Registered No 347103

ARRIVA

Arriva plc Annual Report and Accounts 2005

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DELIVERING THE **VISION**

Arriva's vision is to be recognised as the leading transport services group in Europe.

Arriva is already one of the leading providers of public transport in the UK. Our strategy is to build on this position and to capitalise on the range of opportunities resulting from the increasing pace of market liberalisation in mainland Europe. A constant drive to improve our existing businesses, selective investment in targeted acquisitions, and a clear focus on winning and retaining contracts underpin our record of consistent delivery.

Arriva delivered a strong performance in the year. We made further acquisitions in mainland Europe and have achieved organic growth, including contract wins, in the countries in which we operate. Building relationships with stakeholders and contract awarding authorities, often national or local governments, has established a strong base for the future.

In 2005, we continued to make significant progress towards achieving our strategic goals and achieving our vision. We are working to deliver further progress in 2006.

HIGHLIGHTS OF THE YEAR

- Strong performance from mainland Europe operations:
  - 37 per cent increase in operating profit* with revenue up 18 per cent
  - contract wins and acquisitions provide a platform for continuing growth
- UK Bus operating profit* increased by 7 per cent despite cost pressures
- Improved strategic focus and additional resources for core business growth provided by vehicle rental disposal
- Adjusted EPS* at 45.0p (2004: 45.1p)
- Basic EPS increased to 43.7p (2004: 42.6p)
- EBITDA excluding vehicle rental up 8 per cent
- Final dividend up by 5 per cent to 14.77p, giving a total dividend for the year of 19.84p

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

"As market liberalisation gathers pace in mainland Europe, we are benefiting from our established market positions on the ground. We believe that mainland Europe will continue to provide opportunities for us to grow profitably."

SIR RICHARD BROADBENT CHAIRMAN

DELIVERING **PROGRESS**

Arriva delivered a strong performance in 2005. **Firm management of our businesses and continued growth from our operations in mainland Europe ensured that profits were maintained in the first full year without our Northern rail franchise, and despite rising fuel costs. At the same time, we won new contracts and made further acquisitions that will underpin sustained growth.**

Our ability to grow our core business in the future was enhanced by the disposal of our vehicle rental division, which further focused the Group on its core strategy and strengthened the balance sheet.

Group revenue in 2005 was £1,626.8 million (2004: £1,759 million) and Group operating profit was £123.1 million (2004: £126.3 million). As expected, revenue was lower after the loss of the £285 million contributed in 2004 by the Arriva Trains Northern franchise, but it has been substantially replaced by growing turnover and profits from our investment in mainland Europe.

Basic earnings per share increased to 43.7p (2004: 42.6p). We have maintained earnings per share, excluding goodwill impairment, intangible asset amortisation and exceptional items, at 45.0p (2004: 45.1p).

Excluding our vehicle rental operations, EBITDA (earnings before interest, tax, depreciation, goodwill impairment and intangible asset amortisation) rose eight per cent to £213.1 million (2004: £197.8 million).

The Board is recommending a final dividend of 14.77p per share. Together with the interim dividend of 5.07p per share paid in October 2005, this makes a total dividend of 19.84p per share, five per cent higher than last year, maintaining our policy of stable dividend growth. The final dividend will be paid on 2 May 2006 to shareholders on the register at the close of business on 31 March 2006.

Arriva has a strong balance sheet. Our substantial cash generation, combined with the recent vehicle rental disposal, gives us the flexibility to continue to take advantage of high quality investment opportunities.

In my report last year, I identified three areas of focus. First, our strategic goal of being recognised as the leading transport services organisation in Europe. Second, the reorganisation of our senior management to reflect this focus. And third, ensuring good corporate governance to support Arriva's growth. We have made progress in all three areas.

STRATEGY

Our strategy of selective investment in operations outside the UK has increased our resilience and provided us with further growth in mainland Europe. During 2005 we won significant bus and rail contracts in Germany, the Netherlands and Scandinavia, and we have made acquisitions in Germany and Italy, consolidating our existing position. In January 2006 we won our first rail contract in Sweden. We now run bus services in seven mainland European countries and have rail operations in three, with a fourth (Sweden) in the pipeline. As market liberalisation gathers pace in mainland Europe, we are benefiting from our established market positions on the ground. We believe that mainland Europe will continue to provide opportunities for us to grow profitably.

In the UK we continue to be a major public transport operator. Arriva is the largest bus operator in London, with its growing populations of residents and commuters. We have continued to invest both in London and in the UK regions to maintain our leading position. We have a long-term presence in UK rail with Arriva Trains Wales operating the Wales and Borders franchise and we are seeking to develop our rail portfolio in the UK as well as mainland Europe. We have pre-qualified for the South Western passenger rail franchise which will be awarded later in 2006.

Arriva has a strong balance sheet. Our substantial cash generation, combined with the recent vehicle rental disposal, gives us the flexibility to continue to take advantage of high quality investment opportunities.

MANAGEMENT

I reported last year how in March 2005 we reorganised the senior management team under the Chief Executive, Bob Davies, including the appointment of David Martin as Deputy Chief Executive and Group Managing Director – Operations. In addition to aligning the management of the business with our strategic goals, the changes paved the way for succession at Chief Executive level. In December we announced that Bob would retire at the AGM in April 2006 after more than seven years in post, to be succeeded by David.

Bob's vision and leadership over the last seven years have transformed Arriva, giving the company both a focused strategy and a record of consistent delivery. He has led Arriva to be one of the leaders within its sector, and he has developed an excellent management team, which will ensure continuity under David's leadership. The Board wishes to place on record its appreciation of Bob's outstanding contribution to Arriva plc.

The management development process continued during the year with a number of additional senior appointments being made below Board level. Our intention is to continue to strengthen our management team to take the Group forward.

GOVERNANCE

As Arriva grows, it is important that corporate governance develops in line with best practice to support ambitious and well-controlled business development. In 2005 we appointed two new non-executive directors, with the result that from April 2006 the Board will have three executive directors and four independent non-executive directors, in addition to me as Chairman.

Nick Buckles, Chief Executive of Group 4 Securicor plc, joined the Board in July. He has extensive experience of operating businesses in the UK and mainland Europe, which has already enabled him to make a valuable contribution to the Group. Steve Williams, Company Secretary and General Counsel of Unilever, joined the Board in September as our Senior Independent Director. He brings a wealth of experience of both corporate governance and operations across a wide range of markets.

In June, Michael Allen retired as a non-executive director, having served on the Board for eight years. The Board wishes to thank him for his contribution to the Group.

"This is an exciting time for Arriva as we strive for further profitable growth and development in markets where increasing liberalisation provides both opportunities and competitive challenges."

SIR RICHARD BROADBENT CHAIRMAN

During 2005, we also reviewed the terms of reference and membership of all the Board Committees. The new terms of reference are available on our website. We reviewed the financial and other authorities of the Board, making changes where appropriate to reflect the scale and complexity of our current business. Following an internal Board evaluation exercise, the Board's agenda was re-orientated to give more emphasis to strategic issues central to Arriva's business development.

Ultimately it is the quality of the service we provide that will underpin our leadership in the transport sectors we serve.

This is an exciting time for Arriva as we strive for further profitable growth and development in markets where increasing liberalisation provides both opportunities and competitive challenges. We are very aware that public transport is a service business and ultimately it is the quality of the service we provide that will underpin our leadership in the transport sectors we serve.

To meet these challenges, our employees work hard to meet our customers' needs. The events of 7 July in London showed again the quality and commitment of Arriva's employees and I would like to express the Board's appreciation and thanks to all our employees for their contribution to another successful year for the Group.

SIR RICHARD BROADBENT CHAIRMAN

Our route to becoming Europe's leading transport services operator started in 1997 when the company entered mainland Europe with the acquisition of Unibus, Denmark. In the same year, the Arriva name was introduced.

1999

Arriva acquires Bus Danmark, building on its position in Scandinavia. After gaining 20 per cent of the Dutch bus market in 1998, it enters the Dutch rail sector through NoordNed, a joint venture with the state operator. It also enters the Spanish bus market and disposes of Arriva Automotive Solutions in the UK.

2000

Arriva acquires MTL in the UK with bus operations and two rail franchises in the north of England. It enters the Portuguese bus market, acquiring four family-owned businesses in the north west of the country.

2001

Arriva acquires a third Danish bus company, Combus, and wins the first two passenger rail franchises in Denmark under new legislation to privatise the industry.

2002

Arriva announces the decision to dispose of its UK Motor Retail business. It consolidates its position in Portugal with a 51 per cent stake in TST and acquires a bus operator in Mallorca. It also acquires SAB, making a significant entry in the Italian bus market.

2003

Arriva commences operation of the new Wales and Borders rail franchise in the UK and the two Danish rail franchises in Jutland. It takes 100 per cent control of both TST in Portugal and of NoordNed, its Dutch bus and rail joint venture.

2004

Arriva enters the German transport market, acquiring rail companies PEG and Regentalbahn. It also consolidates its position in the Danish bus market, with the acquisition of Wulff, and in Italy, with a 49 per cent stake in bus operator SAF and an option to purchase a further 11 per cent.

2005

Arriva enters the German bus market with its acquisition of Sippel Group. In Italy, the shareholding in SAF is increased from 49 per cent to 60 per cent, and an 80 per cent stake in Italian bus company SADEM is acquired.

Significant bus and rail contract wins are announced in Germany, the Netherlands and Scandinavia.

UNITED KINGDOM

BUS
17,700 employees
6,000 vehicles

RAIL
1,900 employees
116 trains

BUS AND COACH
50 employees

Outside the capital, bus services are deregulated and operate commercially. In London all bus services are regulated and Arriva operates as a contractor to Transport for London. In UK Rail, the Government awards passenger rail franchises through a competitive bid process. The Bus and Coach business provides distribution, sales, rental and finance services for the bus and coach market in the UK.

GERMANY

BUS
400 employees
200 vehicles

RAIL
600 employees
115 trains

Tendering of regional rail services by federal states is becoming established. In the German bus market tendering has started in the Rhine-Main region.

IBERIA

BUS
2,000 employees
1,100 vehicles

The Portuguese and Spanish bus markets are fragmented with long-term concessions granted to local operators without a formal tendering process. In Lisbon and Porto competitive tendering by new metropolitan authorities is expected.

ITALY

BUS
2,700 employees
1,700 vehicles

Italy has a public transport market similar in size to the UK. Public tendering for urban and regional bus services is being progressively introduced throughout the country.

NETHERLANDS

BUS
2,100 employees
1,300 vehicles

RAIL
350 employees
78 trains

Competitive tendering is a key feature of the Dutch bus market. All regional bus transport must be awarded to contractors through competitive tendering by 2010.

SCANDINAVIA

BUS
4,200 employees
1,600 vehicles

RAIL
360 employees
44 trains

Both the Danish and Swedish bus markets are fully open to competition. Local authorities, which manage contracts through competitive tendering, provide the funding for contracts. Competitive tendering for rail services is being progressively introduced.

"Arriva has an excellent portfolio of growing, cash-generative businesses. Our acquired businesses are delivering profitable growth and we have significant opportunities for further strategic investment."

BOB DAVIES CHIEF EXECUTIVE

DELIVERING PERFORMANCE

OPERATING REVIEW

We have achieved strong results across the Group as a whole, delivering consistently in line with our strategy. Increased fuel costs and the one-off reduction in revenue and profit from the loss of the Arriva Trains Northern franchise have been substantially offset by growth elsewhere, demonstrating the resilience that our strategy gives us. We made further progress in mainland Europe, winning significant contracts in northern Europe, and acquiring businesses in Germany and Italy, achieving the European growth that we planned. 2006 has started well with a further European rail tender win.

UK BUS

Our UK Bus operations achieved an operating profit of £68 million before exceptional items (2004: £63.6 million) on revenue of £697.5 million (2004: £651.5 million), maintaining margins at just under 10 per cent, and increasing absolute profits despite cost pressures in the business, including a fuel cost increase of more than £6 million for 2005.

Arriva's policy is to fix fuel prices 12 to 15 months ahead. We have now fixed the price for our fuel requirements for 2006, and this will result in additional costs for this division of approximately £14 million. We are working to offset this as far as possible through further revenue growth underpinned by effective marketing and strong partnerships with local authorities, combined with effective cost management.

REGIONS

It has been a year of significant change for our UK regional business. Following the reorganisation early in 2005, we have restructured the business to reduce overheads and embarked on a drive for innovation in the way we approach the market. We continue to develop our techniques for in-depth analysis of population and neighbourhood profiles to find how we can meet demand more effectively. We are also running trials of fresh marketing and information initiatives to improve services, and make it easier and more convenient to travel by bus.

For the first time in several years, we are seeing industry consolidation with a number of smaller operators being acquired by major groups. We acquired operations in Stevenage at the beginning of 2005 and in July we bought the assets of Blue Bus, operating in Bolton and north of Manchester. In February 2006 we acquired Premier Buses, operating in Milton Keynes. We also recently contracted to acquire an operation in Bishop Auckland.

2005 has been an important year in the development of our UK regional business.

The reliability of services is vital in broadening the appeal of buses to the public. In January 2006 the Secretary of State for Transport, Alastair Darling, called on the industry to develop partnership schemes which deliver a new way of planning and operating bus networks in big urban areas, with local authorities and bus operators working together to improve services. We fully support this approach.

Arriva is committed to working in partnership with local authorities. In 2005 we delivered the first year of a five-year programme to develop services on Merseyside. Further partnership schemes in Durham, Thurrock and Medway have seen the introduction of new network designs, new and refurbished vehicles and improved information and facilities at bus stops. Passenger numbers have increased as a result of improved travel experiences and reduced delays.

The introduction in April 2006 of free off-peak local bus travel in England for passengers who are over 60 or who have disabilities is an important initiative. On the basis of similar experience in Scotland and Wales we expect this initiative to stimulate growth. We are currently in detailed discussions with local authorities to establish how the individual schemes will operate.

2005 has been an important year in the development of our UK regional business. The action we have taken positions the business well to absorb future cost increases and we believe the outlook is favourable.

LONDON

Arriva is the largest bus operator in London, accounting for more than 19 per cent of the network at the end of 2005. Improved operational performance led to better service delivery and enhanced our revenue under Quality Incentive Contracts. Over the last five years we have invested a total of £159 million in new vehicles for London, substantially renewing and expanding the fleet.

We expect to see continuing increases in usage of the overall London bus network. Transport for London continues to predict long-term growth as London's residential and commuting populations increase.

The actual and attempted bombings in July had a big effect on public transport in London. Passenger numbers for our London tourism and sightseeing operation, The Original Tour, fell by 40 per cent in the peak tourist months but the business is well placed to regain its position as confidence increases and tourist numbers return to previous levels.

UK TRAINS

Our UK Trains division achieved an operating profit of £14.9 million before intangible asset amortisation (2004: £31.9 million) on revenue of £239.4 million (2004: £509 million). Operating profit includes some residual income from the Arriva Trains Northern franchise that ceased in December 2004. Arriva Trains Wales (ATW) was our only UK Trains business operating in 2005.

Our ATW franchise runs until December 2018, and is supported by the Welsh Assembly Government (WAG) which, in partnership with Arriva, is committed to bringing forward innovation and investment. In January 2005 the WAG announced funding of £50 million over the life of the franchise to allow the leasing of additional trains to accommodate high demand for peak time services in the Valley Line network. In partnership with the WAG, Arriva announced a £3 million station upgrade programme in North Wales, and the installation of CCTV on trains. During 2005 Arriva made further investments in stations to improve the service for our customers and enhance revenue.

In December 2005, following extensive consultation, we introduced a new timetable adding 950 services a week across the network and providing more seats on peak time train services among other benefits.

Passenger numbers, particularly in South Wales' Valleys, are continuing to grow significantly. The new timetable has started to deliver improvements in operating performance. We remain focused on delivering continued improvements, listening to our customers, and working with stakeholders to ensure the franchise has the resources needed to respond to growing demand.

We see opportunities to grow our position in UK rail, and are pleased to have pre-qualified for the South Western passenger rail franchise. We have the resources in place to develop robust bids for franchises which may be tendered in the coming months.

MAINLAND EUROPE

Our mainland European division delivered an excellent performance, increasing operating profit by 37 per cent to £48 million before goodwill impairment, intangible asset amortisation and exceptional items (2004: £35.1 million) on revenue of £621.2 million (2004: £525.6 million). Included in the results are £19 million of revenue and £2 million of operating profit from acquisitions in the year. Indexation on contracts and state-approved fare increases helped to limit the impact of increased fuel costs.

Revenue from our mainland European operations has doubled over the last three years. We have consistently maintained that local authorities in mainland Europe would introduce competitive tendering to reduce the cost of providing public services, in response to legislative and economic pressures. We see this as the key driver for growth for Arriva outside the UK, as the volume of contract work available to private operators increases.

This view has been confirmed clearly during the year across our businesses in northern Europe, where we have seen a number of significant contract wins. In the Netherlands, Arriva won the contract to operate all regional rail services for the next 15 years in the northern provinces of Friesland and Groningen, with projected total revenue of around £500 million. We also won a 120 bus six-year contract in Waterland, north of Amsterdam, worth £120 million in lifetime revenue.

In Germany, there is now an accelerating programme of tendering of regional rail services, as we anticipated when we entered this market in 2004. In November we won a ten-year contract, with total revenue of some £150 million, to operate rail services in Bavaria between Munich and towns close to the border with the Czech Republic.

The German bus market is also introducing tendering, although the pace is slower than in the rail sector. In February, we acquired Sippel, a bus company with operations in the Rhine-Main area, where a five-year programme of tendering has been established. Sippel is part of a consortium that will operate the team and FIFA official coaches for the World Cup in Germany in 2006. It will also operate additional buses for spectators.

Our operations in Scandinavia have also increased through tender wins. We won new contracts in the Swedish towns of Helsingborg, Trelleborg and Malmö and remain the largest bus operator in Denmark with a good rate of contract retention. Building on our UK experience of introducing technology has significantly helped us to win these tenders, where we are adopting 'black box' journey recorders similar to those we have introduced in the UK, passenger information systems and CCTV systems.

"As we expand our operations in mainland Europe we continue to innovate and gain valuable experience which strengthens the management of Arriva as a whole."

BOB DAVIES CHIEF EXECUTIVE

In January 2006 we won our first rail contract in Sweden, to operate the Pågatåg regional rail services in the south of the country. The nine-year contract is initially worth approximately £15 million of revenue per annum, and has considerable potential for growth with no significant capital expenditure.

More rail tendering in Denmark is expected in 2006. We expect to participate fully, building on our reputation for excellent delivery. Our train punctuality averages 97.5 per cent and we have received bonuses for reliability and customer satisfaction throughout the year.

In southern Europe, we have highlighted Italy as another key area for development, as the Italian public transport market is one of the largest in Europe. In October, we completed the acquisition of eighty per cent of the SADEM bus businesses, which operate in the Piemonte and Valle d'Aosta regions of northern Italy to the west of our other operations. SADEM co-managed, with GTT of Turin, all transport for the 2006 Winter Olympics. This involved procurement and planning of an operation which ran up to 1,000 coaches and buses a day for competitors and spectators.

Our other bus operations in Italy, SAB and SAF, have been excellent investments. We now own 60 per cent of SAF, having purchased a further 11 per cent in December 2005. We have also increased our shareholding in other Italian businesses.

