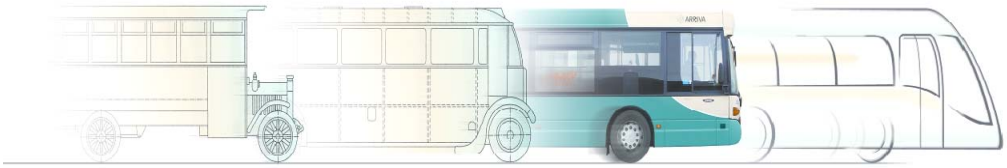
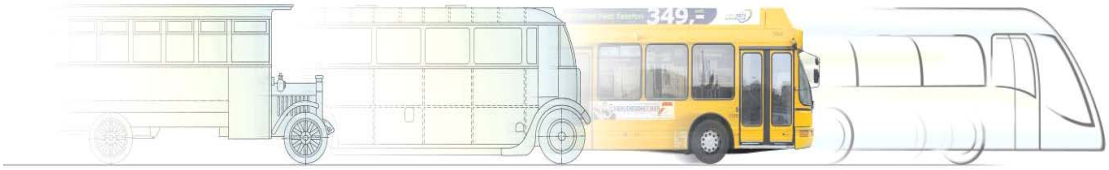


Arriva plc
Interim Report 2008



ARRIVA

Arriva plc

INTERIM RESULTS FOR THE SIX MONTHS TO 30 JUNE 2008

Highlights

- Excellent progress across the group
    - Group revenue up 59 per cent
    - Continued double-digit revenue and operating profit growth in mainland Europe
    - CrossCountry delivers step-change in UK Trains operating profit
    - 20 per cent increase in UK Bus operating profit
- Substantial increase in earnings
    - Basic earnings per share up 31 per cent to 23.8 pence
    - EPS before goodwill impairment and intangible asset amortisation up 32 per cent to 25.9 pence
- Increased returns to shareholders
    - Interim dividend up 10 per cent to 6.15 pence per share

Commenting on the results, Arriva's chief executive, David Martin, said: "I am delighted by these results. All three divisions are growing strongly, and the business has real momentum. Our focus on Europe's diverse transport markets gives us resilience and great potential for further growth. Our consistent delivery shows the benefits of a broadly-based strategy.

"We plan to maintain growth by continuing to explore opportunities for tenders and acquisitions. Our varied portfolio now extends to 12 countries, and we are well positioned to develop our existing businesses still further. Our established operational skills give us a proven ability to meet the needs of a broad customer base, from national governments to individual members of the travelling public. Higher fuel prices and toughening economic conditions present challenges for the industry, but bring with them the possibility of higher demand for our transport solutions. Arriva is well-placed to benefit from further developments in the markets we serve."

Significant Business Developments

Arriva has had an excellent first half year, demonstrating substantial growth in its revenue, operating profit and earnings, with all three divisions performing strongly.

In mainland Europe we report another period of double-digit revenue and operating profit growth, and have further strengthened and deepened our footprint. Our acquisition of an additional 10 per cent of Barraqueiro SGPS SA (Barraqueiro) in January took our stake in Portugal's leading public transport operator to 31.5 per cent. In July we acquired bus group Empresa de Blas y Cia S.L. (De Blas), in the Spanish capital, and completed the acquisition of 80 per cent of Hungary-based bus business, Interbus Invest, the holding company of Eurobus Invest (Eurobus), giving us a significant presence in the liberalising Hungarian and Slovakian markets. Our strategic growth in mainland Europe continues with new contracts yet to start in Sweden, Germany and the Netherlands this year and next.

Revenue and operating profit in our UK Trains division have risen considerably, as anticipated, as a result of the successful start of our CrossCountry operations, combined with continuing progress at Arriva Trains Wales.

The UK Bus division is trading strongly. Earlier this year we acquired Tellings Golden Miller Group (TGM), followed by Excel Passenger Logistics Limited, Flight Delay Services Limited, and Excel Gatwick Limited (the Excel Group), creating a platform upon which to build our airport transport services business.

The price of diesel fuel has risen considerably during the first six months of the year and remains at a high level which will have a future impact on our cost base. The group continues to manage its fuel costs proactively, making extensive use of derivative contracts. Fuel costs are substantially fixed for 2008 and over two-thirds of 2009's anticipated fuel requirement (as at 30 June 2008) of 520 million litres is now fixed, with indexation coverage accounting for a further 10 per cent.

Summary of Results

Revenue was up 59 per cent to £1,443.4 million (2007: £909.2 million), reflecting strong growth across all three divisions and the first full half year of CrossCountry operations. Operating profit rose 44 per cent to £76.3 million (2007: £52.9 million), following a strong performance across the group, the addition of CrossCountry and the £3.5 million effect of translating the results of mainland Europe from euro to sterling at a higher rate than last year.

Net finance costs increased by £4.7 million to £12.3 million. This is the result of increased debt arising from acquisitions and investments, higher interest rates, and the £2.2 million impact of translating euro-based interest costs into sterling at a higher rate.

Profit before taxation increased by 40 per cent to £66.3 million (2007: £47.3 million). The charge for taxation was up slightly for the half year from 20.7 per cent to 22.9 per cent, broadly similar to the full 2007 effective rate of 22.3 per cent. After taxation, profit for the period was £51.1 million (2007: £37.5 million). The group's share of post-tax profits from associates was £2.3 million (2007: £2.0 million). Consequently earnings per share before goodwill impairment, intangible asset amortisation and exceptional items, was up 32 per cent to 25.9 pence (2007: 19.6 pence). Basic earnings per share was also up 31 per cent to 23.8 pence (2007: 18.1 pence). The net impact of the change in the euro / sterling exchange rate was 0.3 pence per share.

The Board is declaring an interim dividend of 6.15 pence per share, an increase of 10 per cent, to be paid on 1 October 2008 to shareholders on the Register at the close of business on 12 September 2008.

