6 March 2008

Arriva plc
PRELIMINARY RESULTS FOR THE YEAR ENDED 31 DECEMBER 2007

Highlights

- Revenue up 16 per cent to £2.0 billion, operating profit 7 per cent higher at £128.0 million after absorbing increased fuel prices and the cost of three UK rail bids
- Group order book up 79 per cent to £12.0 billion, mainland Europe up 18 per cent to £4.0 billion
- Strong UK Bus performance: operating profit up 16 per cent, customer satisfaction improved
- Smooth CrossCountry start and excellent improvements in operational performance at Arriva Trains Wales
- Double-digit mainland European growth driven by new contracts, acquisitions and investments: 23 per cent revenue growth, and 15 per cent operating profit growth*
- Adjusted EPS** from continuing businesses up 5 per cent to 46.5 pence
- Consistent high levels of cash generation: EBITDA from continuing operations up 7 per cent to £249.2 million
- Strong balance sheet
- Significant increase in proposed final dividend: up 10 per cent to 17.06 pence, giving a total dividend for the year of 22.65 pence

* *Before goodwill impairment and intangible asset amortisation and including share of associated companies' revenue and operating profit*
** *Before goodwill impairment, intangible asset amortisation and exceptional items*

Commenting on the results, Arriva's chief executive, David Martin, said:

"Arriva's financial results reflect a good trading year underpinned by strong operational performance across the group. We have continued to grow through contract wins and acquisitions.

"I am confident that the full benefits of recent successes in growing our operations will be demonstrated in 2008. The year has started well and we are on track to meet our target of doubling the size of our mainland European business from its 2006 level by 2011.

"Our financial strength, order book, and diversified portfolio of operations have enabled us to raise our proposed final dividend substantially. Arriva shows the qualities of a robust, resilient business poised for further success."

ENDS

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Notes to editors:

Group order book - These figures are estimates of future revenue from contracted business, over a year in duration, rolled forward to reflect contract variations and updated to current prices at each year end.

Arriva is one of the largest transport services organisations in Europe with operations in Denmark, Germany, Italy, the Netherlands, Portugal, Spain, Sweden, the Czech Republic, Poland and the United Kingdom. With some 40,000 employees, including share of associate companies, Arriva provides more than one billion passenger journeys every year through an extensive range of public transport services including buses, trains, commuter coaches and water buses. In the UK, the group is also engaged in bus and coach distribution.

High resolution images are available for the media to view and download free of charge from www.vismedia.co.uk

Chairman's statement

Looking Forward

Progress in 2007 has been extremely encouraging. We have continued our development through a combination of organic growth, acquisitions and investments throughout 2007 and early 2008. Further acquisitions and tenders are now being pursued actively. The groundwork has been laid for further growth in the rest of 2008 and beyond.

Arriva has developed a diverse portfolio of operations. This diversity limits our dependence on any single market or contract for success and ensures we have excellent knowledge of, and access to, a range of new opportunities across most of Europe.

We have reinforced our positions in the UK, Germany, Portugal, Sweden, Denmark, Italy and Spain, and have broken new ground in Poland via a joint venture in that country's first ever private-sector passenger rail contract.

The smooth start in November 2007 of CrossCountry, the UK's most geographically extensive rail franchise, established Arriva as one of the UK's leading rail operators, alongside its position as a leading bus operator.

In financial terms, the full year effect of many of our recent successes has yet to be seen. Nevertheless, for 2007 I am pleased to report strong growth in revenue, up 16 per cent to £2,000.7 million (2006: £1,729.0 million) and group operating profit up seven per cent to £128.0 million (2006: £119.5 million). Profit before taxation for continuing operations was up five per cent to £115.8 million (2006: £109.8 million), despite the headwinds of increased fuel costs and the significant costs incurred on bidding for three UK rail franchises.

Basic earnings per share from continuing operations before goodwill impairment, intangible asset amortisation and exceptional items, our preferred measure, increased to 46.5 pence (2006: 44.4 pence).

Even after a year of significant growth through acquisitions as well as contract wins, our financial position has strengthened further. Having taken advantage of market conditions in early August by securing a £615 million, five-year, revolving credit facility agreement, on improved terms, the group has the financial capacity to meet its anticipated investment needs within existing cash and medium-term credit resources.

Given the strength of the balance sheet, the cash generating power of the business and the prospects for continuing profitable growth, the Board is recommending a significantly higher dividend increase than in previous years. We propose to raise the final dividend by 10 per cent, to 17.06 pence per share. Together with the interim dividend of 5.59 pence per share paid in October 2007, this makes a proposed total dividend of 22.65 pence per share. The final dividend will be paid on 1 May 2008 to all shareholders on the register at the close of business on 28 March 2008.

Overall, we believe that the commercial progress achieved in 2007 will be reflected in results during 2008 and beyond. In parallel, much work is underway to develop promising contract and acquisition opportunities for the medium term. With robust finances, a diverse portfolio, and the momentum provided by our £12.0 billion group order book, Arriva is performing strongly and has built an attractive position for further success.

Sir Richard Broadbent
Chairman

Chief executive's review

Delivery and Development

It has been an exciting year of progress in all three divisions which has translated into a strong financial performance, particularly after absorbing increased fuel prices and substantial bidding costs for three UK rail franchises. Demand for our services has grown strongly across Europe in 2007, as demonstrated by the growth in our order book.

Higher demand goes hand in hand with increasing passenger expectations for safe, reliable and timely services. That challenge, shared between operators and transport authorities, is best met by working together to improve delivery, a challenge we are happy to meet.

As our transport networks spread across Europe, we are increasingly thinking and acting like a network organisation. When we enter a new market the accumulated learning and experience of our new colleagues is connected, not just to a central UK corporate base, but to every Arriva business in every country where we operate. Our passengers, our employees and our investors all now benefit from a web of relationships amongst our 40,000 people.

