ARRIVA

Arriva plc Interim Report 2006

CONTENTS

INTERIM RESULTS SUMMARY AND BUSINESS REVIEW

HIGHLIGHTS

- Group operating profit from continuing operations* up 5 per cent to £56.8 million (2005: £54.1 million), despite fuel cost pressures.
- Double digit earnings and revenue growth in mainland Europe:
  - market positions strengthened in Germany, Sweden and Portugal
  - revenue increased by 17 per cent to £361.5 million (2005: £308.3 million)
  - 14 per cent increase in operating profit* to £24.3 million (2005: £21.3 million).
- Robust UK Bus performance – operating profit up £1 million despite fuel cost increase of over £7 million.
- EBITDA up 11 per cent from continuing operations to £108.5 million (2005: £97.7 million).
- Adjusted EPS* from continuing operations broadly maintained at 19.5 pence (2005: 19.8 pence). Basic earnings per share up to 28.3 pence (2005: 20.3 pence), reflecting the profit on disposal of Arriva Vehicle Rental.
- Interim dividend up 5 per cent to 5.32 pence.

* *excluding goodwill impairment, intangible asset amortisation and exceptional items.*

SIGNIFICANT BUSINESS DEVELOPMENTS

The group once again delivered double digit growth in revenue and operating profit (excluding goodwill impairment, intangible asset amortisation and exceptional items) in mainland Europe, while strengthening existing market positions in the UK, and overseas.

The sale of Arriva Vehicle Rental completed the strategic refocusing of the group on its core passenger transport activities. We have since strengthened our existing market positions in Europe, creating opportunities for growth and development, while continuing to build on our healthy UK business.

Arriva won entry into the Swedish rail market in February with a nine-year contract to operate the Pågatåg regional train services in southern Sweden from June 2007, which will generate revenue of approximately £15 million a year.

In the UK, we acquired Premier Buses Limited in February, operating in Milton Keynes, with an annual turnover of £8.6 million, and took over further bus operations in Bishop Auckland. We also increased our presence in Germany, in April, by acquiring Verkehrsbetriebe Bils KG, a bus company in the North, with revenue in 2005 of €10.8 million and won a contract in June to operate rail services in the South worth €150 million over 10 years, which begins from December 2007.

In May Arriva acquired 21.5 per cent of Barraqueiro SGPS SA, the largest passenger transport operator in Portugal, with 4,800 employees, 2,000 buses and 18 trains. In the year ended 31 December 2005, Barraqueiro had unaudited consolidated proforma revenue of €268.4 million. It has key operating territories in the south of the country and in and around Lisbon.

We submitted our South Western rail franchise bid in June, a decision on which is expected in the autumn. We have also completed pre-qualification submissions in the current bidding round for new franchises.

At the end of July, we entered into a €138 million (£94 million) refinancing deal to provide 43 trains for our Netherlands business, including the refinancing of €69 million (£47 million) of advance payments on trains included in the balance sheet at the end of June 2006.

SUMMARY OF RESULTS

Operating profit from continuing operations (before goodwill impairment, intangible asset amortisation and exceptional items) was up 5 per cent to £56.8 million (2005: £54.1 million) from revenue of £860.7 million (2005: £772.1 million). This reflects continued growth in mainland Europe, as well as the underlying strength of our UK business at a time when the transport industry is facing pressure on margins, predominantly due to the rise in fuel prices.

Cash flow was also healthy with EBITDA (earnings before interest, tax, depreciation, goodwill impairment and intangible asset amortisation) for continuing operations up by 11 per cent at £108.5 million (2005: £97.7 million).

Profit before tax from continuing operations marginally increased to £48.0 million (2005: £47.8 million), whilst profit after tax for the period increased to £57.3 million (2005: £40.3 million) including £20.0 million profit from the disposal of Arriva Vehicle Rental. Adjusted earnings per share (excluding goodwill impairment, intangible asset amortisation and exceptional items) is 19.5 pence (2005: 19.8 pence), reflecting a higher underlying rate of tax compared to 2005. Basic earnings per share increased from 20.3 pence to 28.3 pence, reflecting the profit on disposal.