Business Review

Divisional Results

Six months to 30 June	Revenue		Operating profit	
£m	**2008**	2007	**2008**	2007
Mainland Europe*	**626.0**	417.0	**34.9**	28.1
UK Bus	**454.5**	399.7	**45.5**	37.8
UK Trains	**415.5**	121.6	**14.8**	1.1
Central	**-**	-	**(9.5)**	(6.8)
	1,496.0	938.3	**85.7**	60.2
Associated companies				
- Mainland Europe	**(52.6)**	(29.1)	**(4.5)**	(3.7)
Total operations	**1,443.4**	909.2	**81.2**	56.5
Goodwill impairment and intangible asset amortisation	**-**	-	**(4.9)**	(3.6)
Group revenue and operating profit	**1,443.4**	909.2	**76.3**	52.9

**Including share of associated companies' revenue and operating profit*

The remainder of this commentary reflects the segmental analysis set out in the table above, which shows divisional results, including Arriva's share of revenue and operating profit from associated companies, before goodwill impairment, intangible asset amortisation and net finance costs.

Mainland Europe

Operating profit increased by 24 per cent to £34.9 million (2007: £28.1 million) from revenue of £626.0 million (2007: £417.0 million), up 50 per cent.

The growth in revenue and operating profit in the first six months of this year principally reflects contract starts, the benefits of acquisitions made in the previous year and the increase in value of the euro. The exchange rate used to translate euro results into sterling was 14 per cent higher than last year, with a consequent impact on reported revenue and operating profit.

Germany

As the largest private rail operator in a market still in the early stages of liberalisation, we have benefited from the first full year of operating Osthannoversche Eisenbahnen AG (OHE), currently a low margin business, which provides potential for growth in both passenger transport and rail freight in coming years.

In December 2007, we began operating two new 10-year rail services in southern Germany, with combined lifetime revenues of approximately €370 million (£292 million), and two shorter rail franchises in northern Germany via Metronom, the passenger rail subsidiary of our OHE business. In January 2008, we also began

operating a seven-year bus contract near Frankfurt, with further contracts due to start later this year and in early 2009.

Mobilisation plans are progressing well for the 10-year Spree-Neisse rail franchise, which we are due to start operating as part of a joint venture in the east of the country in December 2008. We will start operating a further joint venture for a 12-year rail contract in southern Germany in December 2009. These contracts have combined lifetime revenue of approximately €270 million (£213 million).

The Netherlands

Our strong reputation in the Dutch market was enhanced by the successful start of the Hoekse Waard and Goeree Overflakkee bus contract to the south of Rotterdam, in January 2008. The seven-year contract, which has a one-year extension option, is expected to generate lifetime revenue of some €150 million (£119 million).

By December 2008, we are due to add seven new electric trains, increasing capacity of the 12-year DAV bus and rail contract started in December 2006 in the Dordrecht region.

Industrial action during the period has been satisfactorily resolved and improves the outlook for the second half of 2008 onwards.

Scandinavia

Our acquisition of Veolia Scandinavia last year consolidated our position as Denmark's leading private bus and rail operator, and we are continuing to implement plans for improved efficiency and financial performance of the combined business.

June saw completion of the first full year of operating the nine-year Pågatåg regional train service contract in the Skåne region of southern Sweden which has been operating with exceptional punctuality of 99.5 per cent. The contract is currently expected to generate lifetime revenue of approximately SEK 1.8 billion (£150 million). The contract will be expanded as a result of 49 new trains due to enter service between 2009 and 2011 which will increase capacity by 150 per cent. Building further on this success, Arriva has been awarded a small seven-year rail contract with a two-year extension option in the Gothenburg area of the country, with operations due to start in June 2009 and anticipated lifetime revenue of SEK 315 million (£26 million).

In March 2009 we will start operating two five-year bus contracts in Stockholm, our first in the Swedish capital, with five-year extension options, and lifetime revenue of approximately SEK 1.5 billion (£125 million).

Italy

We retained our position as the largest private operator in the Italian bus market, although successive changes in government have delayed the liberalisation process. In January 2008, we increased our shareholding in SAIA Trasporti Capital, based in Brescia, to 100 per cent. We have added to our growing airport operations, at Turin Caselle, Milan Malpensa and Milan Linate airports. The contract to operate services at Bergamo's Orio al Serio airport has been renewed for a further two years.

The results include a small contribution from our stake in previously publicly owned SPT Linea, acquired in June 2007 through a 50:50 joint venture with FNM Spa, with a 49 per cent interest.

We are encouraged by the passing of the recent Italian Budget Law which should enhance public transport provision across the country with commitment to further state funding for the next three years.

Iberia

Further developing our position in Portugal, in January 2008, we invested in an additional 10 per cent interest in the leading passenger transport operator Barraqueiro, taking our stake to 31.5 per cent. Our combined Portuguese operations have achieved revenue growth in both bus and rail, though in the first part of 2008 profitability has been affected by rising fuel costs. Our business will now benefit from a compensatory fare increase of 5.83 per cent, authorised by the government, which took effect from July.

In Spain, a fare increase of 3.27 per cent, recommended by central government to address increasing fuel costs, will take effect as sanctioned by the autonomous regions. Following on from acquisitions last year we have significantly increased our position in the key Madrid area, with the acquisition in July of one of the largest privately owned contractors to the Madrid Transport Authority, De Blas, which operates 224 buses. Madrid is a thriving public transport city, with both a rapidly growing population and a transport authority proactively investing in services and infrastructure.

Eastern Europe

Transcentrum Bus s.r.o., Bosak Bus s.r.o. and Osnado Spol s.r.o. are performing well. The process of integration is proceeding smoothly and we are actively pursuing new opportunities to further enhance our presence in this market. In order to prepare ourselves for further growth, we have strengthened the senior management team and established a central office in Prague.