In November, the Portuguese Competition Authority denied clearance of our proposed joint venture with Barraqueiro Group to combine the Lisbon public transport operations of the two companies. We are appealing the decision.

In the summer we sold part of our Spanish operation in Galicia for £7.7 million, in line with book value. The sale of the more rural operations has allowed the business to focus on working with the metropolitan transport authorities to develop our operations in La Coruña and Ferrol.

As we expand our operations in mainland Europe we continue to innovate and gain valuable experience which strengthens the management of Arriva as a whole. We were the world's first transport company to use palm oil based bio-diesel for rail services, on several of our trains in Germany. Our introduction of contactless 'smart card' ticketing in Portugal went well, and is enabling us to gather valuable market information to tailor services more closely to market requirements. Our introduction of new trains into Denmark and Germany was on time and notably free of teething problems. We are providing experimental 'on demand' bus services in some of Italy's high mountain valleys such as Alta Valle Brembana.

As the pace of liberalisation picks up across Europe our proven expertise and innovative thinking make us well placed to achieve further growth and market success.

BUS AND COACH

Bus and Coach achieved an operating profit of £3 million (2004: £3.2 million) on revenue of £13.1 million (2004: £13.8 million). The business continues to match its resources closely to the needs of the market place and has, once again, achieved a solid profit performance with little new capital requirement.

VEHICLE RENTAL

Our vehicle rental business achieved an operating profit of £10.1 million before exceptional items (2004: £12.6 million), on revenue of £55.6 million (2004: £59 million). In common with the rest of the sector, we experienced downward pressure on daily hire rates as well as lower residual values and reduced profits. In February 2006 we sold the business to Northgate plc.

OUTLOOK

We are driving the business forward with a clear vision of becoming the leading transport services organisation in Europe. We expect strong growth to continue through acquisitions and tendering opportunities. We have businesses in seven mainland European countries and are confident that, with our established presence, Arriva is in a strong position to benefit from the increasing liberalisation of European transport markets. We see further opportunities for our UK bus operations and are committed to bringing forward innovative approaches to developing this market.

Arriva has an excellent portfolio of growing, cash-generative businesses. Our acquired businesses are delivering profitable growth and we have significant opportunities for further strategic investment.

BOB DAVIES CHIEF EXECUTIVE

"The Group's strong balance sheet at the year end has been further strengthened by the proceeds of the disposal of the vehicle rental division in February 2006. The Group is therefore well positioned to take advantage of opportunities to invest through both organic growth and acquisition."

STEVE LONSDALE GROUP MANAGING DIRECTOR – FINANCE

DELIVERING FINANCIAL STRENGTH

FINANCIAL REVIEW

The Group delivered a robust financial performance in 2005. Against the background of substantially higher fuel prices and the end of a significant UK rail franchise, Arriva Trains Northern (ATN), in December 2004, earnings per share, excluding goodwill impairment, intangible asset amortisation and exceptional items were broadly maintained, at 45.0p (2004: 45.1p). The improvement in basic earnings per share, at 43.7p (2004: 42.6p) demonstrated the financial resilience of the Group, the increasing contribution from our growing mainland Europe operations, and reflected a reduced tax charge.

This report represents the first set of annual results prepared using International Financial Reporting Standards (IFRS). The transition to IFRS has not had a material impact on cash flow or reported profits except for changes to amortisation of goodwill and intangible assets. Adjustments to the balance sheet, particularly in respect of accounting for pension schemes, were more substantial.

We have continued to make substantial investments for future growth, making use of the strong cash generation that our business provides. The financial position of the Group remained strong at year end, whilst the £129 million disposal of the vehicle rental division in February 2006 has provided additional resources to assist the future development of the Group.

RESULTS

Revenue in 2005 decreased by 8 per cent to £1,626.8 million (2004: £1,759 million). The reduction was due to the expiry of the ATN franchise which had contributed £285 million to revenue in 2004, but was partially offset by increased revenue from recent German and Italian acquisitions. Group operating profit post goodwill impairment, intangible asset amortisation and exceptional items was £123.1 million (2004: £126.3 million), largely reflecting the impact of these changes.

We have continued to make substantial investments for future growth, making use of the strong cash generation that our business provides.

The interest cost for the year was £15.2 million (2004: £17 million). The reduction principally reflects the inclusion, in the preceding year, of the £4 million cost of pre-paying US Private Placement loan notes in December 2004. Net debt was higher in 2005 due to capital expenditure and investment through acquisitions. However, the underlying average cost of debt fell, the result of an increased proportion of Euro denominated debt in the overall debt structure.

Before goodwill impairment, intangible asset amortisation and exceptional items, operating profit decreased to £127.4 million (2004: £132.8 million). An analysis of this operating profit by division is shown in the segmental results. The increased charge for goodwill impairment and intangible asset amortisation of £6.6 million (2004: £3.2 million) was largely the result of the full-year impact of acquisitions made in 2004.

Exceptional profits of £2.3 million (2004: £1 million) arose from the disposal of properties. There were no exceptional costs in 2005 (2004: £4.3 million restructuring costs).

Profit before taxation fell slightly to £107.9 million (2004: £109.3 million). The taxation charge was £21.6 million (2004: £26 million), an effective rate of 20 per cent. The effective rate of tax is reduced from the standard rate by tax losses brought forward and release of provisions for taxation, no longer required, from prior periods. Profit for the year increased 4 per cent to £86.3 million (2004: £83.3 million).

CASH FLOW

EBITDA (earnings before interest, tax, depreciation, goodwill impairment and intangible asset amortisation) increased by five per cent to £246.8 million (2004: £235.5 million) contributing to net cash inflow from operating activities for the year of £207.9 million (2004: £254.6 million). The increase in EBITDA is the result of increased investment in profitable growth through acquisitions and capital expenditure and was achieved despite the loss of contribution from ATN. Settlement of trading balances following the end of the ATN rail franchise caused a significant working capital outflow early in the year and a reduction in reported net cash inflow.

We increased net capital expenditure to £195.9 million compared with £125.5 million in the previous year. Expenditure on new buses in the UK was £65.1 million (2004: £47.8 million) including £42.2 million (2004: £25 million) invested in new buses in London during the year. Overseas capital expenditure on vehicles increased to £95.6 million, from £42 million in the previous year as the scale of the Group's mainland Europe activities increased. Nearly half of this expenditure was incurred in the Netherlands following major bus and rail contract awards. Net capital expenditure on short-term rental vehicles decreased from £29.9 million in 2004 to £25.3 million, reflecting the harder trading environment during the year.

Expenditure on new buses in the UK was £65.1 million (2004: £47.8 million) including £42.2 million (2004: £25 million) invested in new buses in London during the year.

Acquisition expenditure in the year was £46.3 million and included:

- Bus company Sippel in Germany, purchased for £11.6 million (with an additional maximum performance-related consideration of £2.1 million up to 2008)
- An increased shareholding in our businesses in Italy, from 49 per cent to 60 per cent in SAF in December 2005 for £4.3 million; SAIA from 51 per cent to 88 per cent in February 2005 for £5.2 million; and additional consideration for SAB of £4.3 million
- An increased shareholding in RAG, in Germany, from 89.8 per cent to 96.7 per cent for £3.8 million
- The acquisition of 80 per cent of bus company SADEM, in Italy, for £9.5 million
- Two acquisitions of smaller bus businesses in the UK for £6.9 million.

The increased shareholding in SAF has created an additional intangible asset, amounting to £1.9 million, in line with the acquisition of the initial shareholding in 2004. Provisional goodwill arising on the transactions was £22.5 million.

Servicing the debt and equity through interest and dividend payments absorbed £52.9 million (2004: £52.6 million), whilst there were corporation tax payments during the year of £25.8 million. New shares issued on exercise of share options generated £3.8 million. There was an increase in net debt to £435.9 million (2004: £350 million) mainly reflecting the increased acquisition activity and increased investment in trains and buses arising from tender awards. The ratio of net debt to EBITDA at the end of the year was 1.8 times.

On 3 February 2006, the Group completed the disposal of the vehicle rental business for a total consideration of £129.3 million, comprising £53.9 million for the equity in the business, and £75.4 million in reduced debt. £4.2 million of the consideration is deferred to June 2006. The transaction represents a £23 million surplus over net assets before any adjustments arising from the completion accounts process and selling expenses.

Following the disposal, on a pro-forma basis, the net debt at the year end would have been reduced to £306.6 million.

IFRS

The main impacts of IFRS on the Group's reported results, as compared with the results for 2004 reported under previous accounting standards, are as follows:

- An increase in profit before tax for the comparative year ended 31 December 2004 of £10.9 million, principally the result of acquired goodwill no longer being amortised
- Basic earnings per share for the same period increased from 36.2p to 42.6p, principally the result of not amortising goodwill. Earnings per share, excluding goodwill impairment, intangible asset amortisation and exceptional items, increased marginally from 44.9p to 45.1p
- Net assets at 1 January 2004 decreased by £107.8 million, mainly arising from:
  - recognition of obligations in respect of defined benefit pension schemes (decrease £174.8 million), and a related intangible asset (increase £12 million)
  - recognition of fair value of UK land and buildings as deemed cost (increase £24.6 million)
  - elimination from liabilities of 2003 final dividends (increase £26.1 million)
- Net debt decreased by £3.4 million at 31 December 2004 due to the proportional consolidation of joint venture cash.

The transition to IFRS is the latest in a series of changes in financial reporting in recent years that have had a material impact on the Group's reported balance sheet.

The most significant has been in respect of defined benefit pension schemes whereby anticipated liabilities are, under IAS19, discounted at highly-rated, quoted bond rates rather than at the expected rate of return on the assets invested to pay those liabilities in the future. The result is the significant retirement benefit obligations now recorded in the Group's balance sheet.

Notwithstanding this accounting change, the true cost of providing pensions has irrefutably increased over recent years, primarily due to extended life expectancy. This is resulting in greater contributions from both the Group and members to the schemes.

There was a further change in accounting for deferred taxation with the result that the Group now carries a provision for deferred taxation of £89.9 million in respect of accelerated capital allowances and revaluation surpluses on properties. We consider it unlikely that any material amount of this provision will ultimately be payable.

Goodwill on acquisition, which prior to 1998 was largely written off immediately to reserves is now included on the balance sheet but is no longer amortised, being instead subject to an annual impairment review. The Group now carries £277.5 million of goodwill on the balance sheet.

The changes to financial reporting on adoption of IFRS have no impact on the cash flows of the Group's businesses and therefore no impact on the underlying value of the Group.

CAPITAL STRUCTURE

Total shareholders' equity was £487.4 million (2004: £427.6 million) at the end of the year. Retained profits contributed £48.2 million to distributable reserves, representing the bulk of the increase. Gearing at 31 December 2005 was 87 per cent (2004: 81 per cent). The 2005 interest cover (the ratio of EBITDA to net finance costs), excluding goodwill impairment, intangible asset amortisation and exceptional items, was over 16 times (2004: 14 times).

The Group is well positioned to take advantage of opportunities to invest through both organic growth and acquisition.

At the year end, the ratio of net debt to EBITDA was 1.8 times (2004: 1.5 times). This reduces, on a pro-forma basis, to 1.5 times on the disposal of Arriva Vehicle Rental. The Group recognises that at debt levels above two times EBITDA, the cost of debt increases for companies with similar characteristics to Arriva. Taking this into account, we do not intend to allow net debt to exceed these levels on a sustained basis. Arriva remains comfortably within the principal 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

A large proportion of available finance for the Group is provided by the £310 million five-year syndicated loan facility whilst much of the Group's bus fleet is financed on medium-term hire purchase or finance lease arrangements. The typical duration of these arrangements is three to five years. As part of the UK rail franchising arrangements the Group has provided guarantees of £13 million (2004: £19 million). The rolling stock of the UK, Netherlands, Danish and German rail businesses that is provided through operating leases has annual commitments of approximately £48 million. All material commitments will cease on expiry of the franchises. Bonds amounting to £13 million have been provided in respect of our Danish and Netherlands rail businesses. Letters of credit amounting to £29 million are provided as part of the Group's UK insurance arrangements.

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

TREASURY

The Group's financial risks are managed by the Group Treasury function in accordance with a formal treasury policy approved by the Board in July 2005. The policy sets a range of formal targets for managing the Group's exposure to interest rate changes, currency movements, and fuel prices. These targets are achieved through the use of interest rate and exchange rate swaps, forward fuel price fixes, and fixed rate finance. In addition, foreign operations are funded in local currency where possible. The result of this policy has been to reduce to insignificant levels the foreign exchange risk when translating overseas assets and liabilities into sterling, and to maintain fuel fixes at least 12 to 15 months ahead on a rolling basis. The requirement to fix fuel is determined after taking into account the extent to which businesses are protected from fuel price volatility through contract price indexation.

TAXATION

The taxation charge was £21.6 million (2004: £26 million) representing an effective rate of 20 per cent (2004: 24 per cent). The reduction in the effective rate arises from a review of Group tax liabilities as a result of agreeing prior year issues and also from the utilisation of tax losses.

The effective rate of tax might be expected to increase in future periods as an increasing proportion of the Group's profits is derived from territories with higher corporate tax rates than the UK rate.

TOTAL SHAREHOLDERS' EQUITY

Total shareholders' equity was £487.4 million (2004: £427.6 million) at the end of the year representing 248p per share (2004: 218p per share). Total shareholders' equity excludes goodwill previously written off to reserves of £236.3 million (2004: £236.3 million).

SUMMARY

A significant typical feature of the Group's finances is the up-front investment in new vehicles or acquisitions followed by strong cash flows arising from those investments. This allows the Group to readily fund its growth.

In addition, the Group's strong balance sheet at the year end has been further strengthened by the proceeds of the disposal of the vehicle rental division in February 2006. The Group is therefore well positioned to take advantage of opportunities to invest through both organic growth and acquisition.

STEVE LONSDALE GROUP MANAGING DIRECTOR – FINANCE

DELIVERING RESPONSIBLY

Our full Corporate Responsibility report, policies and practices can be viewed on our website www.arriva.co.uk

Corporate Responsibility at Arriva is about recognising the contribution we can make to communities and the impact we have on our environment.

We play a vital role in the social and economic lives of the communities we serve across eight European countries. We take our responsibilities as a large business seriously and we work hard to build positive relationships with all of our stakeholders.

Our Board of Directors recognises that our long-term success depends on these positive relationships and our values being embedded into the culture of our company.

We established our Corporate Responsibility Working Group in 2004 which consists of representatives from each Arriva business. Reporting directly to the Board at regular intervals, this group reviews best practice, reports on new initiatives, and works on corporate responsibility benchmarking.

We have continued to work closely with Business in the Community to embed best practice throughout the business and to help us report to our stakeholders in a meaningful way.

Our policies, which are published at www.arriva.co.uk, set out our approach to the wider community.

SAFETY

The safety of our customers and employees always comes first.

Our Group-wide practices are reviewed regularly by the Board Safety Committee which is chaired by a non-executive director, Nick Buckles.

We play a vital role in the social and economic lives of the communities we serve across eight European countries.

This Committee reviews the key safety performance indicators across the Group and the operation of the self-certification programme. Reporting to the Board, the Committee also reviews Arriva's in-house safety management system and supports the Group's health and safety policy.

Each of the Group's businesses is accountable for its own safety performance, and follows self-certification and self-auditing processes which reflect best practice guidelines for successful health and safety management.

As part of the self-certification process, Arriva managers conduct annual reviews of their business to ensure that they meet Group safety standards. The reviews are subject to external verification.

The self-certification process, which is underpinned by the audit procedure, ensures that safety is reviewed regularly by senior management.

We have an extensive portfolio of in-house training initiatives, ranging from the Institution of Occupational Safety and Health (IOSH) approved programmes in the UK, to courses that develop competence in risk assessment, fire safety, display screen equipment, manual handling and first aid.

In 2005, we received further recognition of our commitment to health and safety with a total of six safety awards: the Royal Society for the Prevention of Accidents (RoSPA) Gold Award for Managing Occupational Road Risk; the RoSPA merit award for Occupational Health and Safety; the Institute of Transport and Logistics Excellence in Safety award; the Brake Best Risk Managed company of the Year award supported by highly commended rankings in the Safety in Vehicle Maintenance and Road Safety in the Community awards.

We were the first public transport company to sign up to support the European Road Safety Charter, which aims to achieve a 50 per cent reduction in road accidents by 2010. We have contributed to the development of the road safety debate at events throughout 2005.

In Denmark, we have received the prominent European Certificate of Working Environment – DS/OH 18001 standard for Occupational Health and Safety Management Systems.

ENVIRONMENT

Our environmental policy is in place across all of the Group's operations and in determining this policy, we sought advice from external consultants. The policy complies with all legal requirements and incorporates industry best practice.

Our three key areas are the promotion and use of public transport, the reduction of waste emissions and the efficient use of water and energy.

We manage the environmental impact of our operations and encourage the sustainable development of public transport.

We continue to research ways of reducing further the level of harmful emissions we release into the environment. During 2005, we made progress in several ways. We invested over £130 million in new buses, all of which meet Euro III environmental requirements. Some of our older buses have been fitted with Euro III compliant engines. In Denmark, we operate 29 new Coradia Lint trains which have Euro III compliant engines. We announced plans to buy 43 new Stadler diesel-electric trains worth around £95 million when we won a 15 year extension of our rail franchise in the north of the Netherlands. These trains also comply with Euro III standards. In Italy, several Arriva companies use 'white diesel' – a water in diesel-oil emulsion which can be used in diesel engines without the engines being modified. This has led to a reduction in emissions of fine particulates and nitrogen oxides.

We are working hard to reduce the environmental impact of our business by using different fuels, including ultra low sulphur diesel and compressed natural gas.

In some parts of Arriva, innovative trials of alternative fuels are taking place. Arriva PEG in Germany is the world's first transport company to use palm oil based biodiesel to operate several of its trains. In late 2005, representatives from the business were invited by the Malaysian German Chamber of Industry and Commerce in Kuala Lumpur to talk about the trials. We are now exploring opportunities as to how we can use this biofuel elsewhere.

Across the Group, we aim to dispose of all waste using environmentally sympathetic means. Waste is segregated at source and is stored pending the most appropriate and effective disposal by relevant specialist contractors. This includes recycling and reducing the amount of waste being sent to landfill sites.

EMPLOYEES

We have more than 30,000 employees, across eight European countries, who are key to Arriva's success.

We are committed to creating a working environment where everyone has the opportunity to learn and develop, and where we share many common values.

Over the past few years, we have grown our transport business significantly and developed through contract wins and acquisitions. We have established a series of policies and procedures to help employees integrate and to ensure that their training needs are addressed.

Leadership, Management and Supervisor Development

We are committed to developing our people and provide development opportunities for employees across Arriva.

In 2005, we launched our Graduate Development Programme, the first phase of which will be a recruitment drive across Europe to encourage graduates to work in the passenger transport industry.

To encourage people to apply, we have launched our graduate website www.wheredoyouwanttobe.com

Other development programmes within Arriva include: Mastering People Skills for supervisors and middle managers in UK bus operations; the Institute of Leadership and Management programme for middle managers in Arriva Trains Wales; a Management Development programme for head office managers, and Arriva's NVQ in Customer Care.

Our Danish business continues to develop its programme to train bus drivers to be managers within the organisation following a 12 month training period.

Vocational Training

Our UK vocational training programme is a major part of our investment in developing Arriva people.

In our UK bus operations, dedicated Development Managers provide support to businesses by focusing on basic skills and vocational training.