The transfer of best practice, the spread of innovation and the achievement of scale economies are no longer piped thinly between small, far-away outposts and a dominant, central UK hub. Today, a typical Arriva business development team, an engineering task force or a marketing project group speaks with many accents, is familiar with many European cultures, and can tap into a wealth of knowledge to respond to, and sometimes lead, a changing world.

Innovative real-time information systems pioneered in Denmark helped us win a contract in Sweden by showing how we can maintain trains more effectively, and are now being considered for use in the UK, whilst train maintenance best practice in Portugal has influenced the spread of efficient overnight maintenance across the group. Our experience using biodiesel in our Berlin bus and rail operations has increased our know-how for running buses in the UK and Portugal on biodiesel blends.

Whether in the form of better services, lower prices, improved customer satisfaction or a quicker payback on investment, the benefits of such cross-fertilisation flow to our passengers and tendering authority customers, to our employees, and to our investors.

We aim to be amongst the top three private operators wherever we work. Our strong financial results are built on a year of excellent operational performance across the group, and there is much to be pleased about in all three divisions.

Divisional results

	Revenue		Operating Profit	
	2007	2006	2007	2006
	£m	£m	£m	£m
UK Bus	814.7	762.8	87.9	76.0
Mainland Europe*	927.5	752.3	64.5	56.1
UK Trains	322.4	253.9	7.5	12.3
Central	-	-	(17.1)	(13.6)
	2,064.6	1,769.0	142.8	130.8
Associated companies - Mainland Europe	(63.9)	(40.0)	(7.4)	(4.1)
Continuing operations	2,000.7	1,729.0	135.4	126.7
Goodwill impairment and intangible asset amortisation	-	-	(7.4)	(7.2)
Group revenue and operating profit	2,000.7	1,729.0	128.0	119.5

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

Mainland Europe

As expected, mainland Europe is now the group's largest division, recording the seventh consecutive year of double-digit increase in revenue. Operating profit* rose 15 per cent to £64.5 million (2006: £56.1 million), on revenue* up 23 per cent at £927.5 million (2006: £752.3 million).

The growth in revenue and operating profit in the year has come from acquisitions, investments, contract wins and start-ups. The full year impact of investment in the associate company Barraqueiro SGPS SA (Barraqueiro) was positive, but the divisional operating profit margin was diluted by the low margin acquisitions of OHE in Germany and Veolia Scandinavia in Denmark, which have considerable scope for improvement. Higher fuel costs and bid costs incurred in tendering for the Oresund rail contract in Scandinavia also had some impact. The order book for mainland Europe, reflecting estimated revenue over the life of the contracted business, based on prices at the 2007 year end, has grown by 18 per cent, to £4.0 billion.

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

Germany

Operations in Germany have delivered significant growth in 2007, with revenue up 80 per cent to £219.2 million (2006: £121.7 million). Included in these preliminary results is revenue of £81.1 million and operating profit of £2.2 million from Osthannoversche Eisenbahnen AG (OHE), which we acquired in March 2007. OHE operates more than 400 buses and passenger rail in Lower Saxony, as well as rail infrastructure, road and rail freight and port storage. A break-even business on acquisition, OHE has integrated well, and is performing as expected. Through its passenger rail subsidiary, Metronom, OHE is entering the next phase of growth after commencing two new franchises in December 2007, with combined lifetime revenue of approximately €228 million (£166 million). OHE provides much potential for future growth in both passenger transport and rail freight.

Tender successes in 2006 have resulted in mobilisation of a number of other contracts. In December 2007, we began operation of two 10-year rail contracts in southern Germany, with combined expected lifetime revenue of approximately €370 million (£270 million). In the same month we started a seven-year bus contract near Frankfurt, and ODEG, in which we have a 50 per cent interest, started a small two-year rail contract.

In December 2007 and January 2008 we won three further bus contracts, starting in the Frankfurt area later this year, with a combined lifetime revenue of approximately €38 million (£28.0 million). In December 2008, ODEG will start operating the 10-year Spree-Neisse rail contract, in the east of the country, and in December 2009, we are due to start operating a 12-year rail contract in southern Germany, as part of a 50/50 joint venture with Salzburger Lokalbahn.

In 2007 we strengthened management capacity to facilitate our future growth in Germany. We will continue to consolidate our businesses, mobilise new contracts, and bid for new work, in addition to pursuing a range of acquisition and investment opportunities.

<u>Netherlands</u>
Revenue rose slightly by four per cent to £178.5 million (2006: £172.1 million), reflecting the net impact of won and lost contracts in the Dutch market.

2007 was the first full year of the 12-year DAV bus and rail contract started in December 2006 in the central Dordrecht region. A €30 million (£22 million) investment in these operations will see the introduction of seven new electric trains by December 2008. We have also invested €16 million (£11 million) in new buses for the eight-year bus contract we began operating in the East Brabant region in January 2007, and have increased patronage following the introduction of a new timetable.

Over the course of 2006 and 2007 we started running 43 new trains as part of the 15-year contract to operate rail services in the provinces of Groningen and Friesland, significantly boosting passenger numbers, and as a result expect to receive further funding for the introduction of three more new trains this year.

In January 2008, we started operating the Hoeksche Waard and Goeree Overflakkee bus contract to the south of Rotterdam, adjacent to our DAV operations. The seven-year contract, won in July 2007, has a one-year extension option, and is expected to generate lifetime revenue of approximately €150 million (£110 million).

<u>Scandinavia</u>
Growth in our Swedish operations helped revenue rise three per cent in 2007, to £242.4 million (2006: £234.9 million), excluding Veolia Denmark. The acquisition, in August, of Veolia's Danish business added a further £27.8 million to revenue.