The three-year rail contract in north-west Poland, which Arriva started in December 2007, as part of a 50:50 joint venture, is operating well, although has incurred small losses.

In July we completed the acquisition of an 80 per cent stake in the largest privately-owned Hungarian bus operator, Eurobus, operating 840 buses and taking us into Hungary and Slovakia. This gives us a position from which to develop opportunities arising from the anticipated privatisation in the Hungarian regional bus sector, and to consolidate our position in Slovakia.

UK Bus

Our UK Bus division showed an increase in operating profit of 20 per cent to £45.5 million (2007: £37.8 million) from revenue of £454.5 million (2007: £399.7 million), up 14 per cent. The growth in the business and its improved margins reflect strong trading with increased passenger numbers, and contributions from acquired businesses, including TGM. Our hedging policy has postponed the effect on the business of recent fuel price rises and allows us time to plan and implement mitigating actions.

UK Regions

Our UK regional bus business has continued to deliver robust trading with revenue growth of 7.0 per cent, excluding TGM, bolstered by continued targeted network development. More than 460 new vehicles are due to enter service during 2008, further improving our attractiveness to existing and potential passengers.

Passenger growth continues to be encouraging, assisted by marketing initiatives, technology developments, and the wider take-up of concessionary travel. Developing partnerships with local authorities has continued, helping to create a positive environment for growth.

In January 2008, we acquired Heathrow-based bus, coach and airside passenger transport operator TGM, complementing Arriva's airside passenger services in Germany and Italy. Through TGM we subsequently acquired the Excel Group, providing contracted and commercial services at Manchester, Stansted and Gatwick airports to the British Airports Authorities and local authorities, as well as private coach hire and airside crew transport.

London

Arriva continues to be one of the largest bus operators in London, with year-on-year mileage growth of 4.0 per cent. Our operations have performed well despite the ongoing disruptive impact of street works. All existing contracts up for tender in the period have been retained, and two new contracts have been started successfully, with a further new contract due to start in September.

The Original Tour sightseeing business has performed well, similar to last year, assisted by the new Trafalgar Square visitor centre opened last autumn.

UK Bus & Coach distribution

Our Bus & Coach distribution business continues to produce a good performance, in line with last year.

UK Trains

Operating profit at our UK Trains division rose significantly to £14.8 million (2007: £1.1 million) on revenue of £415.5 million (2007: £121.6 million), reflecting our strengthened rail position in the UK with the first full six-month contribution from CrossCountry and the absence of franchise bid costs in 2008.

CrossCountry

Passenger revenue for the six months to 30 June 2008 was up 10.3 per cent on the equivalent services last year, based on best like-for-like estimates for the remapped franchise. This is in advance of most of the anticipated benefits of substantial investments in customer-facing technology and additional capacity being made later in 2008 and in 2009.

Operational performance has improved, with 90.2 per cent of trains arriving at their destination within 10 minutes of schedule for the six months to 30 June 2008. Due to the remapping of the franchise no exact comparison can be measured against the same period in the previous year, but this is an encouraging figure against the 86.2 per cent estimated for the first half of 2007.

Arriva Trains Wales (ATW)

ATW continues to be amongst the top performing rail franchises in the UK, with consistently high operational performance, and with 92.9 per cent of trains arriving at their destination within five minutes of schedule in the six months to 30 June 2008, up slightly from 92.7 per cent for the same period in 2007.

Passenger demand remains strong, partly reflecting the successful re-opening of the Ebbw Valley Railway in February 2008, and excellent growth on the Cardiff to Manchester route. Passenger revenue for the period was up 12.3 per cent.

Innovation and the Environment

As the debate about climate change progresses, Arriva has continued to explore and experiment with new technologies that can contribute to its carbon reduction target published earlier this year.

Arriva was recently awarded a two-year contract to operate a fleet of 11 electric buses in the city centre of Copenhagen, due to start later this year, with an option for a further four-year contract extension. Having operated the first hybrid diesel-electric double deck bus in London in partnership with Transport for London (TfL), Arriva is involved in the next phase of the introduction of hybrid buses. We have gained further experience of hybrid technology from our trial on park-and-ride services in West Sussex.

In addition to our experience with different traction technologies we are continuing to develop our knowledge of alternative fuels, while carefully monitoring the ongoing policy debate. Building on our experience of more than four years using B100 biodiesel on trains in Germany, we have extended the use of B30 biodiesel in Portugal, and are using bio-gas produced by a facility next to our Helsingborg depot to fuel a fleet of 61 buses in southern Sweden. Later this year we plan to introduce more buses in Stockholm fuelled by compressed natural gas and ethanol. We are also increasing our use of B100 in Germany and the Netherlands.

Technological innovation can also help change behaviours. Arriva continues to work in partnership with transport authorities in various parts of the UK to deliver real-time passenger information at bus stops. This year in north west England we have run encouraging trials of ‘EcoManager’, a fuel use optimisation system. It includes a simple in-cab display that, together with driver coaching, helps bus drivers reduce fuel consumption. Plans are now being developed to extend its use further. Similar technology is in use on Arriva trains in Bavaria.

Underpinning all of these developments is the professionalism and dedication of Arriva people throughout our businesses. In the UK, Arriva managers recently received national recognition when they were awarded five out of a total of 10 awards in the Passenger Transport Management Awards.

Finance

EBITDA (earnings before interest, tax, depreciation, goodwill impairment and intangible asset amortisation) was £149.2 million, an increase of 35 per cent over the comparable period (2007: £110.6 million), reflecting the substantial year-on-year growth in the group’s activities. A working capital outflow in the first half of the year of £29.9 million (2007: inflow, £24.4 million), resulted in cash generated from operations of £119.3 million (2007: £135.0 million).

Net capital investment was £84.8 million (2007: £55.1 million). The increase of £29.7 million was primarily due to bus and rail expansion in mainland Europe. Acquisitions and investments in associates in the period, including inherited net debt, absorbed £78.7 million (2007: £30.7 million).