Meanwhile, in Denmark, we provide our drivers and mechanics with advanced training covering areas such as dealing with conflict, service and quality, and computer skills.

In Portugal, our vocational training programmes deliver great results. In Lisbon, we offer drivers refresher training to adopt better defensive driving techniques. We measure fuel consumption during training, showing environmental and safety benefits as well as clear cost savings.

In Portugal and in Italy we have been awarded the ISO9001 quality standard.

Valuing Difference

Arriva aims to acknowledge, understand and value differences in people, whether they are our customers or employees.

We introduced the 'Arriva Approach to Diversity' to create an environment that maximises the potential of all current and future employees.

As part of this approach, and highlighting Arriva's commitment to the diversity agenda, we have a Diversity Committee and Diversity Best Practice Forum.

Committee members include senior managers from across our businesses who meet regularly and report to the Board annually.

In the UK, we have recently run awareness workshops for 2,060 employees utilising 90 trained, internally appointed facilitators.

Valuing Employees

We value the work of our employees and the contribution they make towards the successful development of Arriva, and periodically seek their feedback.

The Arriva Learning and Development Gateway (ALDG) gives employees access to an extensive range of online courses and provides them with the opportunity to further their learning and development. The popularity of the Gateway has grown and, in 2005, there were around 12,000 visits to the site by our employees.

COMMUNITY

We know that we are an important part of the communities we serve. By the very nature of our business, we have a responsibility to these communities across the UK and mainland Europe.

For that reason, our community relations activities are at the heart of our commitment to corporate responsibility.

Our Community Relations Committee, which is chaired by an executive director, Steve Clayton, includes representatives from across the Group and it continues to work towards the vision we established in 2004:

"As a people business, we value, encourage and celebrate the contribution our employees and others make to the communities we serve."

Arriva has worked hard to establish a series of long-term partnerships giving not only financial, but also practical support. One such partnership is with Age Concern. As part of this developing partnership, in 2004 we supported Age Concern's information technology (IT) project in Hertfordshire to help older people take part in computer training. A facility was established to help them use IT in a number of areas, including keeping in touch with family and friends, finding out information such as bus and train timetables and ordering shopping for home delivery. Arriva's support has meant that this project was able to continue throughout 2005.

We have joined forces with the Wales Deaf Rugby Union as official sponsor of the team in another successful partnership. In addition to supporting the development of deaf rugby in communities right across Arriva's rail network, the partnership is also helping us to understand better the needs of people who are hard of hearing and ensure we offer the best possible service to all our customers.

Employees in the Community

Our employees are involved in our Community Relations Programme and vote each year for their 'Charity of the Year' for the UK. This has been running for six years and provides employees with the opportunity to select a charity that they would like the Group to support for 12 months.

Our employees voted for Cancer Research UK as the 2006 Charity of the Year for the third year running.

In the Netherlands, some of the charities we have supported during 2005 include 'Doo een Wens', the Dutch Make a Wish Foundation whose aim is to grant the wishes of children with life-threatening illnesses around the world; 'Cool Flevoland', a youth panel initiative which aims to improve young people's interest in politics and social themes, and 'Dance4Life' which has been set up by young people to fight the spread of Aids.

Many of our employees across the UK and mainland Europe make valuable contributions to their local communities outside of their working life with Arriva. We value this and we recognise many of their efforts through our Community Action Awards.

Employees are encouraged to tell us about their charitable work. In return, they are put forward for consideration of an award, which is donated to the organisation they support. In 2005, we presented 57 cash awards to our employees for their chosen causes.

Business in the Community

We are a national member of Business in the Community (BITC) and we actively support some of its initiatives.

BITC is a charitable organisation which helps businesses contribute to the social and economic regeneration of local communities.

During 2005, Arriva employees from the north east of England took part in a reading programme with a local primary school, which selected pupils it felt would benefit from extra support. They listened to the children read and helped with the reading process. The project proved enjoyable and worthwhile for both the children and volunteers.

We were also named as one of BITC's top ten overall performers in the Race for Opportunity awards. This recognises efforts that organisations make to ensure that their workforce is diverse and that differences are valued and understood.

1. Sir Richard Broadbent KCB
Chairman
Aged 52. Sir Richard was appointed to the Board in July 2004 and was appointed Chairman in November 2004.

Sir Richard is the Senior Independent Director of Barclays plc and was executive Chairman, HM Customs and Excise, from 2000 to 2003. He started his career with HM Treasury in 1975. In 1986 he joined Schroders plc where he held a number of senior positions including Head of European Corporate Finance (1995) and Group Managing Director, Corporate Finance (1998).

As Chairman, Sir Richard chairs the Nomination Committee of the Board and is also a member of the Safety Committee.

2. Bob Davies LLB, FCMA
Chief Executive
Aged 57. Bob joined the Board as Chief Executive in December 1998, having previously held the same position at East Midlands Electricity plc, before which he had been Finance Director of Ferranti International plc (1991–1993) and Waterford Wedgwood plc (1988–1991).

Bob had earlier held various senior positions with the Ford Motor company over a period of 15 years in the UK, in the USA with Ford Motor Credit and at Ford's Spanish operation as Director of Finance. He is currently a Non-Executive Director of Barratt Developments PLC, and is Chairman of the Board of Governors of The University of Sunderland.

As announced on 14 December 2005, Bob will retire as a Director and as Chief Executive following the conclusion of the Annual General Meeting on 19 April 2006.

3. David Martin BA, FCMA, MiMgt
Group Managing Director – Operations & Deputy Chief Executive
Aged 54. David qualified as an accountant in 1977 after graduating in Business Studies. He held a variety of general management positions before joining the bus industry in 1986. After leading a management buy-out of an East Midlands based bus company, he was involved in the acquisition of National Express and subsequent management buy-outs leading to the creation of British Bus Group Limited. David joined the Arriva Group in 1996 on the acquisition of British Bus, becoming a member of the Board in February 1998 with specific responsibility for the Group's international operations and development.

In March 2005 he was appointed Group Managing Director – Operations and Deputy Chief Executive with responsibility for all Group operations, and on 14 December 2005 it was announced that David would succeed Bob Davies as Chief Executive on Bob's retirement immediately following the Annual General Meeting on 19 April 2006.

4. Steve Lonsdale BA, FCA
Group Managing Director – Finance
Aged 48. Steve graduated from the University of Newcastle upon Tyne with a degree in Economics and Accounting before joining Coopers & Lybrand in 1978. He qualified as a Chartered Accountant in 1981 and spent eight years working in the profession in the UK and overseas. Steve joined the Group in 1987 where he worked as Group Accountant until 1991 when he was appointed to the Board as Group Finance Director.

In March 2005 he was appointed Group Managing Director – Finance with responsibility for all finance, legal and company secretarial matters.

5. Nick Buckles
Non-Executive Director
Aged 45. Nick was appointed to the Board as an Independent Non-Executive Director on 19 July 2005 and on 18 October 2005 was appointed as Chairman of the Safety Committee; Nick also sits on the Nomination and Remuneration Committees.

He was appointed to the Board of Securicor plc in 2000, having joined the group in 1985, and became its Chief Executive in January 2002. Following the merger between Securicor plc and the security businesses of Group 4 Falck in July 2004, he was appointed Deputy Chief Executive and Chief Operating Officer of the merged company, Group 4 Securicor. He was appointed Chief Executive of Group 4 Securicor in July 2005.

6. Steve Clayton BA, FCIT, MiMgt
Group Managing Director – Corporate Affairs
Aged 52. After graduating from London University in 1975, Steve held various management positions with London Transport. He was Managing Director of Leaside Bus Company Limited from 1988, which was acquired by the Group in 1994.

Steve was appointed to the Board in February 1998 with responsibility for the Group's UK Bus operations. In March 2005 he was appointed Group Managing Director – Corporate Affairs, with responsibility for Human Resources, Health, Safety and the Environment, Corporate Communications and all Government Relations activities across the Group. He sits as a member of the Safety Committee and is Chairman of the Community Relations Committee. Steve was President of The Confederation of Passenger Transport UK in 2005.

7. Simon Batey MA, FCA
Non-Executive Director
Aged 52. Simon joined the Board as an Independent Non-Executive Director on 1 October 2003 and since 1 January 2004 he has been Chairman of the Audit Committee; he also sits on the Remuneration and Nomination Committees.

After he graduated from Oxford, Simon worked for Armitage and Norton (now part of KPMG) where he trained and qualified as a chartered accountant and worked in a number of management posts.

He joined the Board of United Utilities plc as Group Finance Director in 2000. Before this appointment he was Group Finance Director of AMEC plc from 1992 and prior to that was Deputy Finance Director.

On 8 February 2006 it was announced that Simon would leave United Utilities on 31 July 2006. It was also announced that he would be appointed as a Non-Executive Director of THUS Group plc on its acquisition of Your Communications from United Utilities.

8. Veronica Palmer OBE
Non-Executive Director
Aged 65. Veronica was appointed to the Board as an Independent Non-Executive Director in September 2001 and since June 2005 has chaired the Remuneration Committee of the Board; she also sits on the Audit and Nomination Committees of the Board. Prior to this she had held the position of Director General of the Confederation of Passenger Transport UK from 1989 until June 2001. Earlier she worked in the brewing industry's trade association as Parliamentary Secretary following a successful career in the Royal Air Force and work as an employment consultant in Europe. Veronica has an MBE for military services and an OBE for services to the transport industry. She is Chairman of the Northern Ireland Transport Holding Company Board.

9. Steve Williams LLB
Non-Executive Director
Aged 58. Steve was appointed to the Board as an Independent Non-Executive Director on 1 September 2005 and on 18 October 2005 was appointed Senior Independent Director; Steve also sits on the Nomination, Audit and Safety Committees.

Steve is General Counsel and joint Company Secretary of Unilever plc and Unilever NV. Prior to joining Unilever, Steve spent 11 years at Imperial Chemical Industries plc in the legal and company secretarial departments and served for nine years as a Non-Executive Director of Bunzl plc, relinquishing that post in 2004.

The directors submit their report and the audited accounts of Arriva plc for the year ended 31 December 2005.

Principal Activities of the Group
The principal activities of the Group at 31 December 2005 comprised:

Passenger Services
Operation of bus and train services in the UK and seven countries in mainland Europe, coach commuter services and private hire.

Vehicle Rental
Corporate vehicle rental and personal self-drive hire. This business was subsequently disposed of on 3 February 2006. Further details are given below.

Bus & Coach
Bus and coach distribution, rental and finance.

Review of Operations
A review of operations, together with an indication of future prospects, is given in the Chief Executive's Review on pages 8 to 13.

Results and Dividends
The profit for the year amounted to £86.3 million (2004: £83.3 million). The directors recommend the payment of a final dividend on the ordinary shares of the company of 14.77 pence per share (2004: 14.07 pence) which, together with the interim dividend of 5.07 pence (2004: 4.83 pence) represents a total of 19.84 pence per ordinary share (2004: 18.9 pence). The proposed final dividend, if approved, will be payable on 2 May 2006 to shareholders on the Register of Members at the close of business on 31 March 2006. The total amount paid and proposed to be paid is £39.1 million in respect of 2005 (2004: £37.1 million).

Share Capital
The movement in the share capital during the year is detailed in Note 22 to the Annual Report and Accounts.

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

Mr S G Batey and Mrs A V M Palmer retire by rotation, and, being eligible, offer themselves for re-election at the Annual General Meeting on 19 April 2006.

Mr N P Buckles was appointed to the Board on 19 July 2005 and Mr S G Williams was appointed on 1 September 2005. Resolutions to approve their appointments will be proposed at the Annual General Meeting.

Mr A M Saxton resigned from the Board on 2 March 2005, and Mr M J Allen retired from the Board on 30 June 2005.

No director was interested in any contract or arrangement which was significant in relation to the Group's business.

Directors' Interests
The interests of the directors (including their family interests) at the end of the year, including details of directors' share options and interests under the Long Term Incentive Plan appear in the Directors' Remuneration Report on pages 31 to 37.

Purchase of Own Shares
No shares were purchased pursuant to the authority granted to the directors at the Annual General Meeting held on 20 April 2005. Renewal of this authority will be sought at the Annual General meeting to be held on 19 April 2006.

Acquisitions and Disposals
In January 2005 the purchase of the assets of Sovereign Bus and Coach Company Limited was completed for a consideration of £4.1 million.

In February 2005 the company acquired German bus company Sippel Group for £11.6 million with an additional maximum consideration of £2.1 million payable against performance targets up to 2008.

An agreement was announced in July to acquire 80 per cent of SADEM, a bus operator in Italy, for £9.5 million and an option to acquire the remaining 20 per cent in 2008 for a maximum of £3.2 million. Completion of the purchase of the initial 80 per cent was announced in October 2005.

In July 2005 the company acquired the assets of Blue Bus and Coaches of Bolton, which operated commercial and tendered services to the north of Manchester, in and around Bolton and to Manchester city centre, for a cash consideration of £2.8 million.

The company announced in January 2006 the disposal of its vehicle rental division to Northgate plc for an estimated consideration of £129 million, representing a surplus over net assets of approximately £23 million. The disposal was completed on 3 February 2006.

On 13 February 2006 it was announced that Premier Buses Limited, the holding company of MK Metro Limited of Milton Keynes had been acquired for a net cash consideration of £5.6 million.
The consideration consisted of £6.8 million, less inherited cash in the company of £1.2 million.

Charitable and Political Donations
During the year the Group made charitable donations, for a variety of charitable purposes, amounting to £201,426 (2004: £157,515). There were no political donations (2004: nil).

Annual General Meeting
The Annual General Meeting will be held on 19 April 2006. Details of business to be considered at the Meeting can be found in the Notice of Annual General Meeting which has been sent to all shareholders with the Annual Report and Accounts.

Employees
The Group's approach to diversity means valuing differences in our staff and customers. Diversity is about recognising and accepting that all types of people can be successful at work and Arriva positively welcomes all types of staff and customers. The Board has confirmed its commitment to diversity and its objective is to achieve a workforce profile to reflect future demographics and create an environment in which differences are genuinely valued.

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

A female network event was held during October 2005, to support the development of female leadership potential and to maximise contribution to business performance. The event was attended by around 50 of the Group's female managers from across its UK and mainland European operations. Feedback from this event will inform future approaches to recruitment, development and retention of female managers.

An Arriva-wide employee survey was conducted during 2005, feedback from which has been shared with the Board and management team. During 2006 local feedback will be communicated to every employee and will include a number of corporate commitments in response to the employee survey feedback. These are to conduct regular surveys, provide honest feedback and take consistent actions to improve communications across the business. Each business will also review its employee feedback and commit to take local actions.

During 2005 certain new employee benefits were introduced, including the Arriva Share Incentive Plan (SIP) as outlined below, the Arriva Childcare Vouchers scheme and the Arriva Computers@home scheme. Childcare Vouchers and Home Computing arrangements are Government-led salary sacrifice initiatives.

The Group has continued its policy of employee involvement, by making information available to employees on a regular basis regarding recent and probable future developments and business activities. In order to facilitate this an Arriva plc Information and Consultation Committee was set up in October 2005.

Arriva recognises the value and benefits of employee share ownership, and in 2005 the company implemented a Share Incentive Plan (SIP), approved by shareholders at the Annual General Meeting in 2004. The SIP enables eligible UK employees to buy shares in Arriva plc, subject to monthly limits, out of pre-tax pay. Resolutions approving replacements for the existing discretionary Share Option Scheme and amendments to the Long Term Incentive Plan will be considered at the Annual General Meeting on 19 April 2006. Further details can be found in the Notice of Annual General Meeting accompanying this Annual Report and Accounts.

Policy Regarding Payment of Suppliers
The Group's policy regarding the payment of suppliers is either to agree terms of payment at the start of business with each supplier or to ensure that the supplier is made aware of the payment terms, and in either case to pay in accordance with its contractual or other legal obligations. At 31 December 2005 the company's trade creditors outstanding represented approximately 30 days' purchases (2004: 49 days).

Substantial Shareholdings

As far as the directors are aware, the notifiable holdings equal to or in excess of 3 per cent of the issued ordinary capital as at 20 February 2006 are:

	%
Barclays PLC	10.91
Legal & General	3.16
Deutsche Bank AG	3.00

Corporate Governance

A review of the company's application of the principles and provisions of The Combined Code appears on pages 38 to 42.

Health, Safety and Environment

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

Auditors

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

By order of the Board
D P TURNER
Secretary
1 March 2006

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare Group financial statements for each financial year that give a true and fair view of the state of affairs of the Group and of its profit or loss for that period.

In preparing those financial statements the directors are required to:

- Select suitable accounting policies and then apply them consistently
- Make judgements and estimates that are reasonable and prudent
- State that the financial statements comply with IFRS
- Prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Group will continue in business.

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

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

- The directors are responsible for the maintenance and integrity of the website
- Legislation in the UK concerning the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

1. Introduction

The Remuneration Committee is responsible for reviewing and making recommendations to the Board on all matters relating to the remuneration arrangements applying to the executive directors, the management population occupying roles immediately below those of the Board and to any other employee within the Group whose salary plus bonus potential exceeds a specified amount, currently £180,000 per annum. During the year under review the Committee met on six occasions and each Committee member attended all meetings.

Membership of the Remuneration Committee is limited to the independent non-executive directors and, following the retirement of Mr M J Allen on 30 June 2005, has been chaired by Mrs A V M Palmer. The other current members of the Committee are Mr S G Batey and Mr N P Buckles who was appointed to the Committee on 18 October 2005 following his appointment as a Non-Executive Director on 19 July 2005. Sir Richard Broadbent sat as a member of the Committee until May 2005. In his capacity as Senior Independent Director, Mr S G Williams (appointed to the Board on 1 September 2005 and appointed Senior Independent Director on 18 October 2005) may attend any meeting of the Committee. During the year under review Sir Richard Broadbent and Mr R J Davies have attended meetings of the Committee as invitees.

The Committee's terms of reference are available on the company's website www.arriva.co.uk

2. Remuneration Review

The Committee decided in 2005 to undertake a comprehensive review of executive remuneration which had operated within the same framework since 2000. In addition to ensuring that its remuneration practices remained competitive, the Committee was asked by the Board to ensure that the remuneration structure was fully aligned with the company's business goals. The Committee appointed KPMG LLP (UK) as advisors to assist in the review. When undertaking the review, the Remuneration Committee has consulted with certain of the company's major shareholders, as well as with the Association of British Insurers.

The objective of the Board's remuneration policy is to ensure that senior management of appropriate calibre and experience are attracted, motivated and retained to provide the best possible opportunity for the company to deliver sustained shareholder value. In support of this objective, the remuneration review confirmed the company's policy of paying basic salary at the median of the peer comparator group and to reward outstanding performance with upper quartile total remuneration.

The review based its conclusions on a peer comparator group comprising a representative sample of FTSE 250 companies of a similar size and complexity to that of the company from the transport and other sectors.

The main conclusions of the review were as follows; further details are provided in section 3 below:

- The salary of the Group Managing Director – Finance should be re-aligned by 16 per cent to bring it in line with the median of the peer group
- The annual performance-related bonus opportunity should be increased to 100 per cent of salary with 70 per cent dependent on financial performance and 30 per cent on personal targets
- The maximum number of shares conditionally awarded under the Long Term Incentive Plan (LTIP) should be increased to an amount equivalent to 200 per cent of salary based on stretching new performance targets linked to Total Shareholder Return (TSR) performance and earnings per share (EPS) growth, in line with our strategic ambitions.
- Share retention guidelines for executive directors should be introduced requiring retention of 50 per cent of any share award until a holding equivalent in value to annual base salary has been achieved.