The Board is declaring an interim dividend of 5.32 pence per share, an increase of 5 per cent, to be paid on 2 October 2006 to shareholders on the Register at the close of business on 15 September 2006.

In the remainder of this commentary, the Business Review follows the segmental analysis disclosure in note 2 to the Interim Report, which shows divisional results before goodwill impairment, intangible asset amortisation, exceptional items and net finance costs.

BUSINESS REVIEW

UK BUS

Our UK Bus operations showed an increase in operating profit to £31.0 million (2005: £30.0 million) from revenue of £365.2 million (2005: £338.0 million). This improvement demonstrates the robustness of our UK Bus business, against the background of a fuel cost increase of more than £7 million in the first half of 2006.

We have introduced initiatives aimed at increasing passenger numbers by improving the efficiency and effectiveness of our bus operations. We have also introduced targeted price increases, where needed, to help offset long-term cost pressures from rising fuel costs, which over the whole year are expected to be more than £14 million higher than in 2005.

Building relationships with local authorities is fundamental to the success of local bus services. We remain focused on developing positive partnerships with all of our community stakeholders, including Transport for London, to ensure that we continue to develop services that people want to use. Giving bus users road priority is essential to growing bus use and we are keen to work with partners to provide the right infrastructure, supported by modern vehicles and technology, and innovative marketing.

Regions

The resilience and underlying strength of our regional operations, despite increasing cost pressures, has enabled us to reinforce our business position and continue to invest in new vehicles. Arriva is committed to revitalising routes, improving income through revised fare structures when needed, introducing new technology and acquiring new businesses as and when the right opportunities arise.

In February, Arriva acquired Premier Buses Limited for a net cash consideration of £5.6 million. In 2005 Premier Buses, which operates in Milton Keynes, reported an annual turnover of £8.6 million and Arriva sees good future growth prospects.

The Government's introduction, in April, of free bus travel in England for those aged 60 and over is an important initiative which has stimulated growth in patronage, in line with our experience of similar schemes in Scotland and Wales.

Our strong understanding of local networks, combined with new management initiatives, gives us confidence that we can continue our strong performance and grow revenues.

London

Arriva remains the operator with the largest share of the competitive London bus market and has performed well in winning new contracts over the past six months. By the end of 2006 we will have more buses in the capital than we did in January, continuing the growth of recent years, with a higher volume of passengers.

The terrorist attacks last year affected the number of people using our London tourist bus service, The Original Tour, with some weakness in demand continuing into the spring. Customer levels have been returning to normal during the summer season.

UK TRAINS

Our UK Trains operations experienced a reduction in operating profit to £5.9 million (2005: £8.4 million) on revenue of £125.4 million (2005: £116.3 million). This was mainly due to reduced residual income from the wind-up of our expired Arriva Trains Northern franchise and additional bid costs.

Arriva Trains Wales (ATW) has seen an improved operating performance. Latest industry figures show ATW increased its punctuality performance in the first six months of 2006 by 6.3 per cent. A new customer friendly timetable was introduced late in 2005 across the whole network, with an extra 950 services a week. We are determined to build on this, as well as developing a productive relationship with the Welsh Assembly Government and other partners, as we continue to improve the service we provide for our customers on this franchise, which runs until 2018.

We submitted our bid for the South Western rail franchise to the Department for Transport in June following extensive customer research and consultation with stakeholders by our bid team. We await a decision from the Government later this year.

The company has submitted pre-qualification bids in the current round of franchise awards. We look forward to submitting our proposals using the experience we have gained in the UK and mainland Europe.