We are pleased with our growing presence in the Swedish market. Our first Swedish rail contract started smoothly in June. The nine-year contract, will generate lifetime revenue of approximately SEK 1.8 billion (£146 million). In December we were awarded two bus contracts in Stockholm, which are scheduled to start later this year. Together the two five-year contracts, with five-year extension options, will have a total fleet of 164 buses, and lifetime revenue of approximately 1.5 billion SEK (£122 million). We have also retained and increased our existing operations in the Jonkoping area for another eight years, with a tender won in October 2007. The contract adds extra routes starting in June 2008, and lifetime revenue of approximately 995 million SEK (£81 million).

The contracting environment in Denmark has been challenging for a number of years and there was an underlying decline in the scale of our activities in the Danish bus market as low margins persisted. The acquisition of the loss-making Veolia bus division in Denmark, the second largest operator, has given us the opportunity to consolidate our operations, optimise the location of our facilities, implement synergies and improve efficiency. Veolia's services, and 640 buses, are now fully integrated into Arriva Scandinavia creating the strongest and largest public transport group in the country. Our market share is unlikely to remain at current levels, but we anticipate improved profitability in future, as unprofitable contracts expire and margins improve as we bid for new contracts.

There is a range of growth prospects in Scandinavia, and in particular we will continue to grow our bus operations in Sweden in 2008.

Italy

Revenue, including share of associates, rose seven per cent to £146.8 million (2006: £137.8 million) at our Italian operations.

In September 2007, Arriva strengthened its position as the largest wholly private bus operator in the Italian market with the acquisition of 49 per cent of SPT Linea, for €6.8 million (£4.6 million), as part of a 50:50 joint venture with Lombardy-based bus and rail operator Ferrovie Nord Milano Group (FNM SpA). SPT Linea which operates 317 buses in the Lombardy region of northern Italy, was previously wholly publicly owned. In January 2008, we increased our shareholding in Brescia-based bus company SAIA Trasporti Capital to 100 per cent.

The tender process in Italy is expected to accelerate as the market moves towards competitive tendering, and Arriva is well placed to use its strong network of relationships and growing credentials.

Iberia

Operations in Spain and Portugal have reported revenue, including share of associates, up 23 per cent to £105.4 million (2006: £85.8 million), reflecting the full year effect of the 21.5 per cent stake in Barraqueiro acquired in May 2006.

In January 2008, we acquired a further 10 per cent of Barraqueiro, the leading Portuguese passenger transport operator for €50 million (£37 million), taking our holding to 31.5 per cent. This investment includes an option to re-integrate our Lisbon operation TST, laying a path for further developing Arriva's involvement in Portugal's evolving public transport market. Arriva's share of post-tax profit of Barraqueiro in 2007 was £2.9 million.

In Spain, we consolidated our strategic position around Madrid with the acquisition of two small operators in 2007.

In Portugal we are reinforcing our position ahead of a potential market-changing move to tendering of routes in the metropolitan areas of Lisbon and Oporto. In Spain, the expiry of concessions with exclusive rights accelerates into 2013, bringing new opportunity, in addition to the possibility of competitive tendering in cities like Madrid where we have established a position.

Eastern Europe

Revenue from the Czech Republic and Poland was £7.4 million in 2007.

After entering the Czech Republic in December 2006 with the acquisition of Transcentrum Bus s.r.o., we strengthened our position around Prague with the acquisition of Bosak Bus s.r.o. and Osnado Spol s.r.o. in January and November 2007 respectively. Bosak operates 50 buses, and Osnado 106 buses.

In December, Arriva began rail operations in Poland as part of the PCC Arriva 50/50 joint venture. The small three-year contract in the Kujawsko-Pomorskie region in the north-west of Poland was the first to be awarded to a private company, and could signal the start of a significant market change in the country. After some initial challenges we are pleased with operations, and the foothold we have secured in this emerging market. The contract is expected to generate approximately PLN 105 million (£22 million) over its lifetime.

We are sowing the seeds for future expansion in Eastern Europe, where investment is currently relatively modest, but we foresee excellent potential as these economies develop and market liberalisation proceeds.

UK Bus

A strong trading performance from the UK bus business is reflected in an operating profit increase of 16 per cent to £87.9 million (2006: £76.0 million), on revenue of £814.7 million (2006: £762.8 million), up seven per cent. Margins increased to 10.8 per cent, despite the impact of fuel price increases that cost £8 million in 2007.

<u>UK Regions</u>
The regional bus business has benefited from rigorous and detailed network development. By understanding the varying needs of different customer profiles we have sharpened our networks and services to match demand, stimulating passenger growth, and implementing targeted revisions to fares. Over the course of the year, we invested some £30 million providing many easy-access buses for the comfort and convenience of our passengers. In 2007 we carried 414 million passengers, demonstrating encouraging patronage growth of approximately two per cent.

Overall customer satisfaction rose, with 91 per cent expressing themselves ‘fairly satisfied’ or better, with 59 per cent of those questioned 'very' or 'extremely satisfied’, the highest rating achieved to date.

Innovative partnership working continues to bring benefits for partners and customers. The Fastrack scheme in conjunction with Kent County Council has seen patronage growth of 22 per cent, in its first year of operation with 19 per cent of this reflecting conversion from car users.

A series of local marketing initiatives are currently on trial to increase passenger journeys further by boosting awareness of routes and services. In Telford we are using smart-card technology to test a new customer loyalty scheme. In February 2008, we launched a trial to test a new generation of mobile phone ticketing technology on 14 of our Fastrack B buses in Kent, enabling customers to purchase tickets quickly and easily via their mobile phones, providing the added benefit of cash-free travel.