The effect of these changes is to ensure that compensation opportunity matches the comparator peer group subject to achieving stretching performance in line with our strategic goals.

For the purposes of this remuneration report, EPS means basic earnings per share before goodwill impairment and intangible asset amortisation calculated under International Financial Reporting Standards adjusted for exceptional items.

3. Remuneration Structure

3.1 Base Salary

Following its review of remuneration the Committee concluded that the base salary of the Group Managing Director – Finance was below that of the median of the peer comparator group and that the remaining executive directors' base salaries were appropriately positioned. Accordingly the following salaries proposed by the Committee, effective from 1 January 2006, were approved by the Board.

	Salary £000 p.a.
R J Davies	447
D R Martin	312
S P Lonsdale	290
S J Clayton	260

Mr R J Davies will retire from the Board on 19 April and there are no exceptional arrangements applying to his retirement. Mr D R Martin will assume the role of Chief Executive on 19 April 2006 and his base salary will be increased to £447,000 p.a. in line with that of Mr Davies' final salary.

3.2 Performance-Related Bonus

3.2.1 Year to 31 December 2005

For the year under review each of the executive directors participated in a performance-related bonus scheme. Mr R J Davies was targeted on group profitability performance against budget, with performance equal to budget delivering a bonus of 50 per cent of base salary and profit performance up to 10 per cent in excess of budget delivering bonus pro rata up to a maximum of 70 per cent of basic salary; performance of 90 per cent–100 per cent of budget delivering pro rata bonus of 25 per cent–50 per cent of base salary.

The bonus arrangements for Messrs Clayton, Lonsdale and Martin are based on both Group profitability and the achievement of personal objectives and for outstanding performance could deliver a maximum bonus of 60 per cent of basic salary. The financial element was based on a single objective of Group performance by reference to budgeted earnings per share (EPS) and for the year under review was targeted to deliver 30 per cent of base salary at EPS of 43 pence and capped at a maximum of 40 per cent of basic salary on the achievement of EPS of 46 pence; below EPS of 43 pence, linearly from 0 per cent of basic salary at 40 pence, to 30 per cent at 43 pence.

The personal objectives element which was agreed with each director at the beginning of the year had the potential to deliver a maximum bonus of 20 per cent of basic salary in the year under review. These non-financial objectives set for each director focus on the key themes of strategy, organisational development, business growth, the establishment and maintenance of effective relationships and leadership.

3.2.2 Arrangements from 1 January 2006

Following the results of the remuneration review the annual bonus opportunity will increase to 100 per cent of base salary with 70 per cent being determined by Group financial performance and the balance reflecting performance against personal objectives agreed with each director at the beginning of the year. Performance will be measured against budget and personal objectives with 'on target' performance delivering 50 per cent of base salary as bonus; profit performance exceeding budget by 10 per cent coupled with outstanding personal performance will deliver a maximum bonus of 100 per cent of basic salary.

The performance measure will generally be EPS, although the Remuneration Committee will review the measure each year to ensure it remains appropriate.

3.3 Long Term Incentive Plan (LTIP)

3.3.1 Year to 31 December 2005

The existing LTIP was introduced in 2000 and provides for the conditional award of shares at the discretion of the Board as advised by the Remuneration Committee. The market value of any conditional award is restricted such that it may not exceed 100 per cent of a director's basic salary as at the date of grant. The vesting of the conditional share awards will depend upon the performance of the Group's EPS (before goodwill impairment, intangible asset amortisation and exceptional items) when compared with the growth in the Retail Price Index and also of the Total Shareholder Return (TSR) of the Group when compared with the TSR of the Peer Comparator Group (comprising the constituent companies of the FTSE 250 excluding the Group and investment companies) over a period of three years.

As at 31 December 2005 the interests of the directors in conditional share awards made under the LTIP were as follows *(audited information)*:

	Awards subsisting at 1 January 2005			Movement in Conditionally Awarded Shares: Awarded during year			Movement in Conditionally Awarded Shares: Vested during year			Lapsed in year	Balance at 31 Dec 2005 (or date of leaving)
	No. of shares	Date shares awarded	Share price at date of award (p)	No. of shares	Date	Share price at date of award (p)	No. of shares	Date of vesting	Value of shares at date of vesting (£)		
R J Davies	105,311	30/10/02	300.75	78,467	14/3/05	548.00	105,311	3/3/05	574,998		
	115,283	6/3/03	283.00								
	105,140	8/3/04	374.50								
Total	**325,734**			**78,467**			**105,311**				**298,890**
S J Clayton	59,933	30/10/02	300.75	45,620	14/3/05	548.00	59,933	3/3/05	327,234		
	65,636	6/3/03	283.00								
	61,682	8/3/04	374.50								
Total	**187,251**			**45,620**			**59,933**				**172,938**
S P Lonsdale	58,221	30/10/02	300.75	45,620	14/3/05	548.00	58,221	3/3/05	317,887		
	63,781	6/3/03	283.00								
	60,280	8/3/04	374.50								
Total	**182,282**			**45,620**			**58,221**				**169,681**
D R Martin	59,933	30/10/02	300.75	54,744	14/3/05	548.00	59,933	3/3/05	327,234		
	65,636	6/3/03	283.00								
	61,682	8/3/04	374.50								
Total	**187,251**			**54,744**			**59,933**				**182,062**
A M Saxton	54,796	30/10/02	300.75	Nil	-		54,796	3/3/05	299,186		
(Retired 2 March	60,071	6/3/03	283.00								
2005)	57,477	8/3/04	374.50							57,477	
Total	**172,344**						**54,796**			**57,477**	**60,071**

The degree of vesting is on a sliding scale of 25 per cent to 100 per cent, with no share vesting unless the TSR of the Group is at least equal to the median TSR of the Peer Comparator Group. However, irrespective of TSR performance, no share shall vest in any event unless the growth in the Group's EPS over the three year measurement period exceeds the growth of the Retail Price Index in the same period by at least 6 per cent.

The awards were originally made with performance targets based on accounting standards prevailing at the time and in particular before the introduction of International Financial Reporting Standards. The Remuneration Committee has made appropriate adjustments to target EPS to ensure proper comparability.

With regard to the conditional share award made on 6 March 2003 the performance measurement period is the three years ended 31 December 2005; in that period the growth in the Group's EPS was 28.6 per cent compared with the growth in the Retail Price Index of 9 per cent. The Group's TSR for the same period fell between the TSR of the bottom company in the upper quartile and that of the top company in the second quartile, delivering a conditional award vesting level of 99.75 per cent.

3.3.2 Proposed arrangements post 1 January 2006 (subject to shareholder approval)

- It is proposed that the maximum LTIP award an employee may receive in any year be increased from 100 per cent to 200 per cent of the participant's annual salary. The Remuneration Committee believes that this amendment is necessary to ensure that participants are provided with upper quartile reward opportunity for upper quartile performance. To ensure that the performance targets are sufficiently stretching, and are in line with the company's business strategy, it is also proposed that the performance condition attaching to new LTIP awards be amended.
- Currently the performance condition attaching to LTIP awards is based on the total shareholder return (TSR) when compared to the FTSE 250 (excluding investment companies) and earnings per share. Although TSR is an important measure of shareholder value, the Remuneration Committee also believes there should be a direct link between the efforts of the management team and the delivery of the business strategy. To achieve this link it is proposed that: 50 per cent of the LTIP award be based on the company's TSR performance (referred to as the "TSR Element"), and 50 per cent of the LTIP award be based on the company's growth in earnings per share (EPS) over the performance period (the "EPS Element").
- The TSR Element will not vest if, when compared to the group of comparator companies, the company's TSR is less than median. 25 per cent of the TSR Element will vest if, when compared to the group of comparator companies, the company's TSR is at median. 100 per cent of the TSR Element will vest if, when compared to the group of comparator companies, the company's TSR is in the upper quartile. The TSR Element will vest on a straight line basis if the company's TSR is between median and upper quartile. Vesting will also be subject to the Remuneration Committee confirming that there has been a sustained improvement in the underlying financial performance of the company over the performance period.

- The EPS Element will not vest if the compound annual growth rate in EPS over the performance period is less than compound annual growth in the Retail Prices Index (RPI) plus 4 per cent. 10 per cent of the EPS element will vest if the compound annual growth rate in EPS over the performance period is equal to the compound annual growth in RPI plus 4 per cent. 100 per cent of the EPS element will vest if the compound annual growth rate in EPS over the performance period is equal to the compound annual growth in RPI plus 13 per cent or more. The EPS Element will vest on a straight line basis for compound annual growth in earnings per share over the performance period which is between (i) compound annual growth in RPI plus 4 per cent and (ii) compound annual growth in RPI plus 13 per cent.

3.4 Share Options *(audited information)*

Since the introduction of the LTIP in 2000 the executive directors have not participated in any of the company's share option schemes and it is not envisaged that there will be any change to this policy in the future.

As at 1 January 2005 Mr R J Davies had residual interests in the company's share option schemes (which had been awarded to him in 1998) and were exercised during the year as follows:

Options at 1/1/05					Market value	
Number	Date of grant	Exercise price (p)	Number exercised during the year	Options at 31/12/05	As at date of exercise (p)	As at date of grant (p)
8,021*	30/12/98	374.00	8,021	**Nil**	578.50	378.00
212,834†	30/12/98	374.00	(i) 100,000 (ii) 112,834	**Nil**	547.75 578.50	378.00

* Executive Share Option Scheme   † Share Incentive Scheme

The exercise of the share options held by Mr Davies was subject to the achievement of performance targets which require the company's earnings per share over a period of three consecutive years prior to exercise to exceed the Retail Prices Index by a minimum of 2 per cent per annum. The targets are set by the Remuneration Committee and may be varied from time to time.

No other director held any interest in any of the share option schemes (other than the LTIP) during the course of the year.

3.5 Remuneration Details for year ended 31 December 2005 *(audited information)*

	Emoluments					
	Fees £	Salary £	Performance related bonus £	Benefits in kind/ allowance† £	Total £	Prior year £
Sir Richard Broadbent (appointed 2 July 2004)	120,000	-	-	-	120,000	60,000
W G Cooper (retired 31 October 2004)	-	-	-	-	-	92,083
R J Davies	-	423,958	255,000	35,835	714,793	703,818
S J Clayton	-	246,833	130,000	22,969	399,802	376,178
S P Lonsdale	-	245,958	130,000	21,086	397,044	371,641
D R Martin	-	288,500	160,000	24,398	472,898	378,568
A M Saxton* (retired 2 March 2005)	-	35,875	-	3,794	39,669	343,928
M J Allen	12,016	-	-	-	12,016	31,500
S G Batey	38,083	-	-	-	38,083	31,500
N P Buckles (appointed 19 July 2005)	15,167	-	-	-	15,167	-
A V M Palmer	34,333	-	-	-	34,333	31,500
S G Williams (appointed 1 September 2005)	11,333	-	-	-	11,333	-
Total	**230,932**	**1,241,124**	**675,000**	**108,082**	**2,255,138**	**2,420,716**

A pension of £5,000 (2004: £5,000) was paid to a former director.

† Benefits in kind comprise a company car/car allowance, fuel/fuel allowance, medical insurance and telephone costs.

* As reported last year a payment of £434,334 was made to Mr Saxton representing the company's contractual obligations arising from the termination of his service contract on 2 March 2005.

3.6 Non-Executive Directors' Fees

The non-executive directors' fees are currently limited by the Articles of Association to £400,000 per annum in the aggregate and the Articles permit the directors to increase this cap annually in line with the index of wage inflation. Within the aggregate cap the annual fee for each non-executive director is determined by the Board, the non-executive directors taking no part in the deliberations. With effect from 1 March 2005, the fee payable to each of the non-executive directors (excluding the Chairman) was increased by £4,000 to £32,500 per annum; these changes were made to ensure that the fees remained in line with fees paid by comparable companies. Responsibility for chairing a Board Committee or occupying the role of Senior Independent Director attracts a further annual fee of £3,000 except for the Audit Committee Chairmanship where the additional annual fee is £7,500. Since March 2005 there have been no changes to the fees payable to the non-executive directors. The fee for the Chairman has also remained unchanged.

Each of the non-executive directors is appointed for a fixed term not exceeding three years. The appointments are renewable with the agreement of both parties again for terms not exceeding three years.

4. Directors' Share Interests

The interests of the directors (including their family interests) in the share capital of the company at the beginning and at the end of the year are shown below:

	1/1/05	31/12/05	20/2/06
R J Broadbent	17,702	27,246	27,246
R J Davies	335,210	460,521	460,521
S J Clayton	60,000	70,000	70,000
S P Lonsdale	231,610	289,831	289,831
D R Martin	384,963	420,238	420,238
S G Batey	Nil	3,818	3,818
N P Buckles (appointed 19/7/05)	n/a	Nil	Nil
A V M Palmer	Nil	Nil	Nil
S G Williams (appointed 1/9/05)	n/a	Nil	Nil

5. Pensions *(audited information)*

	R J Davies	S J Clayton	S P Lonsdale	D R Martin		A M Saxton Retired 2/3/05	
Scheme*	**4**	**3**	**1**	**2**	**4**	**1**	**4**
Normal retirement age	65	65	65	65	65	65	65
Director's contribution	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Increase in accrued pension during the year (allowing for indexation) (£ pa)		12,786	16,447	32,954		1,761	
Gross increase in accrued pension (£ pa)		14,336	19,466	35,881		1,983	
Accrued pension at 31/12/2005 (£ pa)		71,716	131,304	156,123		10,200	
Accrued pension at 31/12/2004 (£ pa)		57,380	111,838	120,242		8,217	
Value of net increase in accrual over period (£)		123,353	138,116	350,196		17,804	
Transfer value of accrued pension at 31/12/2004 (£)		474,084	792,958	1,107,357		70,120	
Transfer value of accrued pension at 31/12/2005 (£)		692,279	1,104,476	1,690,955		103,096	
Total change in value during period (£)		218,195	311,518	583,598		32,976	
Company contribution to FURBS and/or personal pension during the year (£)	209,084	-	-	-	3,600	-	5,927
Premium for additional life cover paid in the year (£)	6,566	-	-	-	-	-	976

* **1** Arriva Pension Scheme **2** Arriva Passenger Services Pension Plan **3** Arriva London North and Arriva London South Pension Scheme **4** FURBS and/or Personal Pension Plan

Since 1 January 2000 Messrs Clayton, Lonsdale and Martin have, subject to Inland Revenue limits, been accruing benefits in their respective schemes at 1/30th of basic annual salary; for service after 31 December 1999 bonus ceased to be taken into account when computing pension benefits.

With effect from 6 April 2006, the basis on which pension benefits are taxed will change with the introduction of lifetime and annual allowances. The Remuneration Committee has reviewed the position and, having taken advice from KPMG LLP (UK), has established the following policy:

- Any change to the taxation of pensions benefits remains the responsibility of the individual concerned and the company should not incur any additional cost as a result of the change
- All future executive director appointees to the board will not be eligible for a final salary based pension, but will receive a cash contribution equivalent to 25% of their base salary.

6. Service Contracts

Messrs Clayton, Lonsdale and Martin each have rolling service contracts which are subject to 12 months' notice from the company and six months' notice from the director; Mr Lonsdale's contract is dated 5 September 1997 and the contracts for Messrs Clayton and Martin are dated 19 November 2001. Each of their contracts contains an explicit provision for compensation payment on termination, except in the case of misconduct, with the severance payment being calculated as the sum of the following:

(i) Basic annual salary at the date of termination
(ii) The amount of bonus estimated to be payable to the director in the year notice is served
(iii) The amount representing the value of 12 months' benefit in kind as recorded in the audited accounts of the company for the financial year immediately preceding the date of termination.

Additionally the company will secure a further 12 months' service credit in respect of the directors' pension scheme membership.

Should the director give notice to the company within the period of six months following a change of control of the company to terminate the contract, one half of the payments referred to above shall be payable by the company.

Mr Davies will retire from the Board on 19 April 2006 following the conclusion of the Annual General Meeting. There are no compensation payments that will be made to Mr Davies in this regard, Mr Davies receiving salary and pro rata bonus up to the date of retirement.

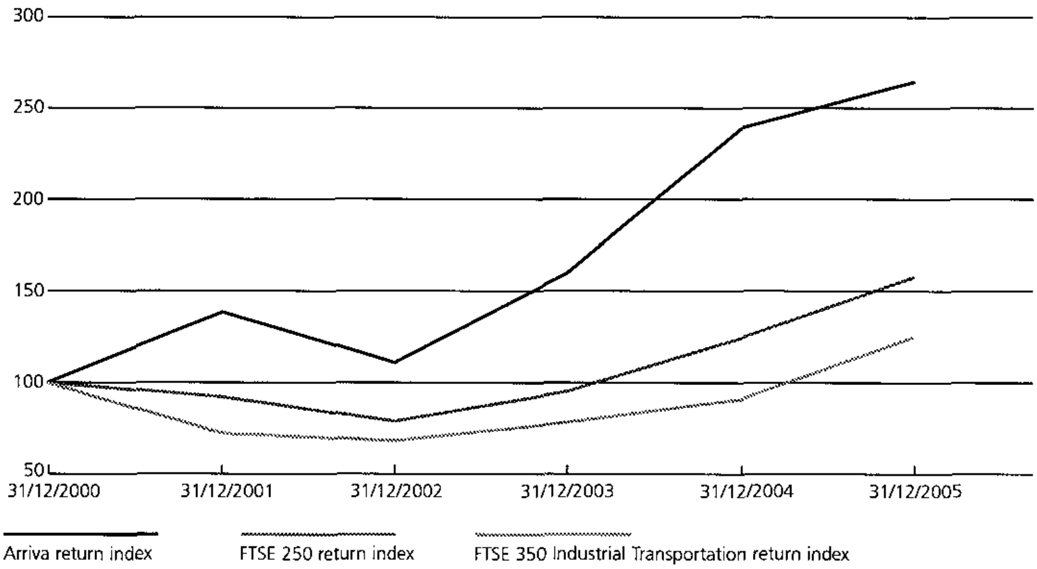
7. External Appointments
The Board is generally happy for executive directors to accept one appointment outside the company. Before accepting such appointments, the director involved must receive the prior approval of the Board. In considering such cases the Board will always satisfy itself, as far as is possible, that such appointments will not detract from the executive directors' expected contribution to the company or create any conflict of interest. Any fees earned by an executive director in such a capacity will be assigned to the company as in the case of Mr R J Davies' appointment as a non-executive director of Barratt Developments PLC, where the annual fee of £34,320 (£33,000 to 30 June 2005) is paid directly to the company on a quarterly basis.

8. Total Shareholder Return Graph
In accordance with the provisions of Schedule 7A to the Companies Act 1985, detailed below is a graph charting the performance of the company's Total Shareholder Return (share value growth plus re-invested dividends) over the past five years compared with that of:

a) The FTSE 250

b) The FTSE 350 Transport Sector.

Total return indices – Arriva, FTSE 250 and FTSE 350 Industrial Transportation



9. Remuneration Report Approval
An Ordinary Resolution to consider and if thought fit approve this Remuneration Report will be proposed at the Annual General Meeting to be held on 19 April 2006.