Payments of interest, taxation and dividends totalled £52.2 million (2007: £43.9 million), the increase being primarily due to a higher level of net interest costs reflecting higher interest rates, increased debt arising on acquisitions and investments, and the impact of translating euro interest costs at a higher rate.

Translating overseas debt into sterling at £0.79 to the euro, compared to £0.73 to the euro at 31 December 2007, increased net debt by £38.4 million. Net debt overall was £583.1 million (31 December 2007: £448.5 million). Cash and cash equivalents

include £79 million drawn from facilities in anticipation of completing the acquisitions made in July.

Fuel is substantially fixed for 2008, at an average of around 28 pence per litre (before fuel taxation and delivery costs). As at 30 June 2008, 68 per cent of 2009's then anticipated fuel requirement of around 520 million litres was fixed at an average of 39 pence per litre, with indexation coverage accounting for a further 10 per cent. As reported previously, 75 per cent of the approximate 100 million litre annual fuel requirement for CrossCountry remains fixed at 26.5 pence per litre, until 2016. The fair value of the group's derivative financial instruments has increased in the period to £186.3 million from £38.3 million at 31 December 2007. The movement is primarily due to a significant increase in the fair value of our fuel derivatives, caused by increased fuel prices, partially offset by an increased liability in respect of cross currency swaps, reflecting the impact of the strengthened euro.

Outlook

Arriva has operations spread across 12 national markets, a long-term order book underpinning visibility of future revenues, healthy cash flow, prudent fuel hedging and a strong balance sheet. Higher fuel prices and slower macro-economic growth present challenges for the industry, but also potential opportunities. We have attractive value-for-money propositions, both for fare-paying passengers looking to switch from more fuel-intensive car and air journeys, and for public authorities as they increasingly acknowledge the proven financial benefits of private-sector service delivery.

We are confident of reporting considerable revenue and earnings growth for the full year, in line with management expectations.

Condensed Financial Information

Group Income Statement
Six months to 30 June 2008

	notes	**Unaudited six months to 30 June 2008 £m**	Unaudited six months to 30 June 2007 £m	Audited year to 31 Dec 2007 £m
Revenue	**5**	**1,443.4**	909.2	2,000.7
Net operating expenses		**(1,367.1)**	(856.3)	(1,872.7)
Group operating profit	**5**	**76.3**	52.9	128.0
Share of post tax profits from associates		**2.3**	2.0	4.3
Finance income		**3.1**	3.0	6.7
Finance costs		**(15.4)**	(10.6)	(23.2)
Net finance costs		**(12.3)**	(7.6)	(16.5)
Profit on ordinary activities before taxation	**5**	**66.3**	47.3	115.8
Tax on profit on ordinary activities	**6**	**(15.2)**	(9.8)	(25.8)
Profit for the period		**51.1**	37.5	90.0
Attributable to:				
Equity holders of the parent		**47.3**	35.9	86.4
Minority interests		**3.8**	1.6	3.6
		51.1	37.5	90.0
Dividends per ordinary share	**7**	**6.15p**	5.59p	22.65p
Earnings per share				
Basic earnings per share	**8**	**23.8p**	18.1p	43.5p
Diluted earnings per share	**8**	**23.8p**	18.0p	43.4p
Basic earnings per share before goodwill impairment, intangible asset amortisation and exceptional items	**8**	**25.9p**	19.6p	46.5p

Group Balance Sheet
At 30 June 2008

	notes	**Unaudited 30 June 2008 £m**	Unaudited 30 June 2007 £m	Audited 31 Dec 2007 £m
Non-current assets				
Goodwill	**9**	**359.1**	293.1	328.2
Other intangible assets	**9**	**41.3**	32.2	43.2
Property, plant and equipment	**10**	**1,255.0**	1,023.3	1,164.4
Investments	**11**	**112.1**	52.9	63.6
Derivative financial instruments	**12**	**154.2**	7.0	39.6
		1,921.7	1,408.5	1,639.0
Current assets				
Inventories		**46.5**	36.9	41.1
Trade and other receivables		**396.8**	222.2	360.3
Cash and cash equivalents		**216.4**	103.0	95.7
Derivative financial instruments	**12**	**72.7**	7.4	21.8
		732.4	369.5	518.9
Total assets		**2,654.1**	1,778.0	2,157.9
Current liabilities				
Trade and other payables		**583.2**	411.4	546.5
Tax liabilities		**45.4**	23.8	34.5
Obligations under finance leases		**20.3**	17.1	10.5
Bank overdrafts and loans		**172.6**	144.8	117.9
Derivative financial instruments	**12**	**14.2**	3.1	10.4
		835.7	600.2	719.8
Non-current liabilities				
Bank loans		**367.1**	128.8	203.2
Other loans		**163.7**	127.2	123.3
Retirement benefit obligations		**66.0**	106.1	73.7
Deferred tax liabilities		**137.0**	64.4	87.6
Obligations under finance leases		**75.8**	56.9	89.3
Other non-current liabilities		**115.0**	69.8	114.3
Derivative financial instruments	**12**	**26.4**	1.6	12.7
		951.0	554.8	704.1
Total liabilities		**1,786.7**	1,155.0	1,423.9
Net assets		**867.4**	623.0	734.0
Equity				
Share capital	**13**	**9.9**	9.9	9.9
Share premium account	**13**	**24.4**	23.8	24.2
Other reserves	**13**	**223.6**	66.9	105.0
Retained earnings	**13**	**583.0**	502.9	571.1
Total shareholders' equity		**840.9**	603.5	710.2
Minority interest in equity	**13**	**26.5**	19.5	23.8
Total equity		**867.4**	623.0	734.0