We remain committed to developing and investing in technology for more eco-friendly vehicles. In October, we introduced the UK’s first Environmentally Enhanced Vehicle buses into our Midlands fleet. In the north-east we started a trial of B20 biodiesel giving a 14 per cent reduction in net CO2 emissions. A trial of cab-based technology to help drivers improve fuel consumption is also under way. We intend to deploy it further if the encouraging initial results are sustained.

During the year we acquired small operations in Staffordshire and Darlington. In January 2008 we announced the acquisition of UK AIM-listed bus, coach and airside passenger transport operator Tellings Golden Miller Group, which will complement our airside passenger services in Germany (Frankfurt) and Italy (Bergamo).

We continue to contribute to the Local Transport Bill debate, and welcome the process of dialogue on the development of ideas and proposals to improve effective partnership working between operators and local authorities.

London
Arriva is one of the largest bus operators in London, with annual mileage in 2007 exceeding 62 million miles. The business has done well to continue to make progress while mitigating the disruptive impact of street works, affecting much of its north London operating area.

An increase in contracted mileage of 4 per cent, reflects four new contracts started in 2007. Three new contracts are due to start in 2008, and with additional buses on other routes, scheduled mileage in London is due to increase by a further 4 per cent this year. We expect market growth of 40 per cent by 2025, from 2007 levels, in line with TfL's 2025 Vision.

Arriva London finished the final quarter of the year strongly, appearing in the top three Transport for London (TfL) contractors for service reliability. We continue to have a positive relationship with TfL and were pleased that Brixton garage was awarded the 'London Bus Garage of the Year' award, following an independent nomination from TfL. The world's first hybrid double-decker bus, on trial for TfL over the last 12 months, is running reliably with improved fuel efficiency.

In August 2007 we added 10 new buses to The Original Tour London sightseeing business and opened a visitor centre in Trafalgar Square. The business recovered impressively from a disappointing wet summer, managing to attract significant numbers of visitors during the autumn, to end 2007 with record passenger numbers, and patronage up eight per cent on the previous year.

UK Bus & Coach distribution
Our Bus & Coach distribution business has performed well, contributing operating profit of £3.1 million (2006: £3.0 million), to the divisional operating profit, on revenue of £9.9 million (2006: £12.3 million).

UK Trains

After absorbing significant bid costs from the concurrent tendering of three rail franchises, the UK Trains divisional operating profit reduced to £7.5 million (2006: £12.3 million). Revenue increased 27 per cent, to £322.4 million (2006: £253.9 million), following the inclusion of the new CrossCountry franchise from 11 November 2007. Excluding CrossCountry, revenue was down two per cent at £249.7 million. This reduction in revenue reflects the expected end of an external maintenance contract, partially offset by rising passenger numbers.

CrossCountry
The CrossCountry franchise win has an estimated order book of almost £5 billion in real terms. Operational performance since starting the franchise has been good with 88.9 per cent of services arriving on time for the year to date, substantially better than the equivalent services for the same period last year. Year-on-year revenue was more than nine per cent up for the first two months of 2008, on the basis of our best like-for-like estimate for the remapped franchise.

Serving 131 stations over more than 1,650 route miles, CrossCountry is the most geographically extensive rail franchise in the UK, and adds 91 train sets and 1,650 people to our UK trains division. Annual revenue of around £600 million is expected, with support payments to Arriva higher in the early years of the franchise, and reducing over time.

The CrossCountry franchise revenue is currently around 50 per cent derived from passengers, and 50 per cent from franchise support payments. The average passenger journey length on this franchise is 130 miles, reflecting its broad-based nature and the many hubs along the route.

We are making good progress with our plans for the franchise. The seating capacity of the fleet will be increased by 35 per cent on principal routes at peak times, by June 2009, through the introduction of five fully refurbished high speed trains and additional seats on the Voyager trains.

We are committed to improving the customer experience of rail by enhancing website ticket purchasing, interactive customer itinerary management, automated re-booking, flexible printing options and the ability to reserve a seat up to ten minutes before departure.

Arriva Trains Wales
Arriva Trains Wales (ATW) continues to experience strong demand, reporting passenger growth of 9.3 per cent. In addition to growing customer numbers, customer satisfaction is also rising, up five per cent to 85 per cent, according to the latest Passenger Focus National Passenger Survey.

ATW achieved a record operational performance. In December 2007, the year to date Public Performance Measure (PPM), based on the percentage of franchised passenger trains arriving at their destination within five minutes of schedule, increased to 91.8 per cent, up from 87.1 per cent in 2006.

The ATW franchise revenue is currently around 30 per cent derived from passengers, and 70 per cent from non-passenger revenue, primarily from franchise support payments. The average journey length on this franchise is 17.4 miles, reflecting the mix of urban rail network in south Wales and business orientated travel in north Wales and north-west England. The introduction of new ticket machines to make it easier for passengers to purchase tickets, and ticket barriers at 12 key stations, have significantly reduced ticketless travel.

ATW continues to work closely with the Welsh Assembly Government. There has been significant government investment to provide longer platforms, which will enable ATW to run longer trains at some time in the future. Rail investment from the government is also playing a key role in regeneration, demonstrated by the opening of a new station at Llanharan in South Wales in December 2007, and the fact that in February 2008, ATW started running train services to Ebbw Valley for the first time in 40 years.

Central

Central costs this year include the £1.4 million arrangement fee for the new five-year £615 million revolving credit facility, signed in early August.

Outlook

Our businesses throughout Europe have a track record of demonstrating the real benefits the private sector can bring to public transport. Public authorities are increasingly aware of these benefits and recognising the opportunity to improve the value of available services whilst eliminating unnecessary costs. This recognition is a strong force behind the continuing march of market liberalisation, providing Arriva with many exciting growth opportunities.

At our mainland Europe investor day, in May 2007, we announced the intention to double mainland Europe revenue from 2006 levels in five years, including our share of associated companies' revenue. I am pleased to say we are well on the way to achieving this goal with the work already done in 2007 and so far in 2008.