M Palmer

For and on behalf of the Board
A V M PALMER
Chairman, Remuneration Committee

Arriva plc is listed on the London Stock Exchange and as such is required to comply with the Listing Rules of the UK Listing Authority and to make a statement on corporate governance. This includes how the principles set out in Section 1 of the Combined Code have been applied and whether or not the company has complied with its provisions.

The directors of Arriva plc consider that the company has substantially complied with the provisions of Section 1 of the Combined Code. The requirement that at least half the Board, excluding the Chairman, should comprise non-executive directors determined by the Board to be independent (Code provision A.3.2) was achieved in September by the appointment of two independent non-executive directors.

The Board

The Board is responsible for the strategic direction of the company and has a specific schedule of matters reserved for its decision covering the approval of financial statements, long-term objectives and commercial strategy, treasury policy, health and safety policy, major capital investment and all matters concerning the maintenance and development of good corporate governance practice.

The Board is made up of the non-executive Chairman, four independent non-executive directors and four executive directors. Further details of the directors, including their biographies and committee memberships, are given on pages 26 to 27.

The Board met 12 times during 2005, including one meeting devoted to a strategy discussion. At each meeting the Board receives reports from the Chief Executive and from executive directors, as well as reports from Board Committees. In addition to matters related to the strategy, finances and business of the company, the Board considers reports on matters relevant to the transport industry and receives updates on corporate governance, regulatory and other compliance matters.

The Board has a balance of executive and non-executive directors, with the non-executive directors providing an independent voice and valuable skills and experience. Steve Williams is the Senior Independent Director and his responsibilities include providing an additional channel of communication for shareholders should they feel it necessary to express any concerns outside the normal methods of communication with the company.

The Board has four Committees – Audit, Remuneration, Nomination and Safety. The Audit Committee met four times during the year, the Remuneration Committee six times and the Nomination Committee and the Safety Committee each met four times. A table showing attendance at Board meetings and Board committee meetings is given on pages 40 and 41. A copy of the terms of reference of the Board Committees is available on request or can be accessed by visiting the company's website www.arriva.co.uk

The roles of both Chairman and Chief Executive are clearly divided and set out in the Board's Corporate Governance manual. The Chairman is responsible for ensuring the smooth and effective operation of the Board, including the flow of information to the Board, for Board membership and succession and for facilitating relationships between the company and investors. The Chief Executive is responsible for running the business and implementing the decisions of the Board. In particular the Chief Executive formulates and keeps under review proposals for the strategic direction of the business, ensures that appropriate operational resources are available, promotes the company to the investing community and potential investors, and accounts to the Board for the financial performance of the company. Bob Davies will retire as Chief Executive at the conclusion of the Annual General Meeting on 19 April 2006, to be succeeded by David Martin, currently Group Managing Director – Operations and Deputy Chief Executive.

One third of the directors are required to submit themselves for re-election each year and all directors will have submitted themselves for re-election every three years. Newly appointed directors will be subject to election by the shareholders at the first opportunity after their appointment; a resolution to approve the appointments of Nick Buckles and Steve Williams as directors of the company will be proposed at the Annual General Meeting to be held on 19 April 2006.

All directors have access to the advice and services of the Company Secretary who administers the Board and Board Committee meetings, regularly updates the Board on matters of corporate governance and ensures that relevant procedures and regulations are adhered to. There is an established procedure for any of the directors (both executive and non-executive) to obtain independent professional advice at the company's expense.

An Induction Programme applies for all new appointees to the Board, which incorporates full briefing on the Arriva approach to corporate governance and a review of the business and Board and corporate issues. The Induction Programme also includes site visits in the UK and mainland Europe and one-to-one meetings with key senior managers. Existing directors also receive regular business updates and make site visits as appropriate. Opportunities to further develop Board skills and knowledge are also considered as part of the Board evaluation process.

Board Evaluation
The Board undertakes an annual evaluation of its own performance. The 2005 evaluation was an internal process based on confidential questionnaires completed by each director and reviewed by the Chairman. The primary focus of the 2005 evaluation was on the role of the Board in providing strategic direction, sound governance and successful senior management succession. As part of the 2005 evaluation process Steve Williams, consulting other directors of the Board, undertook an evaluation of the performance of Sir Richard Broadbent in his role as Chairman.

Audit Committee
The Audit Committee comprises Simon Batey, Veronica Palmer and Steve Williams, all independent non-executive directors. To assist it in performing its duties the Committee may invite other members of the Board, the Head of Internal Audit, any member of the company's senior management team and any representative of the company's external auditors to attend its meetings; however no invitee has any right of attendance. The Committee met four times in 2005. It is the responsibility of the Committee members to ensure that they are regularly briefed and receive training on matters concerning financial reporting developments and associated skills.

The Committee is chaired by Simon Batey, a chartered accountant and Group Finance Director of United Utilities plc.

The Committee's terms of reference require it to monitor the integrity of all the company's financial statements and any other statements which may be issued relating to the company's financial performance or financial standing; this review will include an assessment of financial reporting judgments applied.

It is the responsibility of the Committee to review and report to the Board on the company's internal controls and risk management systems, including risk transfer and risk retention. The Committee reviews reports by Group Internal Audit and reports to the Board on action being taken to address issues arising from the reports. It also monitors the effectiveness of both the internal and external audit functions and is required to satisfy itself as to the continuing independence and objectivity of the external auditors.

During 2005 the Committee undertook a review of the objectivity, resources and independence of the auditors PricewaterhouseCoopers LLP (PwC) and has considered the appointment of the auditors for 2006. Following this review the Committee believes that PwC continues to deliver a satisfactory service and has recommended to the Board that PwC's re-appointment as auditors be proposed at the Annual General Meeting. The Board has endorsed that recommendation.

As part of its process for ensuring continued audit independence, the Audit Committee reviews and approves the level and nature of non-audit work performed by the auditors. For the year under review the value of non-audit work was £0.9 million against an audit fee of £0.7 million. The Committee also approved policy documents relating to (i) non-audit work performed by the auditors and, (ii) the employment of ex-employees of the external auditors.

Also during 2005 the Committee conducted an appraisal of the role of Group Internal Audit and how effectively that role is discharged. The Committee concluded that the Group Internal Audit function was performing well and represents a significant and effective unit in both the monitoring of the Group's internal controls and the quality, reliability and integrity of the Group's accounting records.

Remuneration Committee
Full details of the work of the Committee appear in the Directors' Remuneration Report on pages 31 to 37.

Nomination Committee
The Nomination Committee comprises the non-executive directors and is chaired by Sir Richard Broadbent. It is responsible for keeping under review the structure, size and operation of the Board and its Committees and for forming an assessment and making appropriate recommendations regarding the resourcing of the Board. It also monitors and reviews senior management succession planning and during the year a comprehensive succession exercise covering senior management at and immediately below Board level was begun and is expected to be completed during 2006. In relation to new Board appointments the Committee, in consultation with the Chief Executive and relevant external advisors, will consider and approve the particular skill set, personal attributes and characteristics that are necessary to fulfill the role, review an appropriate job description and be directly involved in the recruitment process. It is also the responsibility of the Committee, together with the Chairman of the Board, to ensure the effective application of the Board evaluation procedure.

The Committee met four times in 2005. Areas that the Committee focused on included the succession to Bob Davies as Chief Executive and the appointments of Nick Buckles and Steve Williams as non-executive directors where the Committee was assisted in its recruitment process by external recruitment consultants Spencer Stuart.

Safety Committee

The Board recognises the fundamental importance of safety within the business and the Safety Committee exists to ensure that the appropriate Board level attention and overview is devoted to this subject.

The Safety Committee is required to identify and address key issues that may impact on the company, to review the key safety performance indicators, to advise the Board of Directors on the adequacy and effectiveness of the overall safety policy of the Group and review and report on the company's internal safety management system. The Committee is chaired by Nick Buckles (non-executive director) and its members are Sir Richard Broadbent, Steve Williams (Senior Independent Director) and the Group Managing Director – Corporate Affairs, Steve Clayton; the Group Safety and Environment Manager, Sean Forster, supports the Committee in its work. The Committee met on four occasions during the year.

In December 2005 the Board approved a revised Safety Policy statement, as developed by the Safety Committee, which reflects the arrangements in place for successful safety management across all Arriva businesses. The Safety Policy statement can be found on the Arriva website www.arriva.co.uk

Board and Board Committee Attendance

BOARD

	Possible	Actual
Sir Richard Broadbent	12	12
R J Davies	12	12
D R Martin	12	11
S P Lonsdale	12	12
S J Clayton	12	12
A V M Palmer	12	12
S G Batey	12	12
N P Buckles	6	6
S G Williams	5	5
M J Allen	6	6
A M Saxton	1	1

AUDIT

A V M Palmer	4	4
S G Batey	4	4
S G Williams	1	0
M J Allen	2	2

NOMINATION

Sir Richard Broadbent	4	4
A V M Palmer	4	4
S G Batey	4	4
N P Buckles	2	2
S G Williams	1	1
M J Allen	2	2

REMUNERATION

A V M Palmer	6	6
S G Batey	6	6
N P Buckles	3	3
M J Allen	2	2

SAFETY

Sir Richard Broadbent	4	4
S J Clayton	4	4
N P Buckles	1	1
S G Williams	1	1
M J Allen	2	2

Whistleblowing

The Group operates a 'Whistleblowing' policy and procedure whereby employees can in confidence report on matters where they feel a malpractice is taking place or if health and safety standards are being compromised. Areas that are addressed by this procedure cover financial malpractice, criminal activities, dangers to health and safety, improper or unethical behaviour and risks to the environment.

The procedures allow for employees to raise their concerns with line management or, if this is inappropriate, to raise them on a confidential basis. A confidential telephone mailbox and confidential e-mail facility are provided to protect the identity of employees in these circumstances. The complaint will be investigated in a confidential manner and, after a decision is made as to what further steps should be taken, feedback is given to the person making the complaint. An official written record is kept of each stage of the procedure, and a report of the outcome of all investigations is made to the Board.

The 'Whistleblowing' policy and its operation is subject to periodic review by the Audit Committee; the last review was in February 2006.

Dialogue with Shareholders

The company has an established programme of communication with shareholders and the Corporate Communications department organises presentations for analysts and investors. It is the Board's intention to ensure that these arrangements, subject to any statutory or regulatory requirements, continue and are developed in a way designed to provide a helpful and constructive dialogue between the company and the major investors.

A procedure has been established for the non-executive directors to receive direct feedback from the company's stockbrokers of the investing community's perception of the Board's performance and strategy.

Annual General Meeting

The Annual General Meeting is an important opportunity for the Board to communicate with shareholders, particularly private shareholders. A presentation on the progress and performance of the business is made prior to the formal business of the meeting and the Chairmen of the Audit, Remuneration, Nomination and Safety Committees are available to answer questions.

Following each resolution, the meeting will be informed of the number of proxy votes submitted in respect of each resolution; this information will also be published on the company's website following the meeting.

Accountability and Audit

Companies are required to report to shareholders that they have conducted an annual review of the effectiveness of the system of internal control. The review required extends beyond financial controls to encompass operational and compliance control and risk management.

Internal Control

The directors are responsible for the Group's system of internal control. While no system can provide absolute guarantees and protection against material loss, the systems are designed to give the directors reasonable assurance that problems can be identified promptly and remedial action taken as appropriate.

An ongoing process for identifying, evaluating and managing the significant risks facing the Group has been in place throughout the year under review and continues to remain in place.

The Board has reviewed the effectiveness on an ongoing basis of the system of internal control for the accounting period under review.

The key features of the internal control system are:

(a) Organisation Structure

The structure of the organisation is so designed to minimise as far as possible the complexity of the reporting arrangements commensurate with the commercial demands made on the Group. The structure focuses on the core businesses of the Group and stringent reporting procedures are applied to ensure that performance is closely monitored so that effective and prompt action can be taken if the need arises. Certain of the Group's key functions including company secretarial, legal, taxation, internal audit, treasury, insurance and health and safety are undertaken centrally.

(b) **Financial Reporting**
The Group operates a comprehensive financial control system with each operating division's performance being closely monitored against both budget and prior period performance. Monthly management accounts are prepared for consideration by the Board as a whole.

(c) **Group Internal Audit**
The internal control systems are comprehensively supported by the Group Internal Audit department. Group Internal Audit is responsible for advising all levels of management, and the Board of Directors through the Audit Committee, on the quality of the operational systems of control for all parts of the Group. This review and appraisal function does not relieve line management of its responsibility for effective control.

Group Internal Audit functions by conducting independent appraisals in a professional manner leading to reports detailing findings and agreed actions. Group Internal Audit undertakes annual financial reviews of the balance sheets of all of the Group's material trading subsidiaries and engages in a cycle of operational and risk reviews both on scheduled and random bases; the Head of Internal Audit reports directly to the Audit Committee.

The Group Internal Audit department is staffed by appropriately qualified and experienced auditors.

(d) **Risk Assessment and Risk Control**
An essential element of good internal control is the continual process of risk assessment and the implementation of appropriate controls designed to eliminate or mitigate the effects of the crystallisation of identified major risks.

The approach adopted by the Board involves a process which is designed to encourage divisional operational staff to critically examine their responsibilities and identify those risks which are of such a nature that their crystallisation would have a material impact on their business. In order for this process to succeed it is essential that 'ownership' of risk awareness, risk identification and risk control is fully embraced by line management as an essential ingredient of its normal responsibilities.

In implementing its risk assessment programme the Board has devolved to the Audit Committee the task of implementing and maintaining an appropriate risk assessment and control programme and works closely with the Head of Internal Audit in engaging in a formal review of the key business risks to the Group.

In the development of this programme there are a number of fundamental issues that the Board has identified as being absolutely critical to the success and effectiveness of the risk management and control programme, and in formulating its approach has structured the programme around the key areas of:

- Clear leadership from the Board
- The need for risk management to be seen as part of everyday activity and to be embedded in line management culture
- Clear communication of the principles involved
- Active support and involvement of the Group Internal Audit function
- Regular review of the process and continual assessment of the changing nature of the risks presenting themselves to the business.

As part of the risk management regime a disaster recovery plan has been developed and tested for the Group's key locations and provides for recovery procedures for all the primary business functions.

Going Concern
The directors confirm that, after having made appropriate enquiries, they have a reasonable expectation that the Group and the company have adequate resources to continue in operational existence for the foreseeable future. Accordingly the directors continue to adopt the going concern basis in the preparation of the Accounts. This approach was endorsed by the Audit Committee at its meeting held on 23 February 2006.

We have audited the Group financial statements of Arriva plc for the year ended 31 December 2005 which comprise the Group Income Statement, the Group Balance Sheet, the Group Cash Flow Statement, the Group Statement of Recognised Income and Expense and the related notes. These Group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent company financial statements of Arriva plc for the year ended 31 December 2005 and on the information in the Directors' Remuneration Report that is described as having been audited.

Respective responsibilities of directors and auditors
The directors' responsibilities for preparing the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities. In addition, the directors are responsible for preparing the Annual Report and Directors' Remuneration Report.

Our responsibility is to audit the Group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the Group financial statements give a true and fair view and whether the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you if, in our opinion, the Directors' Report is not consistent with the Group financial statements, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding director's remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited Group financial statements. The other information comprises only the Highlights of the Year, the Chairman's Statement, the Group Development Across Europe, the Chief Executive's Review, the Financial Review, the Corporate Responsibility Review, the Directors' Report, the unaudited part of the Directors' Remuneration Report, the Corporate Governance Statement, the Five-Year Financial Summary and the Extract from the Report on Transition to IFRS. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the Group financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Group financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Group financial statements.

Opinion
In our opinion:

- The Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2005 and of its profit and cash flows for the year then ended
- The Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.

PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Newcastle upon Tyne
13 March 2006

GROUP INCOME STATEMENT
for the year ended 31 December 2005

	notes	2005 £m	2004 £m
Revenue	1	**1,626.8**	1,759.0
Net operating expenses before exceptional items, goodwill impairment and intangible asset amortisation		**(1,499.4)**	(1,626.2)
Exceptional items	1	**2.3**	(3.3)
Goodwill impairment and intangible asset amortisation	1	**(6.6)**	(3.2)
Total net operating expenses	3(a)	**(1,503.7)**	(1,632.7)
Group operating profit		**123.1**	126.3
Finance income		**3.4**	5.4
Finance costs		**(18.6)**	(22.4)
Net finance costs	2	**(15.2)**	(17.0)
Profit on ordinary activities before taxation	3	**107.9**	109.3
Tax on profit on ordinary activities	5	**(21.6)**	(26.0)
Profit for the year		**86.3**	83.3
Attributable to:			
Equity holders of the parent		**85.9**	83.2
Minority interests		**0.4**	0.1
		86.3	83.3
Dividends per ordinary share	6	**19.84p**	18.9p
Basic earnings per share	7(a)	**43.7p**	42.6p
Diluted earnings per share	7(a)	**43.3p**	42.1p
Basic earnings per share before goodwill impairment, intangible asset amortisation and exceptional items	7(b)	**45.0p**	45.1p

GROUP BALANCE SHEET
at 31 December 2005

	notes	**2005 £m**	2004 £m
Non-current assets			
Goodwill	8	**277.5**	266.7
Other intangible assets	9	**40.8**	45.6
Property, plant and equipment	10	**1,092.8**	962.6
Investments	11	**7.9**	6.2
Derivative financial instruments	19	**15.0**	-
		1,434.0	1,281.1
Current assets			
Inventories	12	**27.8**	26.2
Trade and other receivables	13	**209.4**	167.4
Cash and cash equivalents	14	**94.1**	81.7
Derivative financial instruments	19	**7.5**	-
		338.8	275.3
Total assets		**1,772.8**	1,556.4
Current liabilities			
Trade and other payables	15	**388.6**	360.0
Tax liabilities	16	**29.8**	30.6
Obligations under finance leases	17	**18.2**	15.2
Bank overdrafts and loans	17	**145.4**	131.3
		582.0	537.1
Non-current liabilities			
Bank loans	17	**203.8**	82.6
Other loans	17	**93.3**	155.7
Retirement benefit obligations	20	**207.4**	193.4
Deferred tax liabilities	21	**44.3**	37.9
Obligations under finance leases	17	**69.3**	46.9
Other non-current liabilities	18	**69.0**	73.0
		687.1	589.5
Total liabilities		**1,269.1**	1,126.6
Net assets		**503.7**	429.8
Equity			
Share capital	22	**9.8**	9.8
Share premium account	25	**19.1**	15.3
Other reserves	24	**75.0**	60.9
Retained earnings	25	**383.5**	341.6
Total shareholders' equity	25	**487.4**	427.6
Minority interest in equity	25	**16.3**	2.2
Total equity		**503.7**	429.8

R J Davies
S P Lonsdale | Directors

Approved by the Board on 1 March 2006.

