b>14.0</b>	19.1
	<b>(24.0)</b>	–
	<b>(10.0)</b>	19.1
	<b>3.3</b>	(0.9)
	<b>(6.7)</b>	18.2
	<b>8.3</b>	9.5
	<b>1.6</b>	27.7
	<b>2.1</b>	(0.4)

# Notes to the Accounts continued

## 4 Tax on profit on ordinary activities (continued)

The current tax charge for the year is lower (2001: lower) than the standard rate of corporation tax in the UK of 30% (2001: 30%).

The differences are explained below:

	<b>2002</b> <b>£m</b>	2001 restated £m
Profit on ordinary activities before taxation	<b>80.6</b>	76.0
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30%	<b>24.2</b>	22.8
Effects of:		
Adjustments to tax in respect of prior periods	<b>(30.2)</b>	–
Adjustment in respect of foreign taxes	<b>(1.3)</b>	0.6
Goodwill previously written off to reserves	<b>4.1</b>	–
Goodwill amortisation	<b>3.2</b>	2.6
Expenses not deductible for tax purposes	<b>1.6</b>	1.7
Capital allowances in excess of depreciation	<b>(6.0)</b>	(9.5)
Other short-term timing differences	<b>(2.3)</b>	–
	<b>(6.7)</b>	18.2

## 5 Directors' remuneration

Details of the Directors' remuneration are given on pages 32 to 36 in the Directors' Remuneration Report.

## 6 Dividends paid and proposed on equity shares

	<b>2002</b> <b>£m</b>	2001 £m
Interim dividend paid of 4.4 pence per share (2001: 4.2 pence)	<b>9.1</b>	8.8
Final dividend proposed of 12.8 pence per share (2001: 12.2 pence)	<b>25.5</b>	25.0
	<b>34.6</b>	33.8

## 7 Lease rentals

	<b>2002</b> <b>£m</b>	2001 restated £m
Rentals receivable under operating leases	<b>52.6</b>	51.4
Rentals receivable under finance leases	<b>1.6</b>	4.2

## 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 £34.5 million (2001 restated: £30.6 million).

## 9 Goodwill

	The Group £m
Cost	
At 1 January 2002	172.9
Additions	53.5
Currency translation adjustments	3.5
<b>At 31 December 2002</b>	<b>229.9</b>
Amortisation	
At 1 January 2002	20.9
Amortisation for the year	10.4
Currency translation adjustments	0.3
<b>At 31 December 2002</b>	<b>31.6</b>
Net book amount	
<b>At 31 December 2002</b>	<b>198.3</b>
At 1 January 2002	152.0

## 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 2002	190.5	97.7	750.4	136.3	1,174.9
Acquisitions	18.3	7.5	26.8	–	52.6
Additions	6.0	14.8	53.3	76.4	150.5
Disposals	(16.5)	(9.8)	(50.5)	(66.0)	(142.8)
Currency translation adjustments	3.2	1.8	15.5	–	20.5
<b>At 31 December 2002</b>	<b>201.5</b>	<b>112.0</b>	<b>795.5</b>	<b>146.7</b>	<b>1,255.7</b>
Comprising:					
Cost	127.9	112.0	795.5	146.7	1,182.1
Valuation 1997	73.6	–	–	–	73.6
	<b>201.5</b>	<b>112.0</b>	<b>795.5</b>	<b>146.7</b>	<b>1,255.7</b>
Accumulated depreciation					
At 1 January 2002	20.9	70.6	350.8	41.3	483.6
Acquisitions	6.8	4.6	1.6	–	13.0
Amounts provided	3.5	9.2	50.6	26.6	89.9
Disposals	(1.3)	(6.3)	(44.6)	(25.3)	(77.5)
Currency translation adjustments	1.1	1.2	7.7	–	10.0
<b>At 31 December 2002</b>	<b>31.0</b>	<b>79.3</b>	<b>366.1</b>	<b>42.6</b>	<b>519.0</b>
Net book amounts					
<b>At 31 December 2002</b>	<b>170.5</b>	<b>32.7</b>	<b>429.4</b>	<b>104.1</b>	<b>736.7</b>
At 1 January 2002	169.6	27.1	399.6	95.0	691.3

## Notes to the Accounts continued

### 10 Tangible fixed assets (continued)

The net book amount of assets held under hire purchase and finance lease contracts included in plant, company vehicles, buses and coaches is £264.7 million (2001: £268.7 million). The depreciation provided in the year in respect of these assets was £26.7 million (2001: £27.1 million).