In our UK Bus division we look forward to further profitable growth driven by route revitalisation and marketing initiatives, and to an improved environment for partnership working once the Local Transport Bill completes its passage.

In our UK Trains division we look forward to the benefits of a full-year contribution from our CrossCountry franchise and to building on our strong operational performance, with additional capacity in due course helping to meet strong demand.

Across the group we will continue to pursue growth in our existing businesses, as well as creating opportunities for further expansion into additional markets, while the full benefits of recent successes in growing our operations will be demonstrated in 2008. Our financial strength, order book, diversified portfolio of operations and geographical spread show the qualities of a robust, resilient business poised for further success.

David Martin
Chief Executive

Financial review

It is pleasing that the group achieved a seven per cent increase in EBITDA from continuing operations and a seven per cent increase in operating profit, against the backdrop of continued increases in fuel costs and substantial expenditure on bidding for new rail tenders. Revenue grew to over £2 billion for the first time, and with 79 per cent growth in the group's future contracted revenue, including the CrossCountry rail franchise win in the UK and an 18 per cent increase in the mainland Europe order book, we have built the momentum for further growth.

The signing, in early August, of a new £615 million five-year revolving credit facility on improved terms was timely, ahead of the full impact of the 'credit crunch', and has provided significant additional financial capacity for the group.

On winning the CrossCountry franchise, we fixed the fuel price for 75 per cent of our anticipated fuel requirements over the life of the franchise. This has considerably reduced the fuel price risk in this significant contract. The £33 million value of the hedge is included in derivative financial instruments in the balance sheet.

Group income statement

Revenue from continuing operations was up 16 per cent to £2,000.7 million (2006: £1,729.0 million) reflecting strong growth across the group.

Operating profit from continuing operations grew seven per cent from £119.5 million to £128.0 million. Operating profit from continuing operations before goodwill impairment and intangible asset amortisation, our preferred internal measure, was also up seven per cent to £135.4 million (2006: £126.7 million), despite significant bid costs for rail franchises and further increases in fuel costs. The operating results reflect strong progress in our UK Bus division, continued growth in mainland Europe and further improved operational performance in Arriva Trains Wales. As expected, given its short period of operation, the new CrossCountry franchise has not had a significant impact on the 2007 results.

The share of post tax profits from associates increased to £4.3 million from £1.9 million, reflecting the full year impact of the 21.5 per cent interest in Barraqueiro, acquired in May 2006. The net finance cost for the year was higher at £16.5 million

(2006: £11.6 million) due to investment in acquisitions and higher interest rates in mainland Europe.

Profit before taxation from continuing operations thereby increased to £115.8 million (2006: £109.8 million). The taxation charge was £25.8 million (2006: £25.2 million), reflecting a small decrease in the effective rate from 23.0 per cent to 22.3 per cent. The effective rate of tax remains lower than the standard rate in the UK primarily due to the release of provisions for taxation, in respect of prior years, no longer required. It is anticipated that changes to UK tax rules in respect of Industrial Buildings Allowance will result in an exceptional increase in the deferred tax charge, in 2008, of around £7 million. Profit for the year from continuing operations increased to £90.0 million (2006: £84.6 million).

After taking account of minority interests, principally in our Italian and German subsidiaries, earnings per share excluding goodwill impairment, intangible asset amortisation and exceptional items, from continuing operations, increased to 46.5 pence (2006: 44.4 pence). Basic earnings per share was 43.5 pence (2006: 51.8 pence), the fall reflecting the 10.2 pence impact, in 2006, of the exceptional gain on the disposal of Arriva Vehicle Rental.

Cash flow

EBITDA from continuing operations increased by seven per cent to £249.2 million (2006: £232.9 million). A working capital outflow of £1.0 million (2006: outflow from continuing operations £73.2 million), reduced by an inflow from the commencement of the CrossCountry franchise of £6.7 million, contributed to net cash inflow from continuing operations for the year of £248.2 million, up 55 per cent (2006: £159.7 million).

Net capital expenditure was £145.2 million, compared to £118.2 million in 2006 (after adjusting for the impact of the 2006 investment in new trains that was subsequently refinanced through an operating lease), excluding expenditure in the discontinued vehicle rental division. The increase in net capital expenditure of £27.0 million was mainly due to bus and rail expansion in mainland Europe.

Expenditure on acquisitions, including the absorption of net debt, in 2007 was £73.5 million (2006: £66.8 million). In March, through an 86 per cent owned venture, we acquired 85 per cent of Osthannoversche Eisenbahnen AG (OHE) in Lower Saxony, Germany for £28.2 million including net debt assumed. Goodwill on the acquisition was £6.4 million. In August, we completed the acquisition of Veolia’s bus business in Denmark for £29.7 million including net debt. Goodwill on the acquisition was £9.1 million. Expenditure, on the same basis, on other smaller acquisitions in Spain, Czech Republic and Italy was £11.9 million with goodwill of £7.6 million. In the UK, we acquired Chase Coaches in February 2007, and in August we acquired additional bus operations in Darlington, for a total consideration of £3.7 million (including net debt assumed).

Subsequent to the year end, the group acquired Tellings Golden Miller Group plc for £10.3 million, plus net debt assumed of £19.4 million. In January the group also acquired a further 10 per cent interest in Barraqueiro for a consideration of €50 million in cash (£37 million), taking our total stake to 31.5 per cent.

Interest and dividend payments absorbed £59.4 million (2006: £52.6 million), whilst there were substantially reduced corporation tax payments during the year of £5.4 million (2006: £24.9 million). New shares issued on exercise of share options generated £1.3 million (2006: £1.2 million). There was an increase in net debt to £448.5 million (2006: £378.4 million), reflecting the impact of acquisition and investment activity and the £36.1 million impact of translating debt into sterling at £0.73 to the euro (2006: £0.67 to the euro).