MAINLAND EUROPE

Our mainland Europe operations again showed significant growth in both revenue and profitability. Operating profit rose to £24.3 million (2005: £21.3 million) on revenue of £361.5 million (2005: £308.3 million). As the business grows, the impact of increasing fuel prices has a greater effect, although this is mitigated to some extent by fuel cost indexation on contract prices. Arriva has continued to develop the overseas operations already acquired and remains committed to expansion on the basis of sound revenue and investment criteria.

As part of its vision to become Europe's leading passenger transport group, Arriva purchased 21.5 per cent of Barraqueiro SGPS SA, a leading Portuguese passenger transport group in May. Barraqueiro has 4,800 employees, 2,000 buses and 18 trains, operating in the south of Portugal, and in and around Lisbon. The investment provides Arriva with a stronger position to benefit from Portugal's evolving transport market.

Also in May we strengthened our German bus position with the acquisition of Verkehrsbetriebe Bils KG for £3.1 million. Our success in Germany has included winning the contract to operate rail services between Munich, Oberstdorf in the Bavarian Alps and Lindau in southern Germany. The contract is expected to generate revenue of more than €150 million (£103 million) over its 10-year lifetime and will start in December next year. We have also invested in a further two rail maintenance facilities in Germany.

Arriva won entry into the Swedish rail market with a nine-year contract to operate regional train services in southern Sweden, which begin in June 2007. This is an important win of a franchise that will work in partnership with our bus businesses in the same area.

Arriva Nederland has already taken delivery, for test, of the first of 43 trains for use in the Dutch provinces of Groningen and Friesland and across to Leer in Germany. We have also won a 12 year contract, worth €500 million in revenue, to operate buses and trains between Dordrecht and Geldermalsen, replacing an existing smaller contract in the area. This will substantially offset the loss of a bus contract in the Friesland area, which expires in December.

The commercialisation of the Netherlands market continues, with a legislative framework in place which is expected to bring significant new tendering activity to the bus and rail markets over the next 18 months. We are well positioned to benefit from this anticipated growth in the commercially addressable market. In addition, a process is in place to privatise all or part of the state-owned operator Connexxion. We will consider bidding for all or part of the business in due course.

BUS AND COACH

Our Bus and Coach business achieved operating profit of £1.7 million (2005: £2.0 million), on revenue of £8.6 million (2005: £9.5 million). This represents a satisfactory result in a highly competitive market.

FINANCE

EBITDA (earnings before interest, tax, depreciation, goodwill impairment and intangible asset amortisation) from continuing operations increased strongly by 11 per cent to £108.5 million (2005: £97.7 million), reflecting the investment in profitable growth through acquisitions and capital expenditure. Settlement of balances with bus manufacturers in the Netherlands, following the start of a major new contract, together with other timing differences, were the principal contributors to a working capital outflow in continuing operations.

Other capital investment was £87.1 million (2005: £40.9 million) including £25.6 million for new trains in the Netherlands.

The disposal of Arriva Vehicle Rental generated £126.5 million, whilst £38.7 million was expended on acquisitions, including €36.0 million (£24.6 million) for the 21.5 per cent investment in Barraqueiro. An additional €12 million of deferred consideration was paid in August with another €12 million due in October. Payments of interest, taxation and dividends absorbed £48.0 million (2005: £49.9 million). Net debt overall therefore fell by £24.9 million to £411.0 million.

After the period end we entered into a €138 million (£94 million) refinancing deal, initiated by Arriva, which will remove the existing, and future, investment in 43 new trains for our Netherlands business from the balance sheet, replaced by an operating lease from the funding organisations. It includes the refinancing of €69 million (£47 million) of trains included in the balance sheet at the end of June 2006. The trains are due to be introduced into service progressively up to September 2007.

The new rolling stock required for our recent contract wins in Germany will be leased through third party companies.

SUMMARY

In the past six months we have developed our market positions in Germany, Portugal and Sweden, and we continue to pursue acquisition and organic growth opportunities when the terms make financial sense. Although timing is always unpredictable, political and financial pressures on local, regional and national governments continue to drive the outsourcing of service provision across Europe. Our expertise gained through operating in a broad range of markets throughout Europe uniquely positions us to benefit from the continuing evolution of the continent's transport markets.