GROUP CASH FLOW STATEMENT
for the year ended 31 December 2005

	notes	**2005 £m**	2004 £m
Cash flows from operating activities			
Cash generated from operations	26(b)	**207.9**	254.6
Interest and finance charges paid		**(15.2)**	(17.0)
Tax paid		**(25.8)**	(15.5)
Net cash generated from operating activities		**166.9**	222.1
Cash flows from investing activities			
Acquisitions of businesses	27(a)	**(46.3)**	(63.5)
Net cash assumed on acquisitions	27(a)	**7.3**	11.9
Disposal of businesses	27(d)	**12.0**	-
Investment in joint venture		**-**	(20.6)
Cash assumed on joint venture		**-**	10.5
Purchase of short-term rental vehicles		**(65.1)**	(73.2)
Purchase of other non-current assets		**(187.4)**	(113.4)
Disposal of short-term rental vehicles		**39.8**	43.3
Disposal of other non-current assets		**16.8**	17.8
Net cash used in investing activities		**(222.9)**	(187.2)
Cash flows from financing activities			
Proceeds from issuing ordinary share capital		**3.8**	3.7
Purchase of own shares		**-**	(4.4)
(Decrease)/increase in loans due within one year		**(1.8)**	50.0
Increase/(decrease) in loans due after one year		**61.4**	(1.2)
Increase/(decrease) in finance lease obligations		**26.3**	(48.5)
Dividends paid to the company's shareholders		**(37.7)**	(35.6)
Net cash generated/(used) in financing activities		**52.0**	(36.0)
Net decrease in cash, cash equivalents and overdrafts		**(4.0)**	(1.1)
Cash, cash equivalents and overdrafts at the beginning of the year		**76.6**	77.0
Exchange (losses)/gains on cash, cash equivalents and overdrafts		**(1.0)**	0.7
Cash, cash equivalents and overdrafts at the end of the year	26(c)	**71.6**	76.6

GROUP STATEMENT OF RECOGNISED INCOME AND EXPENSE
for the year ended 31 December 2005

	2005 £m	2004 £m
Net foreign exchange adjustments offset in reserves (net of tax)	**(1.9)**	1.8
Cash flow hedges (net of tax)	**9.2**	-
Actuarial (losses)/gains on defined benefit schemes (net of tax)	**(4.5)**	12.1
Net income recognised directly in equity	**2.8**	13.9
Profit for the year	**86.3**	83.3
Total recognised income and expense for the year	**89.1**	97.2
Adoption of IAS39 (net of tax)	**3.7**	-
Total recognised income and expense	**92.8**	97.2
Attributable to:		
Equity holders of the parent	**92.3**	97.1
Minority interests	**0.5**	0.1
	92.8	97.2

Basis of preparation

As an EU listed company, Arriva plc is required to prepare its Group accounts using International Financial Reporting Standards (IFRS), as adopted by the European Union, with effect from 2005. These financial statements are the first full year statements to be prepared in accordance with IFRS. The disclosures required by IFRS1 'First-time Adoption of International Financial Reporting Standards', are set out below. Comparatives for 2004 are restated to IFRS where applicable.

The financial statements are prepared on the historical cost basis of accounting, other than for certain items of property, plant and equipment that have been stated at deemed cost under the transitional rules of IFRS, and share-based payment charges and derivative financial instruments which are measured at fair value.

The principal IFRS accounting policies of the Group are set out below:

First-time adoption of IFRS

In accordance with the requirements of IFRS1 'First-time Adoption of International Financial Reporting Standards', the Group is subject to a number of voluntary and mandatory exemptions from full restatement of comparatives to the requirements of IFRS, which have been applied as follows:

- IAS32 'Financial Instruments: Disclosure and Presentation' and IAS39 'Financial Instruments: Recognition and Measurement' were adopted with effect from 1 January 2005
- The Group has elected to use fair value as deemed cost for UK land and buildings at the date of transition (1 January 2004)
- The Group has not applied IFRS3 'Business Combinations' retrospectively to business combinations that occurred before the transition date
- The Group has set cumulative translation differences to zero at the transition date for all subsidiaries. From the date of transition onwards foreign exchange differences on the retranslation of foreign subsidiaries are recognised in a separate reserve within equity
- IFRS2 'Share-based Payment' has been applied to all grants of equity instruments after 7 November 2002 that had not vested at 1 January 2005.

The transitional information required to be disclosed by IFRS1 is included on pages 77 to 79 of the Annual Report and Accounts.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of Arriva plc and its subsidiaries made up to 31 December each year. Subsidiaries are entities over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and de-consolidated from the date control ceases.

The Group's interests in jointly controlled entities are accounted for by proportional consolidation, combining its share of the joint ventures' profits, assets, liabilities and cash flows on a line-by-line basis with those of the Group.

Associates are those entities over which the Group can exercise significant influence, but not control or joint control. Associates are accounted for using the equity method.

All business combinations are accounted for by applying the purchase method. On acquisition, the assets, liabilities and contingent liabilities are measured at their fair values at the date of acquisition. The excess of the cost of acquisition over the fair value of the Group's share of net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the Group's share of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Intercompany transactions, balances, income and expenses are eliminated on consolidation.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is recognised either on receipt of consideration or, in the case of the provision of contractual services, on a percentage of completion basis. The percentage of completion method is calculated either with respect to the proportion of services provided compared with the total contracted service, or to the proportion of costs incurred on a contract compared with total expected costs. Proceeds from the disposal of property, plant and equipment, including short-term rental vehicles, are excluded from revenue.

Exceptional items

Exceptional items are those items which, because of their nature and materiality, merit separate presentation to allow a better understanding of the Group's financial performance.

Segment reporting

The Group's primary risks and rates of return are determined by both the business and the geographical areas in which it operates. Disclosure of results by business segment is used as the basis for primary segment disclosures, in line with the Group's internal management reporting structure.

Government grants
Government grants relating to capital expenditure are included as deferred income and are credited to the income statement over the expected useful economic life of the assets concerned. Revenue-related grants are credited to the income statement when the related expenditure is expensed.

Foreign currency translation
The trading results of overseas subsidiary undertakings are translated into sterling using average rates of exchange. Foreign currency assets and liabilities are translated into sterling at the rates of exchange ruling at the balance sheet date.

Differences on exchange arising from the retranslation of the opening investment in subsidiary undertakings and the associated borrowings or hedging instruments, where hedge accounting is permitted, are taken to the Statement of Recognised Income and Expense.

Property, plant and equipment
Land and buildings held for use in the delivery of passenger transport services and for administration purposes are stated in the balance sheet at cost or deemed cost. They are not subject to a valuation.

Depreciation is calculated using the straight-line method to allocate the cost of each asset less its residual value over its estimated useful life as follows:

Buildings	50 years
Fixtures, fittings, plant and machinery	3–10 years
Motor vehicles – short-term rental vehicles	up to 7 years
Motor vehicles – buses and coaches	up to 15 years
Rail rolling stock	up to 35 years

Major refurbishment work on rail rolling stock is capitalised and depreciated over the interval to the subsequent related major refurbishment. Interest costs incurred in financing the construction of certain assets are capitalised where they are considered significant in relation to the asset being constructed and the asset necessarily takes a substantial period of time to be prepared for its intended use. Rail rolling stock undergoing post-construction acceptance testing is not depreciated until the commencement of full operational service.

Goodwill
Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets, liabilities and contingent liabilities at the date of acquisition. Goodwill on acquisition of subsidiaries and joint ventures is disclosed separately in non-current assets. Goodwill on acquisition of associates is included in investments.

Goodwill is not amortised but tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill previously eliminated against reserves has not been reinstated.

Intangible assets
Intangible assets are recognised when acquired as part of business combinations where customer-related contractual cash flows and obligations exist, and their fair value can be measured reliably. Intangible assets purchased separately are measured at cost. Intangible assets that have a finite life are amortised annually over their expected useful lives.

Impairment
At each balance sheet date the Group reviews the carrying amount of its tangible and intangible assets to determine whether there are any indicators of impairment. If indicators of impairment exist then the recoverable amount of an asset or cash generating unit is estimated.

Where individual assets do not generate cash flows independent from other assets, the Group reviews the carrying value and recoverable amount of a cash generating unit. This is the smallest group of assets where independent cash flows are produced.

If the recoverable amount of an asset or cash generating unit is less than its carrying amount, the difference is recognised in the income statement as an impairment loss.

Inventories
Inventories are stated at the lower of cost and net realisable value.

Borrowings
Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between initial carrying value and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Taxation
Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to taxation authorities.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax is determined using the tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and which are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Deferred tax is provided on temporary differences associated with investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Pensions
The Group operates retirement benefit schemes, both defined benefit and defined contribution schemes. The Group also participates in a number of multi-employer retirement benefit schemes and a number of state-managed retirement benefit schemes.

The liability recognised in the balance sheet in respect of the Group's defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of the plan assets, together with adjustments for unrecognised past service costs. The defined benefit obligation is calculated using the projected unit credit method. Formal actuarial valuations are carried out on a triennial basis, with updated calculations being prepared at each balance sheet date. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

The cost of providing future benefits (service cost) is charged to the income statement in net operating expenses. The return on scheme assets and interest obligation on scheme liabilities comprise a pension finance adjustment which is included in net operating expenses. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity and shown in the Statement of Recognised Income and Expense in the period they arise.

Contributions payable under defined contribution schemes, and certain overseas defined benefit schemes that are accounted for as defined contribution schemes under IAS19, are charged to the income statement as they arise.

Share-based payments
The Group issues equity settled share-based payments to certain employees, which are measured at fair value at the date of grant. The fair value is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. The impact of revising original estimates, if any, is included in the income statement, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

Provisions
Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated.

Leases

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other liabilities. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the asset's useful life and the lease term.

Leases where the lessor retains a significant portion of the risks and rewards of ownership are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents

Cash comprises cash in hand and demand deposits. Cash equivalents are short-term highly liquid investments with a maturity of less than 90 days that are readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

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.

Derivatives designated as hedging instruments are accounted for in line with the nature of the hedging arrangement. Derivatives are intended to be highly effective in mitigating the above risks, and hedge accounting is adopted where the relevant test criteria are met. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement.

Foreign currency exchange risk

Derivatives are entered into to hedge exposure to foreign currency exchange risk. The Group also uses foreign currency debt to hedge foreign currency exposures. Both the derivatives and debt are designated as hedges of net investments in overseas subsidiaries.

Interest rate and fuel price risk

Derivative instruments are used to manage the Group's exposure to changes in cash flows arising from movements in interest rates and fuel prices. The derivatives are designated as cash flow hedges, and hedge accounting is used where it is demonstrable that the hedge relationship is highly effective.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Dividend distribution

Dividend distribution to the company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the company's shareholders.

1. SEGMENTAL REPORTING

Primary reporting format – business segments

year ended 31 December 2005

	Passenger services						
	UK Bus £m	UK Trains £m	Mainland Europe £m	Bus & Coach £m	Vehicle Rental £m	Central £m	Group £m
Revenue	**697.5**	**239.4**	**621.2**	**13.1**	**55.6**	**-**	**1,626.8**
EBITDA*	116.2	16.3	89.4	5.1	33.7	(16.2)	244.5
Depreciation	(48.2)	(1.4)	(41.4)	(2.1)	(23.6)	(0.4)	(117.1)
Operating profit*	**68.0**	**14.9**	**48.0**	**3.0**	**10.1**	**(16.6)**	**127.4**
Net finance costs							(15.2)
Profit on ordinary activities before taxation*							**112.2**
Goodwill impairment and intangible asset amortisation							(6.6)
Exceptional items:							
– Profit on the disposal of properties							2.3
Profit on ordinary activities before taxation							**107.9**
Segment assets	668.2	54.8	805.1	22.8	129.8	(2.0)	1,678.7
Segment liabilities	(316.7)	(99.7)	(279.3)	(8.6)	(19.8)	(15.0)	(739.1)
	351.5	(44.9)	525.8	14.2	110.0	(17.0)	939.6
Unallocated liabilities:							
– Corporate borrowings							(435.9)
Total net assets							503.7
Other segment items							
Capital expenditure (excluding acquisitions)	78.4	4.0	104.7	3.7	61.6	0.1	252.5
Goodwill impairment and intangible asset amortisation	-	(0.8)	(5.8)	-	-	-	(6.6)
Profit on the disposal of properties	0.7	-	0.7	-	0.1	0.8	2.3

* Before goodwill impairment, intangible asset amortisation and exceptional items

(a) Included above is £19.0 million of revenue and £2.0 million of operating profit, before goodwill impairment, intangible asset amortisation and exceptional items, relating to the acquisitions made by the mainland Europe division during the year. There is £7.2 million of revenue and £0.4 million of operating profit relating to acquisitions made by the UK Bus division.

(b) Operating profit in the above analysis represents operating profit of £123.1 million as disclosed in the income statement plus goodwill impairment and intangible asset amortisation of £6.6 million less exceptional items credited to operating profit of £2.3 million.

(c) Segment assets in the above analysis of £1,678.7 million represents total assets as disclosed in the balance sheet of £1,772.8 million less cash of £94.1 million.

(d) Segment liabilities in the above analysis of £739.1 million represents total liabilities as disclosed in the balance sheet of £1,269.1 million less £530.0 million of borrowings.

(e) Vehicle Rental revenue includes £52.1 million in relation to rentals receivable under operating leases.

1. SEGMENTAL REPORTING (continued)

Primary reporting format – business segments

year ended 31 December 2004

	Passenger services						
	UK Bus £m	UK Trains £m	Mainland Europe £m	Bus & Coach £m	Vehicle Rental £m	Central £m	Group £m
Revenue	**651.5**	**509.0**	**525.6**	**13.8**	**59.0**	**0.1**	**1,759.0**
EBITDA*	108.5	33.8	66.3	5.6	37.7	(13.1)	238.8
Depreciation	(44.9)	(1.9)	(31.2)	(2.4)	(25.1)	(0.5)	(106.0)
Operating profit*	**63.6**	**31.9**	**35.1**	**3.2**	**12.6**	**(13.6)**	**132.8**
Net finance costs							(17.0)
Profit on ordinary activities before taxation*							**115.8**
Goodwill impairment and intangible asset amortisation							(3.2)
Exceptional items:							
– Profit on the disposal of properties							1.0
– Restructuring costs							(4.3)
Profit on ordinary activities before taxation							**109.3**
Segment assets	598.3	50.1	664.8	22.7	125.2	13.6	1,474.7
Segment liabilities	(275.9)	(122.8)	(219.6)	(9.3)	(20.1)	(47.2)	(694.9)
	322.4	(72.7)	445.2	13.4	105.1	(33.6)	779.8
Unallocated liabilities:							
– Corporate borrowings							(350.0)
Total net assets							429.8
Other segment items							
Capital expenditure (excluding acquisitions)	61.2	2.4	47.8	3.5	71.5	0.2	186.6
Goodwill impairment and intangible asset amortisation	-	(0.8)	(2.4)	-	-	-	(3.2)
Profit on the disposal of properties	-	-	0.9	-	-	0.1	1.0
Restructuring costs	-	-	(4.3)	-	-	-	(4.3)

* Before goodwill impairment, intangible asset amortisation and exceptional items

(a) Included above is £50.2 million of revenue and £4.0 million of operating profit, before goodwill impairment, intangible asset amortisation and exceptional items, relating to the acquisitions made by the mainland Europe division during the year.

(b) Operating profit in the above analysis represents operating profit of £126.3 million as disclosed in the income statement plus goodwill impairment and intangible asset amortisation of £3.2 million plus exceptional items charged to operating profit of £3.3 million.

(c) Segment assets in the above analysis of £1,474.7 million represents total assets as disclosed in the balance sheet of £1,556.4 million less cash of £81.7 million.

(d) Segment liabilities in the above analysis of £694.9 million represents total liabilities as disclosed in the balance sheet of £1,126.6 million less £431.7 million of borrowings.

(e) Vehicle Rental revenue includes £55.1 million in relation to rentals receivable under operating leases.

1. SEGMENTAL REPORTING (continued)

Secondary reporting format – geographical segments

The Group's operations are located in the UK and mainland Europe. The UK is the home country of the parent.

	Revenue		Segment assets		Capital expenditure	
	2005 £m	2004 £m	**2005 £m**	2004 £m	**2005 £m**	2004 £m
UK	**1,005.6**	1,233.4	**873.6**	809.9	**147.8**	138.8
Mainland Europe	**621.2**	525.6	**805.1**	664.8	**104.7**	47.8
	1,626.8	1,759.0	**1,678.7**	1,474.7	**252.5**	186.6

2. NET FINANCE COSTS

	2005 £m	2004 £m
Interest expense:		
– Interest payable on bank and other borrowings repayable within five years	**10.4**	6.2
– Interest payable on bank and other borrowings repayable after five years	**0.6**	0.5
Finance lease charges	**3.2**	6.0
Hire purchase charges	**4.4**	5.7
Charge arising on early settlement of US private placement loan notes	**-**	4.0
Interest payable and similar charges	**18.6**	22.4
Interest income:		
Net interest receivable on other financing items	**(3.4)**	(5.4)
Net finance costs	**15.2**	17.0

During the year the Group has capitalised interest of £0.3 million (2004: £nil), the rate used for capitalisation purposes was 2.5 per cent.

3. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

(a) Net operating expenses	2005 £m	2004 £m
Operating costs	**1,287.5**	1,427.6
Distribution costs	**8.5**	7.1
Administrative expenses	**207.7**	198.0
	1,503.7	1,632.7

(b) The following items have been included in arriving at operating profit:	2005 £m	2004 £m
Staff costs (note 4)	**825.3**	833.7
Depreciation of property, plant and equipment	**117.1**	106.0
Amortisation of intangible assets	**5.1**	2.6
Impairment of goodwill	**1.5**	0.6
Profit on disposal of properties	**(2.3)**	(1.0)
Operating lease rentals payable:		
– Plant and machinery	**125.3**	208.7
– Property	**15.1**	24.9
Restructuring costs	**-**	4.3

During the year the Group (including its overseas subsidiaries) obtained the following services from the Group's auditors and network firms at costs as detailed below:	2005 £m	2004 £m
Audit services – statutory audit	**0.7**	0.6
Tax services	**0.3**	0.3
Consultancy	**0.4**	-
Other services	**0.2**	0.1
	1.6	1.0

Included in the Group's audit fees and expenses paid to the auditors is £0.1 million (2004: £0.1 million) in respect of the parent company.

4. EMPLOYEE INFORMATION

(a) Average number of employees by business	2005 Number	2004 Number
Passenger Services:		
– UK Bus	**17,717**	17,512
– UK Trains	**1,930**	4,488
– Mainland Europe	**11,994**	10,371
Total Passenger Services	**31,641**	32,371
Vehicle Rental	**622**	661
Bus & Coach	**50**	54
Central	**91**	100
Total	**32,404**	33,186

(b) Staff costs	2005 £m	2004 £m
Wages and salaries	**706.7**	712.7
Social security costs	**78.9**	74.1
Pension costs	**39.7**	46.9
	825.3	833.7

5. TAXATION

Analysis of charge in the year	2005 £m	2004 £m
Current tax	**21.6**	23.8
Deferred tax	**-**	2.2
Taxation	**21.6**	26.0

Tax on items charged to equity	2005 £m	2004 £m
Adoption of IAS39	**1.6**	-
Current tax charge/(credit) on exchange movements offset in reserves	**2.7**	(0.9)
Deferred tax charge on cross currency swaps	**0.8**	-
Deferred tax charge on cash flow hedges	**4.0**	-
Deferred tax (credit)/charge on actuarial (losses)/gains on defined benefit schemes	**(1.3)**	4.7
Total tax on items charged to equity	**7.8**	3.8

The tax for the year is lower (2004: lower) than the standard rate of corporation tax in the UK of 30 per cent (2004: 30 per cent). The differences are explained below:

	2005 £m	2004 £m
Profit on ordinary activities before tax	**107.9**	109.3
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30 per cent (2004: 30 per cent)	**32.4**	32.8
Effects of:		
– Adjustments to tax in respect of prior years	**(10.3)**	(6.3)
– Income not subject to tax	**(1.9)**	(1.9)
– Expenses not deductible for tax purposes	**2.1**	2.2
– Utilisation of previously unrecognised tax losses	**(4.0)**	(1.9)
– Tax losses arising where no deferred tax asset has been recognised	**1.4**	0.8
– Different tax rates of subsidiaries operating in other jurisdictions	**3.0**	1.8
– Other	**(1.1)**	(1.5)
Total taxation	**21.6**	26.0

6. DIVIDENDS

	2005 £m	2004 £m
Final dividend paid for the year ended 31 December 2004 of 14.07p (2004: final dividend paid for the year ended 31 December 2003 of 13.4p) per share	**27.7**	26.2
Interim dividend paid for the year ended 31 December 2005 of 5.07p (2004: interim dividend paid for the year ended 31 December 2004 of 4.83p) per share	**10.0**	9.4
Amounts recognised as distributions to equity holders in the year	**37.7**	35.6

In addition, the directors are proposing a final dividend in respect of the financial year ending 31 December 2005 of 14.77p per share which will absorb an estimated £29.1 million of shareholders' funds. It will be paid on 2 May 2006 to shareholders who are on the register of members on 31 March 2006.