Capital structure

Total shareholders' equity was £710.2 million (2006: £542.5 million) at the end of the year, a substantial increase. Retained profits contributed £44.5 million to group distributable reserves, actuarial gains on retirement benefit obligations added a further £70.6 million and fair value of derivatives added £48.6 million. During 2007, the group undertook an internal reorganisation, which resulted in there being approximately £600 million of available distributable reserves in the parent company Arriva plc. Gearing for the group at 31 December 2007 was 61 per cent (2006: 68 per cent). The 2007 interest cover (the ratio of EBITDA to net finance costs), from continuing operations excluding goodwill impairment and intangible asset amortisation, was 15 times (2006: 20 times).

The ratio of year end net debt to EBITDA was 1.8 times (2006: 1.6 times). Arriva remains comfortably within the financial covenants set by its lenders, the principal covenants being that the ratio of EBITDA to net finance costs is not less than 3:1 and the ratio of net debt to EBITDA is not more than 3.5:1.

Borrowing facilities

In early August, we took advantage of market conditions to sign a new £615 million, five-year, revolving credit facility agreement, on improved terms, with a group of leading European banks. This replaces the £310 million facility arranged in 2004, providing stability, flexibility and additional financial capacity for the medium-term development of the group in the UK and mainland Europe.

Much of the group's bus fleet is financed on medium-term hire purchase or finance lease arrangements, typically three to five years in length. As part of the UK rail franchising arrangements, the group has provided guarantees of £46 million. The rolling stock of the UK, Netherlands, Danish and German rail businesses that is provided through operating leases have annual commitments of approximately £113 million. All material commitments will cease on expiry of the franchises. Bonds amounting to £25 million have been provided in respect of the Netherlands, Danish and German rail businesses. Letters of credit amounting to £16 million are provided as part of the group's UK insurance arrangements.

There is a net cash position in sterling and a borrowing position in euros as a result of the group's policy of reducing exposure to foreign exchange currency fluctuations to insignificant levels.

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

Retirement benefit obligations

The retirement benefit obligation taken on with the award of the CrossCountry franchise was £12.0 million. This represents 60 per cent of the total obligation, in line with the established practice of accounting for the shared cost structure of the Railways Pension Scheme. Also in line with industry practice, a corresponding intangible asset has been created of £12.0 million, representing the right to operate the franchise, which will be amortised over the life of the franchise.

At 31 December 2007, total liabilities in respect of retirement benefit obligations fell to £73.7 million (2006: £173.8 million). The retirement benefit obligations in respect of the Arriva Trains Wales and new CrossCountry sections of the Railways Pension Scheme are £4.0 million (2006: £9.5 million) and £8.0 million respectively. The overall reduction to the group obligation was primarily due to higher long-term interest rates causing a consequent increase in the rate used to discount liabilities. The related deferred tax asset recognised in the balance sheet was £17.3 million (2006: £49.3 million).

Financial summary

The underlying cash generation of the group remains strong and durable, has continued to grow, and is supported in the future by growth in the contract order book.

The balance sheet is robust, reinforced by the resilience built in by our hedging strategies on fuel, foreign exchange and interest costs, and the group has increased financial capacity, secured by the new £615 million credit facility. This provides a solid base for further investment and acquisitions in the future and increased shareholder returns, as demonstrated, in the short term, by the proposed ten per cent increase in final dividend.

Steve Lonsdale
Group Managing Director – Finance

Group Income Statement
for the year ended 31 December 2007

	notes	**2007 £m**	2006 £m
Continuing operations			
Revenue	**1**	**2,000.7**	1,729.0
Net operating expenses		**(1,872.7)**	(1,609.5)
Group operating profit		**128.0**	119.5
Share of post tax profits from associates		**4.3**	1.9
Net finance costs	**2**	**(16.5)**	(11.6)
Profit on ordinary activities before taxation		**115.8**	109.8
Tax on profit on ordinary activities	**3**	**(25.8)**	(25.2)
Profit for the year from continuing operations		**90.0**	84.6
Discontinued operations			
Profit for the year from discontinued operations	**4**	**-**	20.1
Profit for the year		**90.0**	104.7
Attributable to:			
Equity holders of the parent		**86.4**	102.3
Minority interests		**3.6**	2.4
		90.0	104.7
Dividends per ordinary share	**5**	**22.65p**	20.83p
Earnings per share			
Basic earnings per share	**6**	**43.5p**	51.8p
Diluted earnings per share	**6**	**43.4p**	51.4p
Earnings per share from continuing operations			
Basic earnings per share	**6**	**43.5p**	41.6p
Diluted earnings per share	**6**	**43.4p**	41.3p
Basic earnings per share before goodwill impairment, intangible asset amortisation and exceptional items from continuing operations	**6**	**46.5p**	44.4p

Group Balance Sheet
at 31 December 2007

	2007 £m	2006 £m
Non-current assets		
Goodwill	**328.2**	286.4
Other intangible assets	**43.2**	34.9
Property, plant and equipment	**1,164.4**	982.5
Investments	**63.6**	51.4
Derivative financial instruments	**39.6**	3.9
	1,639.0	1,359.1
Current assets		
Inventories	**41.1**	34.9
Trade and other receivables	**360.3**	221.1
Cash and cash equivalents	**95.7**	87.6
Derivative financial instruments	**21.8**	9.4
	518.9	353.0
Total assets	**2,157.9**	1,712.1
Current liabilities		
Trade and other payables	**546.5**	369.6
Tax liabilities	**34.5**	16.5
Obligations under finance leases	**10.5**	24.8
Bank overdrafts and loans	**117.9**	131.5
Derivative financial instruments	**10.4**	13.6
	719.8	556.0
Non-current liabilities		
Bank loans	**203.2**	108.7
Other loans	**123.3**	147.4
Retirement benefit obligations	**73.7**	173.8
Deferred tax liabilities	**87.6**	45.3
Obligations under finance leases	**89.3**	53.6
Other non-current liabilities	**114.3**	67.3
Derivative financial instruments	**12.7**	1.2
	704.1	597.3
Total liabilities	**1,423.9**	1,153.3
Net assets	**734.0**	558.8
Equity		
Share capital	**9.9**	9.9
Share premium account	**24.2**	22.4
Other reserves	**105.0**	58.0
Retained earnings	**571.1**	452.2
Total shareholders' equity	**710.2**	542.5
Minority interest in equity	**23.8**	16.3
Total equity	**734.0**	558.8