David Martin's succession to the role of chief executive has been smooth and productive, assisted by a strengthening of the senior management team immediately below Board level.

Our stated aim is to become Europe's leading passenger transport group. Our advance toward this aim is underpinned by progressive expansion in mainland Europe, where we have delivered double digit growth in revenue and operating profit for each of the last five years, along with the continued development of our UK businesses.

SIR RICHARD BROADBENT
CHAIRMAN
7 September 2006

GROUP INCOME STATEMENT
Six months to 30 June 2006

	notes	**Unaudited six months to 30 June 2006 £m**	Unaudited six months to 30 June 2005 £m	Year to 31 Dec 2005 £m
Continuing operations				
Revenue	2	**860.7**	772.1	1,571.2
Net operating expenses (before exceptional items, goodwill impairment and intangible asset amortisation)		**(804.7)**	(718.4)	(1,455.6)
Exceptional items	2	**0.2**	1.4	2.2
Goodwill impairment and intangible asset amortisation		**(3.6)**	(3.2)	(6.6)
Total net operating expenses		**(808.1)**	(720.2)	(1,460.0)
Operating profit		**52.6**	51.9	111.2
Finance income		**1.5**	2.0	3.4
Finance costs		**(6.9)**	(6.5)	(12.9)
Net finance costs		**(5.4)**	(4.5)	(9.5)
Share of post tax profits from associates		**0.8**	0.4	1.4
Profit on ordinary activities before taxation	2	**48.0**	47.8	103.1
Tax on profit on ordinary activities		**(10.8)**	(9.1)	(19.8)
Profit for the period from continuing operations		**37.2**	38.7	83.3
Discontinued operations				
Profit for the period from discontinued operations	3	**20.1**	1.6	3.0
Profit for the period		**57.3**	40.3	86.3
Attributable to:				
Equity holders of the parent		**55.9**	39.9	85.9
Minority interests		**1.4**	0.4	0.4
		57.3	40.3	86.3
Dividends per ordinary share	4	**5.32p**	5.07p	19.84p
Earnings per share				
Basic earnings per share	5	**28.3p**	20.3p	43.7p
Diluted earnings per share	5	**28.1p**	20.1p	43.3p
Earnings per share from continuing operations				
Basic earnings per share	5	**18.1p**	19.5p	42.2p
Diluted earnings per share	5	**18.0p**	19.3p	41.8p
Basic earnings per share before goodwill impairment, intangible asset amortisation and exceptional items from continuing operations	5	**19.5p**	19.8p	43.6p

GROUP BALANCE SHEET
At 30 June 2006

	Unaudited 30 June 2006 £m	Unaudited 30 June 2005 £m	31 Dec 2005 £m
Non-current assets			
Goodwill	**281.8**	270.9	277.5
Other intangible assets	**38.3**	41.0	40.8
Property, plant and equipment	**1,032.8**	954.3	1,092.8
Investments	**50.0**	6.5	7.9
Derivative financial instruments	**17.0**	21.1	15.0
	1,419.9	1,293.8	1,434.0
Current assets			
Inventories	**33.0**	24.9	27.8
Trade and other receivables	**223.0**	192.4	209.4
Cash and cash equivalents	**109.2**	91.6	94.1
Derivative financial instruments	**10.8**	11.7	7.5
	376.0	320.6	338.8
Total assets	**1,795.9**	1,614.4	1,772.8
Current liabilities			
Trade and other payables	**402.1**	383.4	388.6
Tax liabilities	**29.3**	25.4	29.8
Obligations under finance leases	**19.9**	13.0	18.2
Bank overdrafts and loans	**185.8**	132.1	145.4
Derivative financial instruments	**–**	0.1	–
	637.1	554.0	582.0
Non-current liabilities			
Bank loans	**172.7**	119.7	203.8
Other loans	**71.4**	128.0	93.3
Retirement benefit obligations	**206.0**	195.7	207.4
Deferred tax liabilities	**34.9**	46.4	44.3
Obligations under finance leases	**70.4**	39.1	69.3
Other non-current liabilities	**68.2**	67.7	69.0
Derivative financial instruments	**–**	0.5	–
	623.6	597.1	687.1
Total liabilities	**1,260.7**	1,151.1	1,269.1
Net assets	**535.2**	463.3	503.7
Equity			
Share capital	**9.9**	9.8	9.8
Share premium account	**21.5**	17.8	19.1
Other reserves	**80.0**	82.5	75.0
Retained earnings	**407.1**	351.3	383.5
Total shareholders' equity	**518.5**	461.4	487.4
Minority interest in equity	**16.7**	1.9	16.3
Total equity	**535.2**	463.3	503.7