7. EARNINGS PER SHARE

	2005			2004		
(a) Basic and diluted earnings per share	**Per share p**	**Earnings £m**	**Shares m**	Per share p	Earnings £m	Shares m
Profit attributable to ordinary shareholders		**85.9**			83.2	
Weighted average number of shares			**196.5**			195.2
Basic earnings per share	**43.7**	**85.9**	**196.5**	42.6	83.2	195.2
Performance-based share option schemes:						
– Additional shares for earnings contingency			**2.6**			4.1
– Number of shares that would have been issued at fair value			**(0.8)**			(1.6)
Diluted earnings per share	**43.3**	**85.9**	**198.3**	42.1	83.2	197.7

(b) Basic earnings per share before goodwill impairment, intangible asset amortisation and exceptional items	**2005 p**	2004 p
Basic earnings per share	**43.7**	42.6
Earnings per share relating to:		
– Goodwill impairment and intangible asset amortisation	**2.5**	1.3
Exceptional items:		
– Profit on the disposal of properties in continuing operations	**(1.2)**	(0.8)
– Restructuring costs	**-**	2.0
Basic earnings per share before goodwill impairment, intangible asset amortisation and exceptional items	**45.0**	45.1

8. GOODWILL

	2005 £m	2004 £m
Cost		
At 1 January	**316.9**	279.6
Additions	**20.9**	35.6
Hindsight adjustment	**1.6**	-
Disposals	**(6.8)**	-
Currency translation adjustments	**(5.3)**	1.7
At 31 December	**327.3**	316.9
Impairment		
At 1 January	**50.2**	49.5
Impairment in the year	**1.5**	0.6
Disposals	**(1.4)**	-
Currency translation adjustments	**(0.5)**	0.1
At 31 December	**49.8**	50.2
Net book amount at 31 December	**277.5**	266.7

Details of acquisitions and disposals in the year are shown in note 27. During the year, goodwill was reviewed for impairment in accordance with IAS36. For the purposes of this impairment review goodwill has been valued on the basis of discounted future cash flows arising in each relevant cash generating unit.

9. INTANGIBLE ASSETS

	2005 £m	2004 £m
Cost		
At 1 January	**48.2**	12.0
Additions	**1.9**	35.2
Hindsight adjustments	**(0.5)**	-
Currency translation adjustments	**(1.1)**	1.0
At 31 December	**48.5**	48.2
Amortisation		
At 1 January	**2.6**	-
Amortisation for the year	**5.1**	2.6
At 31 December	**7.7**	2.6
Net book amount at 31 December	**40.8**	45.6

All amortisation charges in the year have been charged through net operating expenses. Intangible assets relate to identifiable assets purchased as part of the Group's business combinations, and to the right to operate the Arriva Trains Wales franchise. Intangible assets are amortised on a straight-line basis over their expected useful economic lives.

10. PROPERTY, PLANT AND EQUIPMENT

As at 31 December 2005	Land & buildings £m	Plant, company vehicles, fixtures & fittings £m	Buses & coaches £m	Railway rolling stock £m	Short-term rental vehicles £m	Total £m
Cost						
At 1 January 2005	243.1	102.1	940.6	98.8	152.9	1,537.5
Acquisitions	22.7	6.7	58.9	-	-	88.3
Additions	8.1	18.6	132.4	28.3	65.1	252.5
Disposals	(10.2)	(8.8)	(72.3)	-	(67.6)	(158.9)
Currency translation adjustments	1.7	1.8	(11.1)	(2.6)	-	(10.2)
At 31 December 2005	**265.4**	**120.4**	**1,048.5**	**124.5**	**150.4**	**1,709.2**
Accumulated depreciation						
At 1 January 2005	31.6	61.8	423.0	14.0	44.5	574.9
Acquisitions	2.6	4.3	22.5	-	-	29.4
Charge for the year	4.2	11.1	71.8	4.7	25.3	117.1
Disposals	(2.3)	(6.2)	(64.5)	-	(27.8)	(100.8)
Currency translation adjustments	(0.1)	0.7	(4.4)	(0.4)	-	(4.2)
At 31 December 2005	**36.0**	**71.7**	**448.4**	**18.3**	**42.0**	**616.4**
Net book amounts						
At 31 December 2005	**229.4**	**48.7**	**600.1**	**106.2**	**108.4**	**1,092.8**

The net book amount of assets held under hire purchase and finance lease contracts included in plant, company vehicles, buses and coaches is £295.8 million (2004: £319.8 million). The depreciation provided in the year in respect of these assets was £34.4 million (2004: £35.1 million). The gross cost of assets held for the purpose of letting under operating leases amounts to £150.4 million (2004: £152.9 million). The accumulated depreciation on these assets was £42.0 million (2003: £44.5 million).

As at 31 December 2004	Land & buildings £m	Plant, company vehicles, fixtures & fittings £m	Buses & coaches £m	Railway rolling stock £m	Short-term rental vehicles £m	Total £m
Cost						
At 1 January 2004	226.6	96.6	857.4	-	148.8	1,329.4
Acquisitions	21.1	11.3	49.7	93.6	1.6	177.3
Additions	7.2	16.4	87.2	2.6	73.2	186.6
Disposals	(13.1)	(22.5)	(57.5)	(0.2)	(70.7)	(164.0)
Currency translation adjustments	1.3	0.3	3.8	2.8	-	8.2
At 31 December 2004	**243.1**	**102.1**	**940.6**	**98.8**	**152.9**	**1,537.5**
Accumulated depreciation						
At 1 January 2004	29.5	65.5	385.6	-	44.4	525.0
Acquisitions	2.6	5.9	22.6	12.6	0.6	44.3
Charge for the year	3.9	10.2	63.8	1.2	26.9	106.0
Disposals	(4.5)	(20.4)	(51.3)	(0.1)	(27.4)	(103.7)
Currency translation adjustments	0.1	0.6	2.3	0.3	-	3.3
At 31 December 2004	**31.6**	**61.8**	**423.0**	**14.0**	**44.5**	**574.9**
Net book amounts						
At 31 December 2004	**211.5**	**40.3**	**517.6**	**84.8**	**108.4**	**962.6**

10. PROPERTY, PLANT AND EQUIPMENT (continued)

	2005 £m	2004 £m
Net book amount of land and buildings comprises:		
– Freehold	**226.4**	208.0
– Long leasehold	**1.2**	1.8
– Short leasehold	**1.8**	1.7
	229.4	211.5

11. INVESTMENTS

Fixed asset investments (all unquoted)	2005 £m	2004 £m
Cost		
At 1 January	**6.2**	5.2
Additions	**5.8**	0.9
Disposals	**(4.3)**	-
Currency translation adjustments	**0.2**	0.1
At 31 December	**7.9**	6.2

12. INVENTORIES

	2005 £m	2004 £m
Raw materials, consumables and work in progress	**20.9**	19.8
Finished goods and goods for resale	**6.9**	6.4
	27.8	26.2

The Group consumed £164.9 million (2004: £146.4 million) of inventories during the year. There was no material write down of inventories during the current or prior year.

13. TRADE AND OTHER RECEIVABLES

	2005 £m	2004 £m
Current assets:		
Trade debtors	**83.5**	81.3
Less: Provision for impairment of receivables	**(3.3)**	(4.7)
Trade debtors – net	**80.2**	76.6
Prepayments and accrued income	**47.4**	34.6
Other debtors	**81.8**	52.2
Instalment credit agreements	**-**	4.0
	209.4	167.4

14. CASH AND CASH EQUIVALENTS

Cash, cash equivalents and overdrafts in the cashflow statement comprise:	**2005 £m**	2004 £m
Cash and cash equivalents	**94.1**	81.7
Bank overdrafts (note 17)	**(22.5)**	(5.1)
	71.6	76.6

15. TRADE AND OTHER PAYABLES

	2005 £m	2004 £m
Current liabilities:		
Trade payables	**102.1**	65.0
Payments received on account	**1.6**	1.5
Other taxation and social security payable	**29.9**	28.8
Other creditors	**102.4**	87.6
Accruals and deferred income	**152.6**	177.1
	388.6	360.0

16. TAX LIABILITIES

	2005 £m	2004 £m
Current tax liabilities	**29.8**	30.6

17. FINANCIAL LIABILITIES – BORROWINGS

	2005 £m	2004 £m
Current liabilities:		
– Short-term loans	**122.9**	126.2
– Bank overdrafts	**22.5**	5.1
	145.4	131.3
– Finance leases	**18.2**	15.2
	163.6	146.5
Non-current liabilities:		
– Syndicated loans	**203.8**	82.6
– Other loans	**93.3**	155.7
– Finance leases	**69.3**	46.9
	366.4	285.2

	2005 £m	2004 £m
Loan capital and other borrowings repayment statement:		
– Within one year or on demand	**163.6**	146.5
– Between one and two years	**81.7**	65.4
– Between two and five years	**252.6**	191.0
– Over five years	**32.1**	28.8
	530.0	431.7

The total of the loans, any part of which falls due for repayment after 5 years, is £91.7 million (2004: £66.0 million). £42.3 million (2004: £56.0 million) represents bank loans in the mainland Europe division, with varying repayment dates and interest rates. £49.4 million (2004: £10.0 million) represents fixed interest finance lease funding of the mainland Europe bus fleet, with varying repayment dates and interest rates ranging between 4.1 per cent and 6.6 per cent.

The US private placement of £104.0 million was pre-paid in December 2004 with early settlement costs incurred of £4.0 million.

17. FINANCIAL LIABILITIES – BORROWINGS (continued)

Security and guarantees
Borrowings amounting to £151.5 million (2004: £215.6 million), principally relating to the bus fleet, are secured by charges over the related assets.

As part of the UK rail franchising arrangements the Group has provided guarantees of £13 million (2004: £19 million). The Group has provided £13 million (2004: £12 million) of bonds in respect of its rail operations in Denmark and the Netherlands.

At 31 December 2005, letters of credit amounting to the value of £29 million (2004: £29 million) are provided by the Group's bankers, guaranteed by Arriva plc, in favour of the Group's insurers.

Syndicated loans are secured by debentures giving fixed and floating charges over the assets of certain subsidiaries of the Group and by guarantees given by Arriva plc.

The effective interest rates at the balance sheet dates were as follows:	**2005 %**	2004 %
Bank overdraft	**5.5**	5.8
Bank borrowings	**3.3**	3.7
Finance lease	**4.0**	4.5
Other financial liabilities	**5.6**	5.2

The carrying amount of the Group's borrowings are denominated in the following currencies:	**2005 £m**	2004 £m
Sterling	**182.8**	200.9
Euro	**220.2**	193.5
Danish Krone	**97.4**	10.4
Swedish Krone	**30.8**	15.3
Currency swaps:		
– Euro	**156.7**	181.5
– Danish Krone	**19.3**	59.0
– Sterling asset	**(177.2)**	(228.9)
	530.0	431.7

Fair value of financial assets and financial liabilities
Due to the short-term nature of financial assets and financial liabilities, or the floating rate nature of non-current financial liabilities, the Group considers there to be no material difference between the fair value of financial assets and financial liabilities and their carrying amount in the balance sheet.

Maturity of financial liabilities
The maturity profile of the carrying amount of the Group's non-current liabilities at 31 December was as follows:

	Debt £m	**Finance leases £m**	**Other financial liabilities £m**	**2005 Total £m**	Debt £m	Finance leases £m	Other financial liabilities £m	2004 Total £m
In more than one year but not more than two years	**31.4**	**34.0**	**16.3**	**81.7**	36.7	11.5	17.2	65.4
In more than two years but not more than five years	**220.5**	**15.2**	**16.9**	**252.6**	126.8	34.1	30.1	191.0
In more than five years	**12.0**	**20.1**	**-**	**32.1**	27.5	1.3	-	28.8
	263.9	**69.3**	**33.2**	**366.4**	191.0	46.9	47.3	285.2

Borrowing facilities

The Group has the following undrawn committed floating rate borrowing facilities available at 31 December in respect of which all conditions precedent had been met at that date:

	2005 £m	2004 £m
Expiring within one year	**19.9**	94.3
Expiring in more than two years	**107.1**	228.8
	127.0	323.1

Finance leases

The Group typically enters into finance leases of no more than five years' duration on an amortising basis. Given the short-term nature of this funding, the Group considers there to be no material difference between the fair value of finance leases and their carrying amount in the balance sheet.

Finance lease obligations included in current liabilities amount to £18.2 million (2004: £15.2 million) and in non-current liabilities amount to £69.3 million (2004: £46.9 million).

18. OTHER NON-CURRENT LIABILITIES

	2005 £m	2004 £m
Accruals and deferred income	**68.2**	70.2
Payments received on account	**0.8**	2.8
	69.0	73.0

19. DERIVATIVE FINANCIAL INSTRUMENTS

Financial instruments disclosures are set out below. Additional disclosures are set out in the accounting policies.

	2005 £m
Non-current assets:	
Interest rate swaps – cash flow hedge	**0.7**
Fuel derivatives – cash flow hedge	**14.2**
Cross currency swaps – net investment hedge	**0.1**
	15.0
Current assets:	
Interest rate swaps – cash flow hedge	**0.1**
Forward foreign currency contracts – cash flow hedge	**0.1**
Fuel derivatives – cash flow hedge	**5.0**
Cross currency swaps – net investment hedge	**2.3**
	7.5

In accordance with IAS39 'Financial instruments: Recognition and Measurement', Arriva plc has reviewed all contracts for embedded derivatives that are required to be separately accounted for if they do not meet certain requirements set out in the Standard. All embedded derivatives were found to be closely related to their host contracts, and therefore no fair value exercise was required to be undertaken. The Group has taken the exemption from applying IAS39 to comparative information for the year ended 31 December 2004.

19. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Net fair values of derivative financial instruments
The fair values of derivative financial instruments designated as cash flow hedges were:

	31 December 2005 £m	1 January 2005 £m
Contracts with positive fair values:		
– Interest rate swaps	**0.8**	-
– Forward foreign currency contracts	**0.1**	0.1
– Fuel derivatives	**19.2**	7.0
Contracts with negative fair values:		
– Interest rate swaps	**-**	(0.2)

The fair values of derivatives have been supplied externally by the respective counterparties to the derivative and by banks using market rates prevailing at the balance sheet date.

20. RETIREMENT BENEFIT OBLIGATIONS

At 31 December 2005 the Group operated a number of retirement benefit schemes, both defined benefit and defined contribution which are financed through separate Trustee administered funds managed by independent professional fund managers on behalf of the Trustees. Contributions to the defined benefit funds are based upon actuarial advice following the most recent of a regular series of valuations of the funds by their representative independent actuaries. Certain employees of Arriva Merseyside Limited participate in the Local Government Pension Scheme. This is a defined benefit scheme funded by payments to the Merseyside Pension Fund. The latest formal actuarial valuation of the Merseyside Pension Fund was carried out as at 31 March 2004.

Certain employees of Arriva Trains Wales Limited, and the former employees of Arriva Trains Northern Limited, participate in funded defined benefit sections which form part of the overall Railways Pension Scheme (RPS).

Total pension cost
The total pension cost for the Group was £39.7 million (2004: £46.9 million). The pension costs in respect of the Group's defined contribution schemes was £17.1 million (2004: £22.9 million, including £5.6 million in respect of Arriva Trains Northern Limited).

Defined benefit plans
The directors believe that separate consideration should be given to the RPS under IAS19 as the Group has no rights or obligations in respect of sections of this scheme following the expiry of the franchises. The amounts relating to the rail schemes are therefore shown separately and relate to sections in respect of Arriva Trains Wales Limited only.

The calculations used to assess the IAS19 liabilities of the retirement benefit schemes are based on the most recent actuarial valuations, updated to 31 December 2005 by qualified independent actuaries. The schemes' assets are stated at their market value at 31 December 2005. The principal actuarial assumptions at the balance sheet date are:

	2005 %	2004 %
Discount rate	**4.9**	5.4
Inflation rate	**2.6**	2.6
Increases to deferred benefits during deferment	**2.6**	2.6
Increases to pensions in payment	**2.6**	2.6
Salary increases	**3.8**	3.8
Weighted average expected long-term rate of return at 31 December, after deduction for scheme expenses	**7.0**	7.3

Weighted average life expectancy for mortality tables to determine benefit obligations:		**2005 years**	2004 years
Member age 65 (current life expectancy)	Male	**18**	18
	Female	**21**	21
Member age 45 (life expectancy at age 65)	Male	**19**	19
	Female	**22**	22

The amounts recognised in the balance sheet are determined as follows:	Group Schemes 2005 £m	RPS 2005 £m	**Total 2005 £m**	Total 2004 £m
Present value of funded obligations	(725.7)	(130.6)	**(856.3)**	(729.8)
Fair value of plan assets	531.5	108.7	**640.2**	525.3
Deficit	(194.2)	(21.9)	**(216.1)**	(204.5)
Deficit relating to scheme members	-	8.7	**8.7**	8.8
	(194.2)	(13.2)	**(207.4)**	(195.7)
Rail franchise adjustment	-	-	**-**	2.3
Deficit recognised in the balance sheet	(194.2)	(13.2)	**(207.4)**	(193.4)

No rail franchise adjustment was required in 2005 (2004: £2.3 million).

The amounts recognised in the income statement are as follows:	**2005 £m**	2004 £m
Current service costs	**20.3**	20.8
Interest cost	**37.2**	34.7
Expected return on assets	**(34.9)**	(31.5)
	22.6	24.0

Movements in the present value of defined benefit obligations were as follows:	**2005 £m**	2004 £m
At 1 January	**729.8**	680.8
Member contributions paid	**11.6**	10.8
Current service cost	**20.3**	20.8
Interest cost*	**39.5**	36.5
Benefits paid	**(19.8)**	(23.4)
Actuarial loss	**74.9**	4.3
At 31 December	**856.3**	729.8

Movements in the fair value of plan assets were as follows:		
At 1 January	**525.3**	457.9
Expected return on plan assets*	**37.3**	33.8
Total contributions	**31.9**	37.5
Benefits paid	**(19.8)**	(23.4)
Actuarial gains	**65.5**	19.5
At 31 December	**640.2**	525.3

*Before RPS shared cost adjustment

The movements in the present value of defined benefit obligations and in the fair value of the plan assets do not take into account the shared cost nature of the RPS. The income statement includes 60 per cent of the relevant RPS amounts.