The gross cost of assets held for the purpose of letting under operating leases amounts to £146.7 million (2001: £136.3 million). The accumulated depreciation on these assets was £42.6 million (2001: £41.3 million).

	2002 £m	2001 £m
Net book amount of land and buildings comprises:		
Freehold	160.5	160.9
Long leasehold	4.9	4.0
Short leasehold	5.1	4.7
	<b>170.5</b>	<b>169.6</b>

On an historical cost basis land and buildings would have been included at cost of £192.2 million (2001: £177.8 million) and accumulated depreciation of £30.6 million (2001: £20.6 million).

	Land & buildings £m	Plant, company vehicles, fixtures & fittings £m	Total £m
(b) The Company			
Cost or valuation			
At 1 January 2002	10.7	4.2	14.9
Additions	0.1	0.9	1.0
Disposals	–	(0.6)	(0.6)
<b>At 31 December 2002</b>	<b>10.8</b>	<b>4.5</b>	<b>15.3</b>
Comprising:			
Cost	8.4	4.5	12.9
Valuation 1997	2.4	–	2.4
	<b>10.8</b>	<b>4.5</b>	<b>15.3</b>
Accumulated depreciation			
At 1 January 2002	0.7	2.5	3.2
Amounts provided	0.2	0.7	0.9
Disposals	–	(0.3)	(0.3)
<b>At 31 December 2002</b>	<b>0.9</b>	<b>2.9</b>	<b>3.8</b>
Net book amounts			
<b>At 31 December 2002</b>	<b>9.9</b>	<b>1.6</b>	<b>11.5</b>
At 1 January 2002	10.0	1.7	11.7

The net book amount of assets held under finance leases included in plant, company vehicles, fixtures and fittings is £nil (2001: £0.1 million). The depreciation provided in the year in respect of these assets was £0.1 million (2001: £0.3 million).

	2002 £m	2001 £m
Net book amount of land and buildings comprises:		
Freehold	9.8	9.9
Short leasehold	0.1	0.1
	<b>9.9</b>	<b>10.0</b>

### 10 Tangible fixed assets (continued)

On an historical cost basis land and buildings would have been included at cost of £10.8 million (2001: £10.7 million) and accumulated depreciation of £0.9 million (2001: £0.7 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

	Unquoted investments £m	Quoted investments £m	Total £m
(a) The Group			
At 1 January 2002	–	3.2	3.2
Acquisitions	5.7	–	5.7
Disposals	–	(3.2)	(3.2)
<b>At 31 December 2002</b>	<b>5.7</b>	<b>–</b>	<b>5.7</b>

	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 2002	563.8	(13.9)	549.9	3.2	553.1
Amounts written off	–	(0.8)	(0.8)	–	(0.8)
Disposals	–	–	–	(3.2)	(3.2)
Intra-group transfers	0.1	–	0.1	–	0.1
<b>At 31 December 2002</b>	<b>563.9</b>	<b>(14.7)</b>	<b>549.2</b>	<b>–</b>	<b>549.2</b>

Particulars of fixed asset investments are shown in note 22.

### 12 Stocks

	The Group 2002 £m	2001 £m
Raw materials, consumables and work in progress	15.6	12.6
Finished goods, goods for resale and deposits with motor manufacturers	41.7	49.4
	<b>57.3</b>	<b>62.0</b>

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 £2.1 million (2001: £3.9 million) of consignment stock in finished goods and a corresponding amount in trade creditors.

# Notes to the Accounts continued

## 13 Debtors

	The Group		The Company	
	2002 £m	2001 £m	2002 £m	2001 £m
Amounts falling due within one year:				
Trade debtors	<b>91.2</b>	88.3	<b>0.1</b>	0.3
Prepayments and accrued income	<b>31.4</b>	39.4	<b>4.4</b>	4.9
Other debtors	<b>52.8</b>	26.2	<b>23.7</b>	3.6
Instalment credit agreements	<b>3.6</b>	7.5	–	–
Finance lease receivables	<b>1.7</b>	4.2	–	–
	<b>180.7</b>	165.6	<b>28.2</b>	8.8
Amounts falling due after more than one year:				
Prepayments and accrued income	<b>61.4</b>	59.0	<b>17.5</b>	16.8
Other debtors	<b>0.8</b>	0.4	–	–
Instalment credit agreements	<b>4.5</b>	10.1	–	–
Finance lease receivables	<b>0.4</b>	2.6	–	–
	<b>247.8</b>	237.7	<b>45.7</b>	25.6