GROUP CASH FLOW STATEMENT

Six months to 30 June 2006

	notes	**Unaudited six months to 30 June 2006 £m**	Unaudited six months to 30 June 2005 £m	Year to 31 Dec 2005 £m
Cash flows from operating activities				
Cash generated from operations	6(b)	**71.9**	109.7	207.9
Interest and finance charges paid		**(5.9)**	(7.3)	(15.2)
Tax paid		**(12.9)**	(14.9)	(25.8)
Net cash flows from operating activities		**53.1**	87.5	166.9
Cash flows from investing activities				
Acquisitions of businesses		**(14.1)**	(24.1)	(46.3)
Net cash assumed on acquisitions		**1.7**	2.7	7.3
Investment in associate		**(24.6)**	–	–
Disposal of businesses		**126.5**	–	12.0
Purchase of short term rental vehicles		**(6.3)**	(27.8)	(65.1)
Purchase of other non-current assets		**(87.1)**	(40.9)	(187.4)
Disposal of short term rental vehicles		**8.1**	20.4	39.8
Disposal of other non-current assets		**3.2**	6.1	16.8
Net cash generated/(used) in investing activities		**7.4**	(63.6)	(222.9)
Cash flows from financing activities				
Proceeds from issuing ordinary share capital		**0.9**	2.5	3.8
Increase/(decrease) in loans due within one year		**55.4**	(16.5)	(1.8)
(Decrease)/increase in loans due after one year		**(54.1)**	13.8	61.4
Increase/(decrease) in finance lease obligations		**2.3**	(7.3)	26.3
Dividends paid to the company's shareholders	4	**(29.2)**	(27.7)	(37.7)
Net cash (used)/generated in financing activities		**(24.7)**	(35.2)	52.0
Net increase/(decrease) in cash, cash equivalents and overdrafts	6(d)	**35.8**	(11.3)	(4.0)
Cash, cash equivalents and overdrafts at the beginning of the period	6(d)	**71.6**	76.6	76.6
Exchange gains/(losses) on cash, cash equivalents and overdrafts	6(d)	**0.4**	(2.3)	(1.0)
Cash, cash equivalents and overdrafts at the end of the period	6(d)	**107.8**	63.0	71.6

GROUP STATEMENT OF RECOGNISED INCOME AND EXPENSE
Six months to 30 June 2006

	Unaudited six months to 30 June 2006 £m	Unaudited six months to 30 June 2005 £m	Year to 31 Dec 2005 £m
Net foreign exchange adjustments offset in reserves (net of tax)	**(1.7)**	(1.9)	(1.9)
Cash flow hedges (net of tax)	**5.0**	16.8	9.2
Actuarial losses on defined benefit schemes (net of tax)	**–**	–	(4.5)
Net income recognised directly in equity	**3.3**	14.9	2.8
Profit for the period	**57.3**	40.3	86.3
Total recognised income and expense for the period	**60.6**	55.2	89.1
Adoption of IAS 39 (net of tax)	**–**	3.7	3.7
Total recognised income and expense	**60.6**	58.9	92.8
Attributable to:			
Equity holders of the parent	**59.2**	58.5	92.3
Minority interests	**1.4**	0.4	0.5
	60.6	58.9	92.8

NOTES TO THE INTERIM REPORT

1. Basis of preparation

(a) This financial information comprises the interim Group Income Statement, Group Balance Sheet, Group Cash Flow Statement, Group Statement of Recognised Income and Expense and related notes.

