

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

Principal activities of the group

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

Business Review

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

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

Key performance indicators

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

- (i) Earnings per share, before goodwill impairment, intangible asset amortisation and exceptional items (see page 26)
- (ii) Order book (see pages 16 to 17)
- (iii) Employee turnover and non-attendance (see page 37)
- (iv) Return on capital employed (see page 31)
- (v) Percentage of scheduled mileage operated (see page 35)
- (vi) Public Performance Measure for UK Trains (see page 25)
- (vii) Fault incidents per 100,000 km (see page 35)
- (viii) Employee injuries per 100 employed (see page 35)

Results and dividends

The profit for the year amounted to £90.0 million (2006: £104.7 million). The directors recommend the payment of a final dividend on the ordinary shares of the company of 17.06 pence per share (2006: 15.51 pence), which together with the interim dividend of 5.59 pence (2006: 5.32 pence) represents a total of 22.65 pence per ordinary share (2006: 20.83 pence). The proposed final dividend, if approved, will be payable on 1 May 2008 to shareholders on the Register of Members at the close of business on 28 March 2008. The total amount paid and proposed to be paid is £45.0 million in respect of 2007 (2006: £41.2 million).

Share capital

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

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

Directors

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

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

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

Indemnification of directors

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

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

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

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

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

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

In preparing those financial statements, the directors are required to:

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

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

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

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

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

Directors' interests

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

Purchase of own shares

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

Acquisitions

In January 2007, the acquisition of Czech Republic bus operator Bosak Bus s.r.o. was announced for a cash payment of £1.0 million and the assumption of £0.7 million debt. Also in January 2007, the acquisition was announced of Spanish bus operator Esfera for an initial payment of €3.7 million (£2.5 million); subject to the business achieving specific key growth targets, a further payment of up to €1 million (£0.7 million) will be made.

In March 2007, the group completed the acquisition of 85 per cent of the German bus and rail company Osthannoversche Eisenbahnen AG (OHE) for a consideration of £28.2 million including net debt assumed, as part of an 86 per cent owned joint venture.

In June 2007, the acquisition of 49 per cent of Italian bus operator SPT Linea for €6.8 million (£4.6 million) was announced. Arriva's Italian business SAB Autoservizi s.r.l. and Lombardy-based Ferrovie Nord Milano Group (FNM SpA), entered into a 50/50 joint venture to acquire the shares in SPT Linea.

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

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

In January 2008, the group announced the acquisition of a further 10 per cent interest in Barraqueiro SGPS SA, the leading Portuguese passenger transport operator for a consideration of €50 million (£37 million) in cash. Following this transaction the group now holds a 31.5 per cent interest in Barraqueiro.

On 11 January 2008, the company announced that its offer for the whole of the issued and to be issued share capital of Tellings Golden Miller Group plc (TGM), for a cash consideration of 45 pence per share (approximately £10.3 million), had become wholly unconditional. On 22 January the "squeeze-out" provisions of s979 Companies Act 2006 were invoked in respect of the non-assenting shareholdings in TGM amounting to approximately 2.81 per cent of the issued and to be issued share capital of TGM.

Charitable and political donations

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

Annual General Meeting

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

Employees

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

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

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

The group has, subject to the restraints of commercial confidentiality, continued its policy of employee involvement, by making information available to employees on a regular basis regarding recent and probable future developments and business activities. Further information on employee representation can be found in the Corporate Responsibility report on page 38.

Policy regarding payment of suppliers

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

Substantial shareholdings

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

	Per cent
Marathon Asset Management LLP	6.03
Aberdeen Asset Management PLC's Fund Management Operating Subsidiaries	5.05
Blackrock Inc.	4.06
Legal & General Group Plc	4.03
Allianz SE and Allianz Global Investors Global Equity Business Unit	3.27

Corporate governance

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

Health, safety and environment

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

Auditors

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

By order of the Board

D P TURNER
Company Secretary
5 March 2008