## 14 Creditors

	The Group		The Company	
	2002 £m	2001 £m	2002 £m	2001 £m
Amounts falling due within one year:				
Short-term loans	<b>62.6</b>	50.1	<b>0.6</b>	2.7
Bank overdrafts	<b>43.4</b>	25.6	–	–
Obligations under finance leases	<b>15.9</b>	13.7	–	–
Payments received on account	<b>1.1</b>	1.2	–	–
Trade creditors	<b>101.5</b>	76.9	<b>0.4</b>	0.6
Creditors for taxation and social security	<b>45.1</b>	41.3	<b>4.3</b>	1.5
Other creditors	<b>68.1</b>	50.1	<b>4.6</b>	3.4
Accruals and deferred income	<b>131.8</b>	93.5	<b>15.9</b>	12.0
Proposed dividend	<b>25.5</b>	25.0	<b>25.5</b>	25.0
	<b>495.0</b>	377.4	<b>51.3</b>	45.2
Amounts falling due after more than one year:				
Other loans	<b>204.0</b>	196.4	<b>104.0</b>	104.0
Obligations under finance leases	<b>50.1</b>	45.9	–	–
Amounts due to group companies	–	–	<b>340.0</b>	276.6
Accruals and deferred income	<b>34.8</b>	57.9	<b>8.3</b>	9.2
	<b>288.9</b>	300.2	<b>452.3</b>	389.8

	The Group		The Company	
	2002 £m	2001 £m	2002 £m	2001 £m
Loan capital and other borrowings repayment statement:				
Within 1 year or on demand	<b>121.9</b>	89.4	<b>0.6</b>	2.7
Between 1 and 2 years	<b>53.9</b>	49.0	–	–
Between 2 and 5 years	<b>140.2</b>	134.5	<b>57.0</b>	57.0
Over 5 years	<b>60.0</b>	58.8	<b>47.0</b>	47.0
	<b>376.0</b>	331.7	<b>104.6</b>	106.7

#### 14 Creditors (continued)

The total of the loans, any part of which fall due for repayment after 5 years, is £149.4 million (2001: £133.4 million). £104 million (2001: £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. £23.0 million (2001: £1.6 million) represents bank loans in overseas bus operations, with varying repayment dates and interest rates. The remaining £22.4 million (2001: £27.8 million) represents fixed interest finance lease funding of the International bus fleet, with varying repayment dates and at interest rates ranging between 3.2 per cent and 6.4 per cent.

#### Security and guarantees

Borrowings amounting to £175.8 million (2001: £175.7 million), principally relating to the bus fleet, are secured by charges over the related assets. The Group has performance bonds of £10 million (2001: £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 Group has also provided £12 million of bonds in respect of its Danish rail operations.

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 2002 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	252.3	22.4	229.9	6.5	3.1
Euro	65.1	21.6	43.5	4.9	4.4
Danish Krone	41.2	23.9	17.3	4.3	7.0
Swedish Krone	10.6	–	10.6	5.1	2.3
Currency swaps:					
Euro liability	133.2	–	133.2	4.0	1.8
Danish Krone liability	36.0	–	36.0	3.7	1.8
Sterling asset	(162.4)	–	(162.4)	4.8	1.8
<b>All currencies</b>	<b>376.0</b>	<b>67.9</b>	<b>308.1</b>	<b>5.6</b>	<b>3.4</b>

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.

Floating rate financial liabilities bear interest at rates, based on the relevant national LIBOR equivalents, which are fixed in advance for periods of between 1 month and 6 months.

The Group had short-term cash deposits of £65.9 million, of which £42.8 million was in Sterling, £17.1 million in Euros and £6.0 million in Danish Krone, which earn interest at rates based on the relevant national LIBID equivalents.

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

## 14 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 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
<b>All currencies</b>	<b>331.7</b>	<b>46.0</b>	<b>285.7</b>	<b>5.7</b>	<b>4.1</b>

At 31 December 2001 the floating rate financial liabilities comprised 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.

At 31 December 2001 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 Peseta, which earned 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'.

At 31 December 2002 and 31 December 2001 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 14 to 19.

The undrawn committed facilities of the Group at 31 December 2002 were £66.9 million (2001: £86.7 million). These facilities expire during 2003.