Group Cash Flow Statement
for the year ended 31 December 2007

	notes	2007 £m	2006 £m
Cash flows from operating activities			
Cash generated from operations	**7(b)**	**248.2**	160.0
Interest and finance charges paid		**(16.5)**	(12.1)
Tax paid		**(5.4)**	(24.9)
Net cash inflow from operating activities		**226.3**	123.0
Cash flows from investing activities			
Acquisitions of businesses		**(35.5)**	(20.9)
Net cash assumed on acquisitions		**12.3**	1.9
Investment in associates		**(2.8)**	(41.8)
Disposal of business		**-**	130.2
Purchase of property, plant and equipment		**(232.6)**	(171.2)
Disposal of property, plant and equipment		**87.4**	78.7
Net cash used in investing activities		**(171.2)**	(23.1)
Cash flows from financing activities			
Proceeds from issuing ordinary share capital		**1.3**	1.2
Decrease in loans due within one year		**(39.4)**	(6.6)
Increase/(decrease) in loans due after one year		**36.0**	(45.9)
Decrease in finance lease obligations		**(15.2)**	(7.9)
Dividends paid to the company's shareholders		**(41.9)**	(39.6)
Dividends paid to minority interests		**(1.0)**	(0.9)
Net cash used in financing activities		**(60.2)**	(99.7)
Net (decrease)/increase in cash, cash equivalents and overdrafts	**7(c)**	**(5.1)**	0.2
Cash, cash equivalents and overdrafts at the beginning of the year	**7(c)**	**71.1**	71.6
Exchange losses on cash, cash equivalents and overdrafts	**7(c)**	**(3.6)**	(0.7)
Cash, cash equivalents and overdrafts at the end of the year	**7(c)**	**62.4**	71.1

Group Statement of Recognised Income and Expense
for the year ended 31 December 2007

	2007 **£m**	2006 £m
Net foreign exchange adjustments offset in reserves, net of tax	**4.1**	(3.4)
Cash flow hedges, net of tax	**47.0**	(17.0)
Actuarial gains on defined benefit schemes, net of tax	**70.6**	9.9
Tax relief on share option schemes	**0.5**	-
Net income/(expense) recognised directly in equity	**122.2**	(10.5)
Profit for the year	**90.0**	104.7
Total recognised income and expense	**212.2**	94.2
Attributable to:		
Equity holders of the parent	**206.7**	92.3
Minority interests	**5.5**	1.9
	212.2	94.2

Notes to the accounts

1. Segmental reporting

Primary reporting format – business segments

Year ended 31 December 2007

	UK Bus £m	Mainland Europe £m	UK Trains £m	Central £m	**Total operations £m**
Revenue	**814.7**	**863.6**	**322.4**	**-**	**2,000.7**
EBITDA	144.2	111.0	10.7	(16.7)	**249.2**
Depreciation	(56.3)	(53.9)	(3.2)	(0.4)	**(113.8)**
Operating profit*	**87.9**	**57.1**	**7.5**	**(17.1)**	**135.4**
Goodwill impairment and intangible asset amortisation	-	(6.4)	(1.0)	-	**(7.4)**
Group operating profit	**87.9**	**50.7**	**6.5**	**(17.1)**	**128.0**
Share of post tax profits from associates	-	4.3	-	-	**4.3**
Net finance costs					**(16.5)**
Profit on ordinary activities before taxation					**115.8**
Tax on profit on ordinary activities					**(25.8)**
Profit for the year					**90.0**
Profit attributable to minority interests					**(3.6)**
Net profit attributable to equity shareholders					**86.4**

* Before goodwill impairment and intangible asset amortisation.

Included above is £113.0 million of revenue and £2.7 million of operating profit, before goodwill impairment and intangible asset amortisation, relating to the acquisitions made by the mainland Europe division during the year. There is £1.3 million of revenue and £0.1 million operating loss relating to acquisitions made by the UK Bus division.

Year ended 31 December 2006

	UK Bus £m	Mainland Europe £m	UK Trains £m	Central £m	**Total operations £m**
Revenue	**762.8**	**712.3**	**253.9**	**-**	**1,729.0**
EBITDA	130.4	100.9	14.5	(12.9)	**232.9**
Depreciation	(54.4)	(48.9)	(2.2)	(0.7)	**(106.2)**
Operating profit*	**76.0**	**52.0**	**12.3**	**(13.6)**	**126.7**
Goodwill impairment and intangible asset amortisation	-	(6.4)	(0.8)	-	**(7.2)**
Group operating profit	**76.0**	**45.6**	**11.5**	**(13.6)**	**119.5**
Share of post tax profits from associates	-	1.9	-	-	**1.9**
Net finance costs					**(11.6)**
Profit on ordinary activities before taxation					**109.8**
Tax on profit on ordinary activities					**(25.2)**
Profit for the year from continuing operations					**84.6**
Profit for the year from discontinued operations					**20.1**
Profit for the year					**104.7**
Profit attributable to minority interests					**(2.4)**
Net profit attributable to equity shareholders					**102.3**

* Before goodwill impairment and intangible asset amortisation.