Group Cash Flow Statement
Six months to 30 June 2008

	notes	**Unaudited six months to 30 June 2008 £m**	Unaudited six months to 30 June 2007 £m	Audited year to 31 Dec 2007 £m
Cash flows from operating activities				
Cash generated from operations	**14(b)**	**119.3**	135.0	248.2
Interest and finance charges paid		**(12.3)**	(7.6)	(16.5)
Tax paid		**(4.3)**	(4.5)	(5.4)
Net cash inflow from operating activities		**102.7**	122.9	226.3
Cash flows from investing activities				
Acquisitions of businesses		**(18.9)**	(20.1)	(35.5)
Net (overdraft)/cash assumed on acquisitions		**(0.8)**	7.0	12.3
Investment in associates		**(39.2)**	-	(2.8)
Purchase of property, plant and equipment		**(94.7)**	(64.5)	(232.6)
Disposal of property, plant and equipment		**9.9**	9.4	87.4
Net cash used in investing activities		**(143.7)**	(68.2)	(171.2)
Cash flows from financing activities				
Proceeds from issuing ordinary share capital		**0.2**	0.8	1.3
Increase/(decrease) in loans due within one year		**36.7**	(2.1)	(39.4)
Increase in loans due after one year		**165.7**	0.2	36.0
Decrease in finance lease obligations		**(11.5)**	(4.9)	(15.2)
Dividends paid to the company's shareholders		**(33.9)**	(30.8)	(41.9)
Dividends paid to minority interests		**(1.7)**	(1.0)	(1.0)
Net cash generated/(used) in financing activities		**155.5**	(37.8)	(60.2)
Net increase/(decrease) in cash, cash equivalents and overdrafts	**14(d)**	**114.5**	16.9	(5.1)
Cash, cash equivalents and overdrafts at the beginning of the period	**14(d)**	**62.4**	71.1	71.1
Exchange losses on cash, cash equivalents and overdrafts	**14(d)**	**(0.3)**	(0.1)	(3.6)
Cash, cash equivalents and overdrafts at the end of the period	**14(d)**	**176.6**	87.9	62.4

Group Statement of Recognised Income and Expense
Six months to 30 June 2008

	Unaudited six months to 30 June 2008 £m	Unaudited six months to 30 June 2007 £m	Audited year to 31 Dec 2007 £m
Net foreign exchange adjustments offset in reserves, net of tax	**0.3**	(0.8)	4.1
Cash flow hedges, net of tax	**118.6**	8.9	47.0
Actuarial gains on defined benefit schemes, net of tax	**-**	46.5	70.6
Tax relief on share option schemes	**-**	-	0.5
Net income recognised directly in equity	**118.9**	54.6	122.2
Profit for the period	**51.1**	37.5	90.0
Total recognised income and expense for the period	**170.0**	92.1	212.2
Attributable to:			
Equity holders of the parent	**164.4**	90.5	206.7
Minority interests	**5.6**	1.6	5.5
	170.0	92.1	212.2

Notes to the Condensed Financial Information
Six months to 30 June 2008

1. General information

Arriva plc is a public limited company that is incorporated, domiciled and is registered in the United Kingdom. The registered office is Admiral Way, Doxford International Business Park, Sunderland, SR3 3XP. The company has its primary listing on the London Stock Exchange.

The Interim Report will be available on the Arriva plc website, www.arriva.co.uk, on 22 August 2008. Copies of the Interim Report are available from the Company Secretary, Arriva plc, Admiral Way, Doxford International Business Park, Sunderland, SR3 3XP.

2. Basis of preparation

The Interim Report has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Services Authority and with IAS34, 'Interim Financial Reporting' as adopted by the European Union. The Interim Report should be read in conjunction with the annual financial statements for the year ended 31 December 2007, which have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

The results for the six months to 30 June 2008 are unaudited but have been reviewed by the auditors. The comparative figures for the six months to 30 June 2007 are unaudited and are derived from the Interim Report for the six months to 30 June 2007, which was also reviewed by the auditors. The condensed consolidated financial information for the year ended 31 December 2007 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.

The directors confirm that this condensed set of financial statements has been prepared in accordance with IAS34 as adopted by the European Union, and that the Interim Report herein includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8.

The Interim Report, including the responsibility statement in the preceding paragraph which is made in accordance with DTR 4.2.10 (1), was approved by the Board of Directors on 20 August 2008.

The directors of Arriva plc are listed on pages 44 to 45 of the group's Annual Report and Accounts 2007. A list of current directors is maintained on the Arriva plc website www.arriva.co.uk.

3. Accounting policies

The accounting policies adopted are consistent with those set out on pages 65 to 69 in the group's Annual Report and Accounts 2007.

4. Risks and uncertainties

The actual and potential risks faced by the business have been reviewed at the half year as part of the ongoing risk assessment and management process. The principal risks and uncertainties remain unchanged from those detailed on pages 32 to 33 of the group's Annual Report and Accounts 2007.

5. Segmental analysis

	Unaudited six months to 30 June 2008		Unaudited six months to 30 June 2007		Audited year to 31 December 2007	
	Revenue £m	**Operating profit £m**	Revenue £m	Operating profit £m	Revenue £m	Operating profit £m
Mainland Europe	**573.4**	**30.4**	387.9	24.4	863.6	57.1
UK Bus	**454.5**	**45.5**	399.7	37.8	814.7	87.9
UK Trains	**415.5**	**14.8**	121.6	1.1	322.4	7.5
Central	**-**	**(9.5)**	-	(6.8)	-	(17.1)
Total operations*	**1,443.4**	**81.2**	909.2	56.5	2,000.7	135.4
Goodwill impairment and intangible asset amortisation		**(4.9)**		(3.6)		(7.4)
Group operating profit		**76.3**		52.9		128.0
Share of post tax profits from associates		**2.3**		2.0		4.3
Net finance costs		**(12.3)**		(7.6)		(16.5)
Profit on ordinary activities before taxation		**66.3**		47.3		115.8

*Before goodwill impairment and intangible asset amortisation

Included above is £25.2 million of revenue and £1.4 million of operating profit, before goodwill impairment and intangible asset amortisation, relating to the acquisitions made by the UK Bus division during the period.