## 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:

	2002		2001	
	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	(115.2)	(115.2)	(95.4)	(95.4)
Long-term borrowings	(255.7)	(255.7)	(255.1)	(255.1)
Cash deposits	65.9	65.9	15.9	15.9
Derivative financial instruments held to manage the interest rate and currency profile:				
Cross currency and interest rate swaps (US private placement)	1.6	7.1	12.8	14.4
Cross currency swaps (other)	(6.7)	(7.8)	6.0	6.9

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 initially at the swap rates. Any gain or loss arising from changes in exchange rates is included in the book value of the relevant asset or liability.

## 15 Pensions

At 31 December 2002 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 £40.4 million (2001: £37.7 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 funded defined benefit sections which form 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. During 2002 the sections to which Arriva Trains Northern Limited and Arriva Trains Merseyside Limited contribute were 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 2001 using the Attained Age Method. The market value of the assets notionally attributed to the Arriva Merseyside Limited section was £147.5 million, which represented 114 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 2.3 per cent per annum and pension increases by 3.3 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 £20.0 million (2001: £20.6 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 2005. 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 at 5 April 2000 (and the 31 March 2001 valuation for the Merseyside Pension Fund) updated by the respective actuaries to 31 December. The schemes' assets are stated at their market value at 31 December. The following financial assumptions have been used for each of the schemes:

	<u>2002</u>	<u>2001</u>
Valuation method	<b>Projected Unit</b>	Projected Unit
Discount rate	<b>5.6%</b>	6.0%
Inflation rate	<b>2.3%</b>	2.5%
Increases to deferred benefits during deferment	<b>2.3%</b>	2.5%
Increases to pensions in payment	<b>2.3%</b>	2.5%
Salary increases	<b>3.8%</b>	4.0%
Expected long-term rate of return at 31 December, before deduction for scheme expenses:		
Equities	<b>7.5%</b>	8.0%
Bonds	<b>4.7%</b>	5.1%
Other	<b>4.5%</b>	5.0%
Weighted average expected long-term rate of return by scheme at 31 December	<b>6.7%</b>	7.3%

# Notes to the Accounts continued

## 15 Pensions (continued)

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

	2002 £m	2001 £m
Equities	241.8	292.3
Bonds	75.7	62.5
Other	15.6	32.4
Total market value of assets	333.1	387.2
Present value of liabilities	(512.6)	(423.9)
Deficit	(179.5)	(36.7)
Related deferred tax asset	53.8	11.0
Net pension liability	(125.7)	(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 would be as follows:

	2002 £m	2002 £m	2001 restated £m	2001 restated £m
Net assets:				
Group net assets		458.4		423.2
Pension prepayments	60.4		58.3	
Pension accruals	(16.0)		(17.7)	
	44.4		40.6	
Related deferred tax	(13.3)		(12.2)	
Less: net pension asset under SSAP 24		31.1		28.4
Group net assets excluding net pension asset under SSAP 24		427.3		394.8
Net pension liability under FRS 17		(125.7)		(25.7)
Group net assets including net pension liability under FRS 17		301.6		369.1
Profit and loss reserves:				
Group profit and loss reserves		379.6		334.9
Less: net pension asset under SSAP 24		31.1		28.4
Group profit and loss reserves excluding net pension asset under SSAP 24		348.5		306.5
Net pension liability under FRS 17		(125.7)		(25.7)
Group profit and loss reserves including net pension liability under FRS 17		222.8		280.8

The costs of the Group schemes for the year ended 31 December 2002 on an FRS 17 basis would have been:

	2002 £m
Charge to operating profit:	
Current service costs	14.1
Past service costs	–
	14.1
Finance cost / (income):	
Expected return on assets	(26.7)
Interest on liabilities	25.6
	(1.1)
Total charge before tax	13.0

### 15 Pensions (continued)

Other gains and losses of the Group schemes for the year ended 31 December 2002 are:

	<u>2002</u> £m
Actuarial loss:	
Difference between expected and actual return on assets	(84.0)
Experience gains and losses arising on the scheme liabilities	(2.6)
Effect of changing the financial assumptions	(54.7)
	<u>(141.3)</u>
Actuarial loss as a percentage of scheme assets and liabilities at 31 December 2002:	
Difference between expected and actual return on assets as a percentage of scheme assets	(25.2%)
Experience gains and losses arising on the scheme liabilities as a percentage of the present value of scheme liabilities	(0.5%)
Total actuarial loss recognised in statement of total recognised gains and losses as a percentage of the present value of scheme liabilities	(27.6%)
Analysis of movement in deficit in the schemes for the year ended 31 December 2002:	
	<u>£m</u>
Gross deficit in the schemes at 31 December 2001	(36.7)
Contributions paid	11.5
Current service cost	(14.1)
Other finance income	1.1
Actuarial loss	(141.3)
<b>Gross deficit in the schemes at 31 December 2002</b>	<u>(179.5)</u>