This financial information has been prepared in accordance with the Listing Rules of the Financial Services Authority. The financial information has been prepared using the principal accounting policies as set out on pages 48 to 51 in the Group's Annual Report and Accounts for the year ended 31 December 2005.

The group has chosen not to adopt IAS 34 'Interim Financial Statements' in preparing these financial statements.

The results for the six months ended 30 June 2006 are unaudited but have been reviewed by the auditors. The comparative figures for the six months ended 30 June 2005 are unaudited and are derived from the Interim Report for the six months ended 30 June 2005, which was also reviewed by the auditors. The condensed financial information for the year ended 31 December 2005 is extracted from the latest statutory accounts which have been filed with the Registrar of Companies. The report of the auditors on the accounts was unqualified and did not contain a statement under section 237(2) or (3) of the Companies Act 1985. This Interim Report does not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985.

(b) The Interim Report is being posted to shareholders on 19 September 2006. Copies of the Interim Report are available from the company secretary, Arriva plc, Admiral Way, Doxford International Business Park, Sunderland, SR3 3XP.

(c) The Interim Report was approved by the Board of Directors on 6 September 2006.

2. Segmental analysis

	Unaudited six months to 30 June 2006 Revenue £m	Unaudited six months to 30 June 2006 Operating profit £m	Unaudited six months to 30 June 2005 Revenue £m	Unaudited six months to 30 June 2005 Operating profit £m	Year to 31 Dec 2005 Revenue £m	Year to 31 Dec 2005 Operating profit £m
UK Bus	**365.2**	**31.0**	338.0	30.0	697.5	68.0
UK Trains	**125.4**	**5.9**	116.3	8.4	239.4	14.9
Mainland Europe (1)	**361.5**	**24.3**	308.3	21.3	621.2	47.7
Bus & Coach	**8.6**	**1.7**	9.5	2.0	13.1	3.0
Central	**–**	**(6.1)**	–	(7.6)	–	(16.6)
Continuing operations*	**860.7**	**56.8**	772.1	54.1	1,571.2	117.0
Net finance costs		**(5.4)**		(4.5)		(9.5)
Profit on ordinary activities before taxation*		**51.4**		49.6		107.5
Goodwill impairment and intangible asset amortisation		**(3.6)**		(3.2)		(6.6)
Exceptional items:						
Profit on the disposal of properties in continuing operations		**0.2**		1.4		2.2
Profit on ordinary activities before taxation		**48.0**		47.8		103.1

*before goodwill impairment, intangible asset amortisation and exceptional items.

(1) Included within the operating profit of mainland Europe is £0.8 million (six months to 30 June 2005: £0.4 million and for the year ended 31 December 2005: £1.4 million) share of post tax profits from associates. Included in this amount is £0.2 million from the investment in Barraqueiro SGPS SA made in May 2006.

(2) The profit for the period from discontinued operations was £20.1 million (six months to 30 June 2005: £1.6 million and for the year ended 31 December 2005: £3.0 million), relating to Arriva Vehicle Rental, which has been excluded from the above segmental analysis.

3. Discontinued operations

	Unaudited six months to 30 June 2006 £m	Unaudited six months to 30 June 2005 £m	Year to 31 Dec 2005 £m
Post tax results from discontinued operations	**0.1**	1.6	3.0
Gain on disposal of subsidiary	**20.0**	–	–
Profit for the period from discontinued operations	**20.1**	1.6	3.0

On 3 February 2006, the group completed the disposal of the Vehicle Rental business for an estimated total consideration of £130.7 million, comprising £55.4 million for the equity in the business, and £75.3 million in reduced debt. £4.2 million of the consideration was deferred and received in July 2006. On the basis of the estimated total consideration, which remains subject to final agreement of completion accounts, the transaction represents a £20.0 million gain on disposal of subsidiary.