Total assets	**Unaudited 30 June 2008 £m**	Unaudited 30 June 2007 £m	Audited 31 Dec 2007 £m
Mainland Europe	**1,367.0**	944.1	1,227.4
UK Bus	**713.1**	652.5	642.1
UK Trains	**111.9**	44.5	114.3
Central	**18.8**	19.5	17.0
Unallocated	**443.3**	117.4	157.1
Total operations	**2,654.1**	1,778.0	2,157.9

The primary reasons for the increase in unallocated assets are the increase in the fair value of derivative financial instruments as disclosed in note 12 and an increase in cash and cash equivalents following the drawdown of credit facilities to finance acquisitions in July.

6. Taxation

Tax on profit on ordinary activities for the six months to 30 June 2008 has been calculated on the basis of the estimated annual effective rate for the year ending 31 December 2008. The tax charge of £15.2 million (six months to 30 June 2007: £9.8 million and for the year ended 31 December 2007: £25.8 million) represents an effective tax rate on profit before tax of 22.9 per cent (six months to 30 June 2007: 20.7 per cent and for the year ended 31 December 2007: 22.3 per cent).

The UK Government's proposals to abolish Industrial Buildings Allowances (IBAs) were included in the 2008 Finance Act which, for the purposes of IFRS, was not substantively enacted by the balance sheet date. Therefore the impact is not included within these results. It is anticipated that the change will result in an exceptional deferred tax charge in the second half of the year of around £7 million.

7. Dividends

	Unaudited six months to 30 June 2008 £m	Unaudited six months to 30 June 2007 £m	Audited year to 31 Dec 2007 £m
Final dividend paid for the year ended 31 December 2007 of 17.06 pence (2007: final dividend paid for the year ended 31 December 2006 of 15.51 pence) per share	**33.9**	30.8	30.8
Interim dividend paid of 5.59 pence for the year ended 31 December 2007	**-**	-	11.1
Amounts recognised as distributions to equity holders in the period	**33.9**	30.8	41.9
Proposed interim dividend for the year ending 31 December 2008 of 6.15 pence (2007: 5.59 pence) per share	**12.2**	11.1	-

The proposed interim dividend was approved by the Board on 20 August 2008 and has not been included as a liability as at 30 June 2008. It will be paid on 1 October 2008 to shareholders who are on the Register of Members on 12 September 2008.

8. Earnings per share

Basic earnings per share is based on earnings of £47.3 million (six months to 30 June 2007: £35.9 million and for the year ended 31 December 2007: £86.4 million) and on the weighted average number of ordinary shares of 198.6 million (six months to 30 June 2007: 198.3 million and for the year ended 31 December 2007: 198.4 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 199.0 million (six months to 30 June 2007: 199.3 million and for the year ended 31 December 2007: 199.1 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 2008 p	Unaudited six months to 30 June 2007 p	Audited year to 31 Dec 2007 p
Basic earnings per share	**23.8**	18.1	43.5
Earnings per share relating to:			
Goodwill impairment and intangible asset amortisation	**2.1**	1.5	3.0
Basic earnings per share before goodwill impairment, intangible asset amortisation and exceptional items	**25.9**	19.6	46.5
Diluted earnings per share	**23.8**	18.0	43.4

9. Goodwill and other intangible assets

	Goodwill £m	Other intangible assets £m
Net book amount		
At 1 January 2008	328.2	43.2
Additions (note 15)	14.1	-
Hindsight adjustments	0.2	-
Impairment and amortisation	(1.0)	(3.9)
Currency translation adjustments	17.6	2.0
At 30 June 2008	**359.1**	**41.3**
At 1 January 2007	286.4	34.9
Additions	7.8	-
Hindsight adjustments	0.1	-
Impairment and amortisation	(0.9)	(2.7)
Currency translation adjustments	(0.3)	-
At 30 June 2007	293.1	32.2
At 1 January 2007	286.4	34.9
Additions	24.1	12.0
Hindsight adjustments	2.2	-
Impairment and amortisation	(1.8)	(5.6)
Currency translation adjustments	17.3	1.9
At 31 December 2007	328.2	43.2

10. Property, plant and equipment

	Land & buildings £m	Plant, company vehicles, fixtures & fittings £m	Buses & coaches £m	Railway rolling stock £m	Total £m
Net book amount					
At 1 January 2008	277.0	89.4	678.6	119.4	1,164.4
Acquisitions	1.1	0.8	19.7	0.1	21.7
Additions	5.9	13.3	62.1	13.4	94.7
Disposals	(4.5)	(2.6)	(2.8)	-	(9.9)
Depreciation	(3.4)	(9.6)	(50.8)	(4.2)	(68.0)
Currency translation adjustments	10.6	4.3	27.7	9.5	52.1
At 30 June 2008	**286.7**	**95.6**	**734.5**	**138.2**	**1,255.0**
At 1 January 2007	227.6	58.1	611.4	85.4	982.5
Acquisitions	13.2	12.2	15.9	-	41.3
Additions	1.9	13.8	44.8	4.0	64.5
Disposals	(0.1)	(1.6)	(7.7)	-	(9.4)
Depreciation	(2.4)	(7.2)	(42.1)	(2.4)	(54.1)
Currency translation adjustments	(0.2)	(0.2)	(1.1)	-	(1.5)
At 30 June 2007	240.0	75.1	621.2	87.0	1,023.3
At 1 January 2007	227.6	58.1	611.4	85.4	982.5
Acquisitions	33.3	13.8	43.4	7.9	98.4
Additions	14.5	31.3	93.9	92.9	232.6
Disposals	(3.7)	(1.7)	(11.5)	(70.5)	(87.4)
Depreciation	(5.6)	(16.1)	(86.2)	(5.9)	(113.8)
Currency translation adjustments	10.9	4.0	27.6	9.6	52.1
At 31 December 2007	277.0	89.4	678.6	119.4	1,164.4