### 16 Provisions for liabilities and charges

	<u>The Group</u> £m	<u>The Company</u> £m
<b>Deferred taxation:</b>		
At 31 December 2001 as previously reported	10.0	1.6
Prior year adjustment	51.3	2.1
At 31 December 2001 as restated	61.3	3.7
Disposals	(0.2)	–
Transfer to / (from) profit & loss account	8.3	(0.6)
<b>At 31 December 2002</b>	<u>69.4</u>	<u>3.1</u>

FRS 19 'Deferred Tax' has now been adopted. An analysis of deferred taxation provided in the accounts is detailed in note 17.

### 17 Deferred taxation

	<u>The Group</u>		<u>The Company</u>	
	<u>2002</u> £m	2001 restated £m	<u>2002</u> £m	2001 restated £m
Deferred taxation provided in the accounts:				
Accelerated capital allowances	63.0	53.9	1.9	2.1
Short-term timing differences	6.4	7.4	1.2	1.6
	<u>69.4</u>	<u>61.3</u>	<u>3.1</u>	<u>3.7</u>

### Factors that may affect future tax charges

No deferred tax asset is recognised on the unremitted earnings of overseas subsidiaries unless a binding agreement exists at the balance sheet date to remit such earnings in the future. No assets have been recognised in respect of tax losses carried forward within Group companies where the recoverability is in doubt.

# Notes to the Accounts continued

## 18 Called up equity share capital

	Authorised 2002	2001	Allotted – fully paid 2002	2001
Ordinary shares of 5 pence each	<b>£14,500,000</b>	£14,500,000	<b>£9,981,845</b>	£10,272,065
Number of shares	<b>290,000,000</b>	290,000,000	<b>199,636,890</b>	205,441,296

Reconciliation of movement in issued share capital:

Shares in issue 1 January 2002	205,441,296
Share allotments on exercise of options	85,594
Shares purchased	(5,890,000)
<b>Shares in issue 31 December 2002</b>	<b>199,636,890</b>

Consideration of £0.2 million was received in respect of the above issues and an amount of £17.4 million was paid in respect of the shares purchased during the year.

At 31 December 2002 there were outstanding options to receive allotments of 7,798,742 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 2002 the middle market quotation of the ordinary share, as derived from the Stock Exchange Official List, was 273.5 pence. The highest price attained by the ordinary share in 2002 was 390.0 pence and its lowest level during 2002 was 262.5 pence.

## 19 Reserves

	Capital redemption reserve fund £m	Share premium account £m	Special reserve £m	Revaluation reserve £m	Profit and loss account £m	Total £m
(a) The Group						
At 31 December 2001 as previously reported	1.1	5.4	59.1	12.4	386.2	464.2
Prior year adjustment	–	–	–	–	(51.3)	(51.3)
At 31 December 2001 as restated	1.1	5.4	59.1	12.4	334.9	412.9
Goodwill previously written off	–	–	–	–	13.7	13.7
Arising on issue of shares	–	0.2	–	–	–	0.2
Purchase of own shares	0.3	–	–	–	(17.4)	(17.1)
Retained profit for the year	–	–	–	–	43.2	43.2
Currency translation adjustments	–	–	–	–	1.7	1.7
Transfers	–	–	–	(3.5)	3.5	–
<b>At 31 December 2002</b>	<b>1.4</b>	<b>5.6</b>	<b>59.1</b>	<b>8.9</b>	<b>379.6</b>	<b>454.6</b>

### (b) The Company

	Capital redemption reserve fund £m	Share premium account £m	Special reserve £m	Profit and loss account £m	Total £m
At 31 December 2001 as previously reported	1.1	5.4	59.1	297.6	363.2
Prior year adjustment	–	–	–	(2.1)	(2.1)
At 31 December 2001 as restated	1.1	5.4	59.1	295.5	361.1
Arising on issue of shares	–	0.2	–	–	0.2
Purchase of own shares	0.3	–	–	(17.4)	(17.1)
Retained loss for the year	–	–	–	(0.1)	(0.1)
<b>At 31 December 2002</b>	<b>1.4</b>	<b>5.6</b>	<b>59.1</b>	<b>278.0</b>	<b>344.1</b>

The cumulative goodwill amortised through the profit and loss account (£31.6 million) and written off directly to reserves in prior years (£236.3 million) is £267.9 million (2001: £270.9 million).