There is no taxation arising on the gain on disposal.

Cash flows from discontinued operations	**Unaudited six months to 30 June 2006 £m**	Unaudited six months to 30 June 2005 £m	Year to 31 Dec 2005 £m
Net cash flows from operating activities	**2.6**	9.0	21.6
Net cash flows from investing activities	**128.6**	(5.9)	(23.6)
Net cash flows from financing activities	**–**	(0.3)	(0.3)
	131.2	2.8	(2.3)

4. Dividends

	Unaudited six months to 30 June 2006 £m	Unaudited six months to 30 June 2005 £m	Year to 31 Dec 2005 £m
Final dividend paid for the year ended 31 December 2005 of 14.77p (2005: final dividend paid for the year ended 31 December 2004 of 14.07p) per share	**29.2**	27.7	27.7
Interim dividend paid of 5.07p for the year ended 31 December 2005	**–**	–	10.0
Amounts recognised as distributions to equity holders in the period	**29.2**	27.7	37.7
Proposed interim dividend for the year ending 31 December 2006 of 5.32p (2005: 5.07p) per share	**10.5**	10.0	–

The proposed interim dividend was approved by the Board on 6 September 2006 and has not been included as a liability as at 30 June 2006.

5. Earnings per share

Basic earnings per share is based on earnings of £55.9 million (six months to 30 June 2005: £39.9 million and for the year ended 31 December 2005: £85.9 million) and on the weighted average number of ordinary shares of 197.4 million (six months to 30 June 2005: 196.2 million and for the year ended 31 December 2005: 196.5 million).

Diluted earnings per share is based on the same earnings for each of the periods and on the weighted average number of ordinary shares of 198.6 million (six months to 30 June 2005: 198.4 million and for the year ended 31 December 2005: 198.3 million). The difference in the number of shares between the basic and the diluted calculation represents the weighted average number of dilutive potential ordinary shares.

	Unaudited six months to 30 June 2006 p	Unaudited six months to 30 June 2005 p	Year to 31 Dec 2005 p
Basic earnings per share	**28.3**	20.3	43.7
Gain on disposal of subsidiary	**(10.2)**	–	–
Post tax results from discontinued operations	**–**	(0.8)	(1.5)
Basic earnings per share from continuing operations	**18.1**	19.5	42.2
Diluted earnings per share	**28.1**	20.1	43.3
Gain on disposal of subsidiary	**(10.1)**	–	–
Post tax results from discontinued operations	**–**	(0.8)	(1.5)
Diluted earnings per share from continuing operations	**18.0**	19.3	41.8
Basic earnings per share	**28.3**	20.3	43.7
Goodwill impairment and intangible asset amortisation	**1.5**	1.2	2.5
Exceptional items:			
Profit on the disposal of properties in continuing operations	**(0.1)**	(0.9)	(1.1)
Gain on disposal of subsidiary	**(10.2)**	–	–
Post tax results from discontinued operations	**–**	(0.8)	(1.5)
Basic earnings per share before goodwill impairment, intangible asset amortisation and exceptional items from continuing operations	**19.5**	19.8	43.6

NOTES TO THE INTERIM REPORT
continued

6. Notes to the group cash flow statement

	Unaudited six months to 30 June 2006 £m	Unaudited six months to 30 June 2005 £m	Year to 31 Dec 2005 £m
(a) Reconciliation of net debt			
Opening net debt	**435.9**	338.4	338.4
(Increase)/decrease in cash, cash equivalents and overdrafts	**(35.8)**	11.3	4.0
Increase/(decrease) in loans due within one year	**55.4**	(16.5)	(1.8)
(Decrease)/increase in loans due after one year	**(54.1)**	13.8	61.4
Increase/(decrease) in finance lease obligations	**2.3**	(7.3)	26.3
Loans acquired	**4.9**	8.0	12.0
Finance leases acquired	**–**	–	0.8
Currency translation adjustments	**2.4**	(7.4)	(5.2)
Closing net debt	**411.0**	340.3	435.9