11. Investments accounted for using the equity method

Investments in associated undertakings (all unquoted)	**Unaudited 30 June 2008 £m**	Unaudited 30 June 2007 £m	Audited 31 Dec 2007 £m
Opening	63.6	51.4	51.4
Additions	39.2	-	3.7
Share of recognised profit for the period*	2.3	2.0	4.3
Currency translation adjustments	7.0	(0.5)	4.2
Closing	**112.1**	52.9	63.6

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

In January 2008 the group acquired a further 10 per cent interest in Barraqueiro SGPS SA for a consideration of £37.2 million, which increased the shareholding to 31.5 per cent. In April 2008 the group acquired a 40 per cent interest in Centrebus Holdings Limited for £2.0 million.

12. Derivative financial instruments

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

	Unaudited 30 June 2008 £m	Unaudited 30 June 2007 £m	Audited 31 Dec 2007 £m
Non-current assets			
Interest rate swaps – cash flow hedge	**3.3**	1.6	0.4
Fuel derivatives – cash flow hedge	**150.9**	4.8	39.2
Cross currency swaps – net investment hedge	**-**	0.6	-
	154.2	7.0	39.6

	Unaudited 30 June 2008 £m	Unaudited 30 June 2007 £m	Audited 31 Dec 2007 £m
Current assets			
Interest rate swaps – cash flow hedge	**0.5**	-	1.2
Fuel derivatives – cash flow hedge	**72.2**	5.3	20.6
Cross currency swaps – net investment hedge	**-**	2.1	-
	72.7	7.4	21.8

	Unaudited 30 June 2008 £m	Unaudited 30 June 2007 £m	Audited 31 Dec 2007 £m
Current liabilities			
Interest rate swaps – cash flow hedge	**0.8**	-	-
Fuel derivatives – cash flow hedge	**-**	3.1	-
Cross currency swaps – net investment hedge	**13.4**	-	10.4
	14.2	3.1	10.4

	Unaudited 30 June 2008 £m	Unaudited 30 June 2007 £m	Audited 31 Dec 2007 £m
Non-current liabilities			
Cross currency swaps – net investment hedge	**26.4**	1.6	12.7

The changes in the fair value of fuel derivatives and cross currency swaps are due to the impact of increased fuel prices and the strengthening of the euro respectively.

13. Statement of changes in equity

	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	**Total shareholders' equity £m**	Minority interests £m	**Total equity £m**
At 1 January 2008	9.9	24.2	105.0	571.1	**710.2**	23.8	**734.0**
Arising on issue of shares	-	0.2	-	-	**0.2**	-	**0.2**
Total recognised income and expense for the period	-	-	118.6	45.8	**164.4**	5.6	**170.0**
Dividends	-	-	-	(33.9)	**(33.9)**	(1.7)	**(35.6)**
Minority interest acquired by the group	-	-	-	-	**-**	(1.2)	**(1.2)**
At 30 June 2008	**9.9**	**24.4**	**223.6**	**583.0**	**840.9**	**26.5**	**867.4**
At 1 January 2007	9.9	22.4	58.0	452.2	542.5	16.3	558.8
Arising on issue of shares	-	1.4	-	(0.6)	0.8	-	0.8
Share-based payments	-	-	-	0.5	0.5	-	0.5
Total recognised income and expense for the period	-	-	8.9	81.6	90.5	1.6	92.1
Dividends	-	-	-	(30.8)	(30.8)	(1.0)	(31.8)
Minority share of acquisition	-	-	-	-	-	2.6	2.6
At 30 June 2007	9.9	23.8	66.9	502.9	603.5	19.5	623.0
At 1 January 2007	9.9	22.4	58.0	452.2	542.5	16.3	558.8
Arising on issue of shares	-	1.8	-	(0.5)	1.3	-	1.3
Share-based payments	-	-	-	1.6	1.6	-	1.6
Total recognised income and expense for the year	-	-	47.0	159.7	206.7	5.5	212.2
Dividends	-	-	-	(41.9)	(41.9)	(1.0)	(42.9)
Minority share of acquisition	-	-	-	-	-	3.0	3.0
At 31 December 2007	9.9	24.2	105.0	571.1	710.2	23.8	734.0

14. Notes to the group cash flow statement

	Unaudited six months to 30 June 2008 £m	Unaudited six months to 30 June 2007 £m	Audited year to 31 Dec 2007 £m
(a) Reconciliation of net debt			
Opening net debt	**448.5**	378.4	378.4
(Increase)/decrease in cash, cash equivalents and overdrafts	**(114.5)**	(16.9)	5.1
Increase/(decrease) in loans due within one year	**36.7**	(2.1)	(39.4)
Increase in loans due after one year	**165.7**	0.2	36.0
Decrease in finance lease obligations	**(11.5)**	(4.9)	(15.2)
Loans acquired	**19.9**	17.1	19.5
Finance leases acquired	**(0.1)**	0.5	28.0
Currency translation adjustments	**38.4**	(0.5)	36.1
Closing net debt	**583.1**	371.8	448.5

	Unaudited six months to 30 June 2008 £m	Unaudited six months to 30 June 2007 £m	Audited year to 31 Dec 2007 £m
(b) Reconciliation of operating profit to cash generated from operations			
Operating profit	**76.3**	52.9	128.0
Depreciation	**68.0**	54.1	113.8
Goodwill impairment and intangible asset amortisation	**4.9**	3.6	7.4
EBITDA	**149.2**	110.6	249.2
Increase in inventories	**(3.0)**	(0.5)	(1.0)
(Increase)/decrease in trade and other receivables	**(9.6)**	13.1	(87.2)
(Decrease)/increase in creditors	**(17.3)**	11.8	87.2
Cash generated from operations	**119.3**	135.0	248.2