(a) Included above is £12.2 million of revenue and £0.8 million of operating profit, before goodwill impairment and intangible asset amortisation, relating to the acquisitions made by the mainland Europe division during the year. There is £11.1 million of revenue and £1.1 million of operating profit relating to acquisitions made by the UK Bus division.
(b) The share of post tax profits from associates of £1.9 million above includes £0.9 million from the investment in Barraqueiro SGPS SA made in May 2006.
(c) The profit for the year from discontinued operations related to Arriva Vehicle Rental, as disclosed in note 4.

Notes to the accounts

2. Net finance costs

	2007 £m	2006 £m
Finance costs	**23.2**	17.1
Finance income	**(6.7)**	(5.5)
Net finance costs	**16.5**	11.6

3. Tax on profit on ordinary activities

Analysis of charge in the year for continuing operations	**2007 £m**	2006 £m
Current tax	**26.0**	9.3
Deferred tax	**(0.2)**	15.9
Taxation	**25.8**	25.2

Notes to the accounts

4. Discontinued operations

Profit from discontinued operations of £20.1 million in the prior year relates to the vehicle rental business. £20.0 million relates to the gain on disposal of the subsidiary.

Net cash inflows from discontinued operations for the year ended 31 December 2007 were £nil (2006: £132.1 million).

5. Dividends

	2007 £m	2006 £m
Final dividend paid for the year ended 31 December 2006 of 15.51 pence (2006: final dividend paid for the year ended 31 December 2005 of 14.77 pence) per share	**30.8**	29.2
Interim dividend paid for the year ended 31 December 2007 of 5.59 pence (2006: interim dividend paid for the year ended 31 December 2006 of 5.32 pence) per share	**11.1**	10.4
	41.9	39.6

The directors are proposing a final dividend in respect of the financial year ending 31 December 2007 of 17.06 pence per share which will absorb an estimated £33.9 million of shareholders' funds. It will be paid on 1 May 2008 to shareholders who are on the Register of Members on 28 March 2008.

Notes to the accounts

6. Earnings per share

Basic earnings per share is based on earnings of £86.4 million (2006: £102.3 million) and on the weighted average number of ordinary shares of 198.4 million (2006: 197.7 million).

Diluted earnings per share is based on the same earnings for each of the years and on the weighted average number of ordinary shares of 199.1 million (2006: 198.8 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.

	2007 **p**	2006 p
Basic earnings per share	**43.5**	51.8
Gain on disposal of subsidiary	**-**	(10.2)
Basic earnings per share from continuing operations	**43.5**	41.6
Diluted earnings per share	**43.4**	51.4
Gain on disposal of subsidiary	**-**	(10.1)
Diluted earnings per share from continuing operations	**43.4**	41.3
Basic earnings per share	**43.5**	51.8
Goodwill impairment and intangible asset amortisation	**3.0**	2.8
Gain on disposal of subsidiary	**-**	(10.2)
Basic earnings per share before goodwill impairment, intangible asset amortisation and exceptional items from continuing operations	**46.5**	44.4

Notes to the accounts

7. Notes to the group cash flow statement

(a) Reconciliation of net debt

	2007 £m	2006 £m
At 1 January	**378.4**	435.9
Decrease/(increase) in cash, cash equivalents and overdrafts	**5.1**	(0.2)
Decrease in loans due within one year	**(39.4)**	(6.6)
Increase/(decrease) in loans due after one year	**36.0**	(45.9)
Decrease in finance lease obligations	**(15.2)**	(7.9)
Loans acquired	**19.5**	5.7
Finance leases acquired	**28.0**	0.3
Currency translation adjustments	**36.1**	(2.9)
At 31 December	**448.5**	378.4

(b) Reconciliation of operating profit to cash generated from operations

	2007 £m	2006 £m
Continuing operations		
Operating profit	**128.0**	119.5
Depreciation	**113.8**	106.2
Goodwill impairment and intangible asset amortisation	**7.4**	7.2
EBITDA	**249.2**	232.9
Increase in inventories, excluding acquisitions and disposal	**(1.0)**	(6.6)
Increase in trade and other receivables, excluding acquisitions and disposal	**(87.2)**	(23.3)
Increase/(decrease) in creditors, excluding acquisitions and disposal	**87.2**	(43.3)
Cash generated from continuing operations	**248.2**	159.7
Cash generated from discontinued operations	**-**	0.3
Cash generated from operations	**248.2**	160.0

(c) Analysis of net debt

	1 January 2007 £m	**Cash flow £m**	**Acquisitions (excluding cash and overdrafts) £m**	**Exchange differences £m**	**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**

8. Financial information

The unaudited financial information set out above does not constitute the group's statutory accounts, within the meaning of section 240 of the Companies Act 1985, for the year ended 31 December 2007. While the financial information included in this preliminary announcement has been computed in accordance with EU endorsed International Financial Reporting Standards (IFRS), International Financial Reporting Interpretations Committee (IFRIC) interpretations and the Companies Act 1985 applicable to companies reporting under IFRS, this announcement itself does not contain sufficient information to comply with the above. The group expects to publish full financial statements that comply with EU endorsed IFRS, IFRIC interpretations and the Companies Act 1985 applicable to companies reporting under IFRS in March 2008.

The financial information for the year ended 31 December 2006 is derived from the latest statutory accounts which have been delivered to the Registrar of Companies. The report of the auditors on those filed accounts was unqualified and did not contain a statement under section 237(2) and (3) of the Companies Act 1985.

The results for the year ended 31 December 2007 have been prepared on the basis of the accounting policies as set out on pages 52 to 55 in the Annual Report and Accounts 2006.

The preliminary announcement was approved by the Board of Directors on 5 March 2008.