## 20 Cash flow

### (a) Reconciliation of net debt:

	2002 £m	2001 £m
At 1 January	315.8	339.1
Increase in cash	(32.2)	(5.0)
Increase / (decrease) in loans due within one year	0.8	(0.9)
Increase / (decrease) in loans due after one year	6.0	(29.6)
(Decrease) / increase in finance leases	(6.8)	2.9
Loans acquired	2.7	8.2
Finance leases acquired	10.5	4.8
Currency translation adjustments	13.3	(3.7)
<b>At 31 December</b>	<b>310.1</b>	<b>315.8</b>

### (b) Reconciliation of operating profit to net cash inflow from operating activities:

	2002 £m	2001 £m
Operating profit	108.8	96.4
Depreciation of tangible fixed assets	89.9	84.9
Amortisation of goodwill	10.4	8.6
Increase in stocks, excluding acquisitions and disposals	(2.4)	(2.9)
Decrease in debtors, excluding acquisitions and disposals	4.8	18.2
Increase in creditors, excluding acquisitions and disposals	12.6	30.0
Decrease in provisions, excluding acquisitions and disposals	–	(6.8)
Dividends received	–	(0.3)
<b>Net cash inflow from operating activities</b>	<b>224.1</b>	<b>228.1</b>

### (c) Analysis of net debt:

	1 January 2002 £m	Cash flow £m	Acquisitions (excluding cash and overdrafts) £m	Currency translation adjustments £m	31 December 2002 £m
Net cash and overdrafts	9.7	(32.2)	–	–	(22.5)
Loans due within one year	50.1	0.8	2.7	9.0	62.6
Loans due after one year	196.4	6.0	–	1.6	204.0
Finance leases	59.6	(6.8)	10.5	2.7	66.0
	315.8	(32.2)	13.2	13.3	310.1

## 21 Acquisitions and disposals

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

	Total £m
Cash consideration (including expenses)	68.8
Cash acquired	(6.9)
Net cash outflow in respect of acquisitions	61.9

# Notes to the Accounts continued

## 21 Acquisitions and disposals (continued)

	Acquired book value £m	Fair value adjustments £m	Net cost £m
(b) Current year acquisitions:			
Intangible fixed assets	13.2	(13.2)	–
Tangible fixed assets	48.0	(8.4)	39.6
Investments	5.7	–	5.7
Stocks	1.0	–	1.0
Debtors	15.5	(0.6)	14.9
Cash	6.9	–	6.9
Finance leases	(10.5)	–	(10.5)
Creditors	(45.9)	(1.1)	(47.0)
Loans	(2.7)	–	(2.7)
	<u>31.2</u>	<u>(23.3)</u>	<u>7.9</u>
Minority interest			7.4
Goodwill			53.5
Satisfied by cash			<u>68.8</u>

The value of intangible fixed assets has been adjusted to eliminate goodwill acquired with the acquisition of Transportes Sul de Tejo.

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 £1.0 million, paid £0.1 million in respect of returns on investments and servicing of finance, paid £3.4 million in respect of capital expenditure and financial investment and paid £2.1 million in respect of financing.

Further details of the principal acquisitions made during the year are provided in the Directors' Report on page 29.

### (c) Disposals of businesses

	Motor Retailing £m	Other £m	Total £m
Tangible fixed assets	12.7	–	12.7
Stock	8.1	–	8.1
Creditors	(0.3)	–	(0.3)
Provisions	(0.2)	–	(0.2)
Goodwill previously written off to reserves	13.7	–	13.7
	<u>34.0</u>	<u>–</u>	<u>34.0</u>
(Loss) / profit on disposal	(16.4)	2.5	(13.9)
Satisfied by cash	<u>17.6</u>	<u>2.5</u>	<u>20.1</u>

The Group disposed of seven Ford dealerships and two Renault dealerships during the year. The disposals realised £18.5 million before costs.

The Group also received £2.5 million of proceeds from a claim connected with a business previously sold by the Group.

Further details of the disposal of the Motor Retailing operations are provided in the Directors' Report on page 29.