	Unaudited six months to 30 June 2006 £m	Unaudited six months to 30 June 2005 £m	Year to 31 Dec 2005 £m
(b) Reconciliation of operating profit to net cash flow from operating activities			
Continuing operations			
Operating profit	**52.6**	51.9	111.2
Depreciation	**52.3**	42.6	93.5
Goodwill impairment and intangible asset amortisation	**3.6**	3.2	6.6
EBITDA	**108.5**	97.7	211.3
(Increase)/decrease in inventories, excluding acquisitions and disposal	**(4.8)**	1.5	(0.8)
Increase in trade and other receivables, excluding acquisitions and disposal	**(25.2)**	(22.6)	(30.5)
(Decrease)/increase in creditors, excluding acquisitions and disposal	**(9.7)**	21.0	0.3
Cash generated from continuing operating activities	**68.8**	97.6	180.3
Discontinued operations			
Operating profit	**0.6**	5.1	10.2
Depreciation	**2.1**	11.7	23.6
EBITDA	**2.7**	16.8	33.8
Increase in trade and other receivables	**(1.6)**	(0.6)	(0.2)
Increase/(decrease) in creditors	**2.0**	(4.1)	(6.0)
Cash generated from discontinued operations	**3.1**	12.1	27.6
Cash generated from operations	**71.9**	109.7	207.9

	Unaudited six months to 30 June 2006 £m	Unaudited six months to 30 June 2005 £m	Year to 31 Dec 2005 £m
(c) Segmental EBITDA			
UK Bus	**57.1**	53.2	116.2
UK Trains	**6.7**	9.0	16.3
Mainland Europe	**47.3**	38.4	87.7
Bus & Coach	**2.6**	3.0	5.1
Central	**(5.2)**	(5.9)	(14.0)
Continuing operations	**108.5**	97.7	211.3

	1 January 2006 £m	Cash flow £m	Acquisitions (excluding cash and overdrafts) £m	Exchange differences £m	**Unaudited 30 June 2006 £m**
(d) Analysis of net debt					
Cash, cash equivalents and overdrafts	(71.6)	(35.8)	–	(0.4)	**(107.8)**
Loans due within one year	122.9	55.4	4.9	1.2	**184.4**
Loans due after one year	297.1	(54.1)	–	1.1	**244.1**
Finance leases	87.5	2.3	–	0.5	**90.3**
	435.9	(32.2)	4.9	2.4	**411.0**

INDEPENDENT REVIEW REPORT TO ARRIVA PLC

Introduction

We have been instructed by the company to review the financial information for the six months ended 30 June 2006 which comprises the Group Balance Sheet as at 30 June 2006, and the related Group Income Statement, Group Cash Flow Statement, Group Statement of Recognised Income and Expense, and the related notes. We have read the other information contained in the Interim Report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

Directors' responsibilities

The Interim Report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The Listing Rules of the Financial Services Authority require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

This Interim Report has been prepared in accordance with the basis set out in Note 1 on page 10.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the disclosed accounting policies have been applied. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance. Accordingly we do not express an audit opinion on the financial information. This report, including the conclusion, has been prepared for and only for the company for the purpose of the Listing Rules of the Financial Services Authority and for no other purpose. We do not, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2006.

PricewaterhouseCoopers LLP
Chartered Accountants
Newcastle upon Tyne
7 September 2006

Notes:

(a) The maintenance and integrity of the Arriva plc web site 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 Interim Report since it was initially presented on the web site.

(b) Legislation in the United Kingdom governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.

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