	Unaudited six months to 30 June 2008 £m	Unaudited six months to 30 June 2007 £m	Audited year to 31 Dec 2007 £m
(c) Segmental EBITDA			
Mainland Europe	**66.8**	49.8	111.0
UK Bus	**75.3**	65.1	144.2
UK Trains	**16.4**	2.3	10.7
Central	**(9.3)**	(6.6)	(16.7)
Total operations	**149.2**	110.6	249.2

14. Notes to the group cash flow statement (continued)

(d) Analysis of net debt

Six months to 30 June 2008

	1 January 2008 £m	Cash flow £m	Acquisitions (excluding cash & overdrafts) £m	Exchange differences £m	Unaudited 30 June 2008 £m
Cash, cash equivalents and overdrafts	(62.4)	(114.5)	-	0.3	**(176.6)**
Loans due within one year	84.6	36.7	4.9	6.6	**132.8**
Loans due after one year	326.5	165.7	15.0	23.6	**530.8**
Finance leases	99.8	(11.5)	(0.1)	7.9	**96.1**
	448.5	76.4	19.8	38.4	**583.1**

Six months to 30 June 2007

	1 January 2007 £m	Cash flow £m	Acquisitions (excluding cash & overdrafts) £m	Exchange differences £m	Unaudited 30 June 2007 £m
Cash, cash equivalents and overdrafts	(71.1)	(16.9)	-	0.1	(87.9)
Loans due within one year	115.0	(2.1)	17.1	(0.3)	129.7
Loans due after one year	256.1	0.2	-	(0.3)	256.0
Finance leases	78.4	(4.9)	0.5	-	74.0
	378.4	(23.7)	17.6	(0.5)	371.8

Year ended 31 December 2007

	1 January 2007 £m	Cash flow £m	Acquisitions (excluding cash & overdrafts) £m	Exchange differences £m	Audited 31 December 2007 £m
Cash, cash equivalents and overdrafts	(71.1)	5.1	-	3.6	(62.4)
Loans due within one year	115.0	(39.4)	5.8	3.2	84.6
Loans due after one year	256.1	36.0	13.7	20.7	326.5
Finance leases	78.4	(15.2)	28.0	8.6	99.8
	378.4	(13.5)	47.5	36.1	448.5

15. Acquisitions

(a) Analysis of the net cash outflow in respect of acquisitions:	Total £m
Cash consideration (including expenses)	18.9
Overdraft acquired	0.8
Net cash outflow in respect of acquisitions	19.7

The total cash consideration of £18.9 million includes £18.6 million as detailed below and £0.3 million relating to prior year acquisitions.

(b) Current year acquisitions:	Acquired book value £m	Provisional fair value adjustments £m	Net cost £m
Intangible fixed assets - goodwill	5.7	(5.7)	-
Property, plant and equipment	24.2	(2.4)	21.8
Inventories	0.5	-	0.5
Trade and other receivables	8.8	-	8.8
Cash, cash equivalents and overdrafts	(0.8)	-	(0.8)
Trade and other payables	(6.0)	-	(6.0)
Loans	(19.9)	-	(19.9)
Deferred tax	(1.8)	0.7	(1.1)
	10.7	(7.4)	3.3
Minority interest			1.2
Goodwill			14.1
Satisfied by cash			18.6

In January 2008 the group acquired 100 per cent of the share capital of Tellings Golden Miller Group plc for £10.7 million, resulting in goodwill of £9.1 million. In April 2008 the group acquired 100 per cent of the share capital of Excel Passenger Logistics Limited, Excel Gatwick Limited and Flight Delay Services Limited for £6.6 million, £0.5 million of which is deferred, resulting in goodwill of £4.5 million. The goodwill in respect of these acquisitions relates to premiums paid in respect of strategic market entry.

In addition, smaller acquisitions were made in the period, the total cost of which was £1.8 million, resulting in goodwill of £0.5 million.

If all acquisitions had occurred at the start of the period the additional revenue and profit for the period would have been £1.8 million and £0.1 million respectively.

16. Post balance sheet events

Details of the interim dividend proposed are given in note 7.

On 3 July 2008 the group completed the acquisition of the Madrid transport company Empresa de Blas y Cia S.L. for consideration of £78.6 million. In 2007, its revenue was £38.6 million, profit before tax was £2.8 million and net assets were £9.0 million, including net debt of £12.1 million.

On 16 July 2008 the group completed the acquisition of 80 per cent of the Hungarian and Slovakian bus company Inter-bus Invest Befektetesi Zrt, the holding company of Eurobus Invest Regionalis Kozlekedesfejlesztesi Zrt, for £26.6 million, excluding net debt.

It is not practicable to produce the full disclosure requirements of IFRS3 ‘Business Combinations’ in relation to the above two acquisitions due to the relevant financial information not being available at the date of publication of the condensed financial information.

As highlighted in note 6, the UK Government’s proposals to abolish IBAs were included in the 2008 Finance Act which, for the purposes of IFRS, was not substantively enacted by the balance sheet date.

Independent review report to Arriva plc

Introduction
We been engaged by the company to review the condensed set of financial statements in the Interim Report for the six months ended 30 June 2008, which comprises the Group Income Statement, Group Balance Sheet, Group Cash Flow Statement, Group Statement of Recognised Income and Expense and 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 information in the condensed set of financial statements.

Directors' responsibilities
The Interim Report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the Interim Report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

As disclosed in the group accounting policies, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this Interim Report has been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union.

Our responsibility
Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the Interim Report based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of the Disclosure and Transparency 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.

Scope of review
We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion
Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the Interim Report for the six months ended 30 June 2008 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
20 August 2008

Notes:

(a) 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 Interim Report since they were initially presented on the website.

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