## 22 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/S<sup>1</sup>  
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 SL<sup>2</sup>  
Arriva North East Limited  
Arriva Northumbria Limited  
Arriva North West Limited  
Arriva Personvervoer Nederland B.V.<sup>3</sup>  
Arriva Portugal – Transportes, LDA<sup>6</sup>  
Arriva Scotland West Limited<sup>4</sup>  
Arriva Sverige AB<sup>5</sup>  
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  
SAB Autoservizi S.r.L.<sup>7</sup>  
Stevensons of Utttoxeter Limited  
The Original London Sightseeing Tour Limited  
Transportes Sul de Tejo S.A.<sup>8</sup>

### 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

A & T Motor Retailing Limited (formerly Preston Hall Limited)  
Arriva Dealership Rentals Limited  
Arriva Motor Retailing Limited  
L J Transit 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

<sup>1</sup> Registered and operates in Denmark

<sup>2</sup> Registered and operates in Spain

<sup>3</sup> Registered and operates in The Netherlands

<sup>4</sup> Registered and operates in Scotland

<sup>5</sup> Registered and operates in Sweden

<sup>6</sup> Registered and operates in Portugal

<sup>7</sup> Registered and operates in Italy

<sup>8</sup> Registered and operates in Portugal, 51% owned

# Notes to the Accounts continued

## 23 Earnings per share

	2002			2001 restated		
	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		<b>77.8</b>			48.3	
Weighted average number of shares			<b>204.8</b>			209.0
Basic earnings per share	<b>38.0</b>	<b>77.8</b>	<b>204.8</b>	23.1	48.3	209.0
Non-performance based share option schemes:						
Weighted average number of shares under option			<b>0.3</b>			0.6
Number of shares that would have been issued at fair value			<b>(0.3)</b>			(0.5)
Performance based share option schemes:						
Additional shares for earnings contingency			<b>3.6</b>			3.0
Number of shares that would have been issued at fair value			<b>(0.9)</b>			(0.7)
Diluted earnings per share	<b>37.5</b>	<b>77.8</b>	<b>207.5</b>	22.8	48.3	211.4
					<b>2002</b>	2001
					restated	restated
					p	p
(b) Basic earnings per share excluding exceptional items and goodwill amortisation:						
Basic earnings per share				<b>38.0</b>		23.1
Earnings per share relating to:						
Profit on the disposal of properties				<b>(1.4)</b>		(0.2)
Loss on sale of discontinuing operations				<b>7.9</b>		–
Profit on sale of discontinued operations				<b>(0.8)</b>		–
Amounts written off investments				–		0.4
Exceptional items charged to net operating expenses				–		2.6
Goodwill amortisation				<b>4.8</b>		4.1
Over provision of taxation on prior period disposal				<b>(11.7)</b>		–
<b>Basic earnings per share excluding exceptional items and goodwill amortisation</b>				<b>36.8</b>		30.0

These calculations are provided as additional information.

## 24 Commitments

Capital amounts contracted for but not provided amount to £50.6 million (2001: £24.6 million) for the Group. At 31 December 2002 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:

	2002			2001		
	Land & buildings £m	Other £m	Total £m	Land & buildings £m	Other £m	Total £m
Expiring in less than 1 year	<b>1.2</b>	<b>1.1</b>	<b>2.3</b>	1.3	0.1	1.4
Expiring between 2 and 5 years inclusive	<b>21.4</b>	<b>181.7</b>	<b>203.1</b>	21.4	178.7	200.1
Expiring in over 5 years	<b>3.0</b>	<b>0.5</b>	<b>3.5</b>	2.6	1.1	3.7
	<b>25.6</b>	<b>183.3</b>	<b>208.9</b>	25.3	179.9	205.2

## Group Five Year Financial Summary

	1998 restated £m	1999 restated £m	2000 restated £m	2001 restated £m	2002 £m
<b>Assets employed</b>					
Goodwill	31.7	54.9	153.0	152.0	<b>198.3</b>
Tangible fixed assets	970.4	585.5	650.3	691.3	<b>736.7</b>
Other net (liabilities) / assets	13.9	107.4	28.9	(30.3)	<b>(36.9)</b>
Quoted investments	4.0	4.0	4.0	3.2	–
Unquoted investments	–	–	–	–	<b>5.7</b>
	<b>1,020.0</b>	<b>751.8</b>	<b>836.2</b>	<b>816.2</b>	<b>903.8</b>
<b>Financed by</b>					
Share capital	11.2	11.2	10.5	10.3	<b>10.0</b>
Reserves	270.3	435.3	418.4	412.9	<b>454.6</b>
Minority interests	–	–	–	–	<b>(6.2)</b>
Syndicated loans	370.0	–	–	–	–
Bank overdrafts	4.5	2.8	23.8	25.6	<b>43.4</b>
Other loans	185.7	188.9	226.4	196.4	<b>204.0</b>
Short-term loans	90.5	38.2	45.4	50.1	<b>62.6</b>
Obligations under finance leases	23.2	32.2	52.6	59.6	<b>66.0</b>
Deferred liabilities	64.6	43.2	59.1	61.3	<b>69.4</b>
	<b>1,020.0</b>	<b>751.8</b>	<b>836.2</b>	<b>816.2</b>	<b>903.8</b>
<b>Trading</b>					
Turnover	1,556.3	1,534.3	1,743.1	1,998.4	<b>2,084.4</b>
Profit before taxation	94.5	222.6	72.1	76.0	<b>80.6</b>
Taxation	21.0	51.9	20.8	27.7	<b>1.6</b>
Profit after taxation	73.5	170.7	51.3	48.3	<b>79.0</b>
Minority interests	0.5	–	–	–	<b>1.2</b>
Profit for the financial year	73.0	170.7	51.3	48.3	<b>77.8</b>
Dividends	31.9	33.5	33.4	33.8	<b>34.6</b>
Retained profit	41.1	137.2	17.9	14.5	<b>43.2</b>
<b>Statistics</b>					
Funds attributable to shareholders	281.5	446.5	428.9	423.2	<b>464.6</b>
Equity shareholders' funds per ordinary share	125.4p	198.6p	203.0p	206.0p	<b>232.7p</b>
Basic earnings per share	32.5p	76.0p	23.2p	23.1p	<b>38.0p</b>
Dividends per ordinary share	14.2p	14.9p	15.6p	16.4p	<b>17.2p</b>

All years have been restated following adoption of FRS 19.

# Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the 59th Annual General Meeting of the Company will be held at The Ramside Hall Hotel, Carrville, Durham, DH1 1TD on Friday 25 April 2003 at 11.30 am to transact the following business:

1. To consider and adopt the Accounts for the year ended 31 December 2002, together with the reports of the Directors and auditors thereon. [\(Resolution 1\)](#)
2. To declare a final dividend for the year ended 31 December 2002, on the ordinary shares of the Company, of 12.8 pence per share. [\(Resolution 2\)](#)
3. To approve the Remuneration Report of the Directors for the year ended 31 December 2002. [\(Resolution 3\)](#)
4. To re-elect Directors retiring by rotation under the terms of the Articles of Association.
  - (a) Mr. R.J. Davies [\(Resolution 4\)](#)
  - (b) Mr. E.A.R. Cameron [\(Resolution 5\)](#)
  - (c) Mr. S.J. Clayton [\(Resolution 6\)](#)
  - (d) Mr. D.R. Martin [\(Resolution 7\)](#)
5. To re-appoint PricewaterhouseCoopers LLP as auditors to the Company (having previously been appointed by the Board to fill a casual vacancy arising by reason of the resignation of PricewaterhouseCoopers consequent upon its conversion to a limited liability partnership) and to authorise the Directors to fix the remuneration of the auditors. [\(Resolution 8\)](#)
6. As special business to consider and if thought fit pass the following resolutions:

(a) Special Resolution [\(Resolution 9\)](#)

'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 £499,092; 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 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.'

(b) Extraordinary Resolution [\(Resolution 10\)](#)

'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 29,945,533 ordinary shares and shall expire on 25 July 2004, 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

25 March 2003

## 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 10. Forms of proxy must be received at the transfer office of the Company at least 48 hours before the meeting whether in manual or electronic format. 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 12.8 pence per ordinary share will be paid on 1 May 2003, to shareholders on the Register at 5 pm on 4 April 2003.

# Financial Calendar

## **Results for 6 months to 30 June 2002**

Announced	5 September 2002
Interim Report posted to shareholders	12 September 2002

## **Interim ordinary dividend**

Declared	5 September 2002
Paid	4 October 2002

## **Results for the year ended 31 December 2002**

Announced	6 March 2003
Report and Accounts posted to shareholders	25 March 2003

## **Final ordinary dividend**

Recommended	6 March 2003
Record date	4 April 2003
To be paid	1 May 2003

## **Annual General Meeting**

To be held	25 April 2003
------------	---------------

Arriva plc  
Admiral Way  
Doxford International Business Park  
Sunderland  
SR3 3XP

**Tel** 0191 520 4000  
**Fax** 0191 520 4001  
[www.arriva.co.uk](http://www.arriva.co.uk)