20. RETIREMENT BENEFIT OBLIGATIONS (continued)

Plan assets	2005 %	2004 %
The weighted average asset allocations at the year end were as follows:		
Equities	**77**	76
Bonds	**21**	22
Other	**2**	2

History of experience gains and losses	2005	2004
Experience adjustments on scheme liabilities:		
– Amounts (£m)	**(74.9)**	(4.3)
– Percentage of scheme liabilities	**8.7%**	0.6%
Experience adjustments on scheme assets:		
– Amounts (£m)	**65.5**	19.5
– Percentage of scheme assets	**10.2%**	3.7%

21. DEFERRED TAX

The movement on the deferred tax account is as shown below:	2005 £m	2004 £m
At 1 January	**37.9**	17.7
Adoption of IAS39	**1.6**	-
Exchange differences	**(0.5)**	-
Acquisition of subsidiaries	**1.8**	13.3
Income statement charge	**-**	2.2
Tax charged to equity	**3.5**	4.7
At 31 December	**44.3**	37.9

Deferred tax assets have not been recognised in respect of tax losses and other temporary differences giving rise to deferred tax assets because of the uncertainty regarding the recoverability of the resulting deferred tax assets. Deferred tax is not provided on the unremitted earnings of overseas subsidiaries where the Group has control over the timing of remittance and it is probable that remittance will not take place in the foreseeable future. Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net.

The movements in deferred tax assets and liabilities during the period are shown below:

Deferred tax liabilities	Accelerated tax depreciation £m	Revaluation £m	Intangibles £m	Derivatives £m	Other £m	**Total £m**
At 1 January 2004	66.8	18.3	-	-	0.6	**85.7**
Exchange differences	0.1	-	(0.1)	-	-	**-**
Acquisition of subsidiaries	-	-	13.3	-	-	**13.3**
Income statement charge	2.4	(0.9)	(0.6)	-	0.1	**1.0**
At 31 December 2004	69.3	17.4	12.6	-	0.7	**100.0**
Adoption of IAS39	-	-	-	1.6	-	**1.6**
Exchange differences	(0.1)	-	(0.4)	-	-	**(0.5)**
Acquisition of subsidiaries	-	-	0.5	-	1.3	**1.8**
Income statement charge	3.7	(0.4)	(1.6)	-	0.5	**2.2**
Tax charged to equity	-	-	-	4.8	-	**4.8**
At 31 December 2005	**72.9**	**17.0**	**11.1**	**6.4**	**2.5**	**109.9**

The deferred tax liability due after more than one year is £106.1 million (2004: £98.1 million).

Deferred tax assets	Retirement benefit obligations £m	Provisions £m	Other £m	**Total £m**
At 1 January 2004	(61.9)	(6.0)	(0.1)	**(68.0)**
Income statement charge	0.6	1.3	(0.7)	**1.2**
Tax charged to equity	4.7	-	-	**4.7**
At 31 December 2004	(56.6)	(4.7)	(0.8)	**(62.1)**
Income statement credit	(0.7)	(1.5)	-	**(2.2)**
Tax credited to equity	(1.3)	-	-	**(1.3)**
At 31 December 2005	**(58.6)**	**(6.2)**	**(0.8)**	**(65.6)**

The deferred tax asset due after more than one year is £57.6 million (2004: £54.7 million).

22. CALLED UP EQUITY SHARE CAPITAL

	Authorised		Allotted – fully paid	
	2005	2004	**2005**	2004
Ordinary shares of 5p each	**£14,500,000**	£14,500,000	**£9,846,118**	£9,787,495
Number of shares	**290,000,000**	290,000,000	**196,922,357**	195,749,903

	2005	2004
Reconciliation of movement in issued share capital:		
Shares in issue 1 January	**195,749,903**	195,035,046
Share allotments on exercise of options	**1,172,454**	1,849,857
Shares purchased	**-**	(1,135,000)
Shares in issue 31 December	**196,922,357**	195,749,903

Consideration of £3.8 million was received in respect of share allotments in the year ended 31 December 2005. At 31 December 2005 there were outstanding options to receive allotments of 2,846,467 ordinary shares under the Executive Share Option Scheme, the Share Incentive Scheme and the Long Term Incentive Plan. The price for the vested share for the Long Term Incentive Plan is nil. The option exercise prices for the other schemes range from 175.0p to 548.0p. The options are exercisable up to March 2015. At 31 December 2005 the middle market quotation of the ordinary share, as derived from the Stock Exchange Official List, was 582.4p. The highest price attained by the ordinary share in 2005 was 598.4p and the lowest level during 2005 was 505.0p.

23. SHARE-BASED PAYMENTS

The Group operates an Executive Share Option Scheme (ESOS), Share Incentive Scheme (SIS) and Long Term Incentive Plan (LTIP).

The ESOS is an Inland Revenue approved discretionary employee share option scheme, with options granted to certain senior employees (excluding directors) and exercisable between three and ten years from date of grant, subject to performance criteria having been satisfied.

The SIS is an unapproved discretionary employee share option scheme, with options granted to certain senior employees (excluding directors) and exercisable between three and seven years from date of grant, subject to performance criteria having been satisfied.

The LTIP is a discretionary share scheme providing incentives in the form of conditional awards of shares to selected senior employees, including executive directors. There is a performance period of not less than three years before any of the shares may vest, with vesting of any of the shares subject to performance criteria having been satisfied. Further details of the LTIP and performance criteria are given in the Directors' Remuneration Report on pages 31 to 37.

In accordance with the transitional provisions of IFRS, the following disclosures relate only to awards made after 7 November 2002 that have not vested before 1 January 2005.

The fair value per option granted and the assumptions used in the calculation of fair values are as follows:

	Executive Share Option Scheme		Share Incentive Scheme			Long Term Incentive Plan		
	March 2003	March 2004	March 2003	March 2004	March 2005	March 2003	March 2004	March 2005
Share price at grant date	£2.83	£3.73	£2.83	£3.73	£5.48	£3.02	£3.75	£5.48
Exercise price	£2.83	£3.73	£2.83	£3.73	£5.48	£0.00	£0.00	£0.00
Number of employees	12	46	44	54	95	34	4	4
Shares under option	73,000	206,162	254,500	197,338	442,500	1,042,308	345,261	224,451
Vesting period (years)	3	3	3	3	3	3	3	3
Expected volatility	32%	24%	32%	24%	24%	32%	24%	24%
Option life (years)	10	10	7	7	7	3	3	3
Expected life (years)	3	3	3	3	3	3	3	3
Risk-free rate	4%	4.5%	4%	4.5%	4%	4%	4.5%	4%
Expected dividends expressed as a dividend yield	5.8%	5.1%	5.8%	5.1%	3.6%	5.8%	5.1%	3.6%
Expectations of meeting performance criteria	100%	100%	100%	100%	100%	100%	25%	0%
Fair value per option	£0.470	£0.504	£0.470	£0.504	£0.835	£2.537	£3.215	£4.919

The expected volatility is based on historical volatility over the last three years. The expected life is the average expected period to exercise. The risk-free rate of return is the yield on zero-coupon UK Government bonds of a term consistent with the assumed option life. A reconciliation of option movements for each of the above schemes over the year to 31 December follows:

(a) Executive Share Option Scheme

	2005		2004	
	Number ('000)	**Weighted average exercise price (£)**	Number ('000)	Weighted average exercise price (£)
Outstanding at 1 January	**279**	**3.49**	73	2.83
Granted	**-**	**-**	206	3.73
Forfeited	**(38)**	**3.28**	-	-
Exercised	**(9)**	**3.24**	-	-
Outstanding at 31 December	**232**	**3.54**	279	3.49
Exercisable at 31 December	-	-	-	-

	2005				2004			
			Weighted average remaining life				Weighted average remaining life	
Range of exercise prices (£)	**Weighted average exercise price (£)**	**Number of shares ('000)**	**Expected (years)**	**Contractual (years)**	Weighted average exercise price (£)	Number of shares ('000)	Expected (years)	Contractual (years)
2.83–3.73	**3.54**	**232**	**1.0**	**8.0**	3.49	279	2.0	9.0

The weighted average share price during the period for options in the ESOS exercised over the year was 573.4p. The total charge for the year relating to the scheme was £nil (2004: £nil).

(b) Share Incentive Scheme

	2005		2004	
	Number ('000)	**Weighted average exercise price (£)**	Number ('000)	Weighted average exercise price (£)
Outstanding at 1 January	**442**	**3.22**	255	2.83
Granted	**442**	**5.48**	197	3.73
Forfeited	**(51)**	**3.20**	-	-
Exercised	**(6)**	**5.25**	(10)	3.28
Outstanding at 31 December	**827**	**4.42**	442	3.22
Exercisable at 31 December	-	-	-	-

	2005				2004			
			Weighted average remaining life				Weighted average remaining life	
Range of exercise prices (£)	**Weighted average exercise price (£)**	**Number of shares ('000)**	**Expected (years)**	**Contractual (years)**	Weighted average exercise price (£)	Number of shares ('000)	Expected (years)	Contractual (years)
2.83–5.48	**4.42**	**827**	**1.5**	**5.5**	3.22	442	1.3	5.3

The weighted average share price during the period for options exercised in the Share Incentive Scheme over the year was 573.4p (2004: 521.6p). The total charge for the year relating to the scheme was £0.2 million (2004: £0.1 million), all of which related to equity-settled share-based payment transactions. After deferred tax, the total charge was £0.1 million (2004: £nil).

23. SHARE-BASED PAYMENTS (continued)

(c) Long Term Incentive Plan

	2005 Number ('000)	2005 Weighted average exercise price (£)	2004 Number ('000)	2004 Weighted average exercise price (£)
Outstanding at 1 January	**1,204**	-	917	-
Granted	**224**	-	346	-
Forfeited	**(90)**	-	-	-
Exercised	-	-	(59)	-
Outstanding at 31 December	**1,338**	-	1,204	-
Exercisable at 31 December	-	-	-	-

Range of exercise prices (£)	2005 Weighted average exercise price (£)	2005 Number of shares ('000)	2005 Weighted average remaining life Expected (years)	2005 Weighted average remaining life Contractual (years)	2004 Weighted average exercise price (£)	2004 Number of shares ('000)	2004 Weighted average remaining life Expected (years)	2004 Weighted average remaining life Contractual (years)
0.00	**0.00**	**1,338**	**0.80**	**0.80**	0.00	1,204	2	2

The weighted average share price for the LTIP awards exercised in the year was 452.7p. The total charge for the year relating to the scheme was £1.2 million (2004: £0.6 million), all of which related to equity-settled share-based payment transactions. After deferred tax, the total charge was £0.8 million (2004: £0.4 million).

24. OTHER RESERVES

	Capital redemption reserve £m	Special reserve £m	Hedge reserve £m	**Other reserves £m**
At 1 January 2004	1.7	59.1	-	**60.8**
Purchase of own shares	0.1	-	-	**0.1**
At 31 December 2004	**1.8**	**59.1**	**-**	**60.9**
Adoption of IAS39 (net of tax)	-	-	4.9	**4.9**
Cash flow hedges (net of tax):				
– Fair value gains in the year	-	-	26.2	**26.2**
– Transfers to net profit	-	-	(17.0)	**(17.0)**
At 31 December 2005	**1.8**	**59.1**	**14.1**	**75.0**

25. STATEMENT OF CHANGES IN SHAREHOLDERS' 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 2004	9.8	9.5	60.8	283.8	**363.9**	-	**363.9**
Arising on issue of shares	-	5.8	-	-	**5.8**	-	**5.8**
Share-based payments	-	-	-	0.7	**0.7**	-	**0.7**
Purchase of own shares	-	-	0.1	(4.4)	**(4.3)**	-	**(4.3)**
Total recognised income and expense for the year	-	-	-	97.1	**97.1**	0.1	**97.2**
Dividends	-	-	-	(35.6)	**(35.6)**	-	**(35.6)**
Minority share of acquisition	-	-	-	-	**-**	2.1	**2.1**
At 31 December 2004	**9.8**	**15.3**	**60.9**	**341.6**	**427.6**	**2.2**	**429.8**
Adoption of IAS39 (net of tax)	-	-	4.9	(1.2)	3.7	-	3.7
Arising on issue of shares	-	3.8	-	-	3.8	-	3.8
Share-based payments	-	-	-	1.4	1.4	-	1.4
Total recognised income and expense for the year	-	-	9.2	79.4	88.6	0.5	89.1
Dividends	-	-	-	(37.7)	(37.7)	-	(37.7)
Minority share of acquisition	-	-	-	-	-	13.6	13.6
At 31 December 2005	**9.8**	**19.1**	**75.0**	**383.5**	**487.4**	**16.3**	**503.7**

The cumulative goodwill amortised through retained earnings and written off directly to reserves in prior years is £283.3 million (2004: £281.8 million).

26. NOTES TO THE GROUP CASH FLOW STATEMENT

(a) Reconciliation of net debt	**2005 £m**	2004 £m
At 1 January	**338.4**	296.7
Decrease in cash, cash equivalents and overdrafts	**4.0**	1.1
(Decrease)/increase in loans due within one year	**(1.8)**	50.0
Increase/(decrease) in loans due after one year	**61.4**	(1.2)
Increase/(decrease) in finance lease obligations	**26.3**	(48.5)
Loans acquired	**12.0**	46.1
Finance leases acquired	**0.8**	1.1
Currency translation adjustments	**(5.2)**	4.7
At 31 December	**435.9**	350.0

On 1 January 2005 net debt was adjusted by £11.6 million on adoption of IAS39.

(b) Reconciliation of operating profit to net cash inflow from operating activities	**2005 £m**	2004 £m
Operating profit	**123.1**	126.3
Depreciation	**117.1**	106.0
Goodwill impairment and intangible asset amortisation	**6.6**	3.2
EBITDA (after exceptional items)	**246.8**	235.5
(Increase)/decrease in stocks, excluding acquisitions	**(0.8)**	3.9
(Increase)/decrease in debtors, excluding acquisitions	**(30.7)**	39.8
Decrease in creditors, excluding acquisitions	**(7.4)**	(24.6)
Net cash inflow from operating activities	**207.9**	254.6

26. NOTES TO THE GROUP CASH FLOW STATEMENT (continued)

(c) Analysis of net debt	1 January 2005 £m	Cash flow £m	Acquisitions (excluding cash & o/ds) £m	Exchange differences £m	**31 December 2005 £m**
Cash, cash equivalents and overdrafts	(76.6)	4.0	-	1.0	**(71.6)**
Loans due within one year	114.6	(1.8)	12.0	(1.9)	**122.9**
Loans due after one year	238.3	61.4	-	(2.6)	**297.1**
Finance leases	62.1	26.3	0.8	(1.7)	**87.5**
	338.4	89.9	12.8	(5.2)	**435.9**

27. ACQUISITIONS AND DISPOSALS

(a) Analysis of the net cash outflow in respect of current year acquisitions	£m
Cash consideration (including expenses)	46.3
Cash acquired	(7.3)
Net cash outflow in respect of acquisitions	39.0

(b) Current year acquisitions	Acquired book value £m	Provisional fair value adjustments £m	Net cost £m
Intangible assets	3.4	(1.5)	1.9
Property, plant and equipment	53.6	5.5	59.1
Investments	2.9	2.6	5.5
Inventories	1.1	(0.2)	0.9
Trade and other receivables	11.9	(0.5)	11.4
Cash and cash equivalents	7.3	-	7.3
Finance lease obligation	(0.8)	-	(0.8)
Trade and other payables	(26.9)	(0.3)	(27.2)
Loans	(12.0)	-	(12.0)
Deferred tax	0.8	(2.8)	(2.0)
Other non-current liabilities	(4.4)	(0.7)	(5.1)
	36.9	2.1	39.0
Minority interest			(13.6)
Goodwill			16.5
Satisfied by cash			41.9

In February 2005 the Group acquired the German bus company Sippel for £11.6 million, with an additional maximum performance-related consideration of £2.1 million up to 2008, resulting in goodwill of £6.4 million. During the year the Group also increased its shareholding in RAG, in Germany, from 89.8 per cent to 96.7 per cent for £3.8 million, resulting in goodwill of £3.6 million.

In October 2005 the Group acquired 80 per cent of SADEM, for £9.5 million, resulting in goodwill of £3.2 million, with an option to acquire the remaining 20 per cent in 2008 for a maximum consideration of £3.2 million.

Following the acquisition of a 49 per cent interest in the Italian bus operator Societa Autoservizi F.V.G. S.p.A. in May 2004, the Group has increased its shareholding by 11 per cent to 60 per cent in December 2005 for £4.3 million, resulting in goodwill of £0.4 million. In addition, in February 2005 the Group increased its shareholding in the Italian bus operator SAIA from 51 per cent to 88 per cent for £5.2 million, resulting in goodwill of £3.0 million, and also paid additional consideration relating to the SAB group in Northern Italy of £4.3 million originally acquired in July 2002, resulting in goodwill of £4.3 million.

In addition, smaller acquisitions were made in the year in mainland Europe, the total cost of which was £0.7 million, resulting in goodwill of £0.2 million.

Smaller acquisitions were made in the UK within the Bus division; the total cost of these acquisitions was £6.9 million resulting in total goodwill of £1.4 million.

The fair value adjustments in the table above relate mainly to the alignment to Group accounting policies. The fair value adjustments are provisional, depending on the final determination of the value of the related assets and liabilities.

(c) Prior year acquisitions

The total cost in the year relating to acquisitions from prior years was £4.4 million, including the additional consideration of £4.3 million relating to the SAB Group as noted above. In addition, hindsight fair value adjustments were made in the year resulting from the final determination of the assets and liabilities, as follows:

	£m
Hindsight period adjustments:	
Property, plant and equipment	0.2
Intangible assets	0.5
Investments	(0.3)
Trade and other receivables	(0.5)
Deferred tax	(0.2)
Other non-current liabilities	1.9
Decrease in fair values	1.6
Additional consideration paid	4.4
	6.0
Goodwill based on provisional values	35.6
Goodwill based on final fair values	41.6

(d) Current year disposals

In June 2005 the Group sold part of its Spanish operation in Galicia, Transportes Finnisterre, for a consideration of £7.7 million, and in December 2005 the 50 per cent shareholding in the Italian bus operator, Autostradale, was sold for £4.3 million. The assets disposed of were:

	£m
Goodwill	5.4
Property, plant and equipment	1.5
Investments	4.3
Trade and other receivables	0.4
	11.6
Directly attributable costs of disposal	0.4
Profit on disposal	-
Satisfied by cash	12.0

28. GROUP UNDERTAKINGS

Detailed below is a list of those subsidiaries which in the opinion of the directors principally affect the amount of the profit or the amount of the assets of the Group. The Group percentage of equity capital is 100 per cent and the country of registration is England and Wales in each case, except where indicated. All subsidiaries operate within England and Wales, except where indicated:

Passenger Transport

Arriva Croydon & North Surrey Limited
Arriva Cymru Limited
Arriva Derby Limited
Arriva Durham County Limited
Arriva East Herts & Essex Limited
Arriva Fox County Limited
Arriva International Trains (Leasing) Limited
Arriva Kent & Sussex Limited
Arriva Kent Thameside Limited
Arriva London North Limited
Arriva London North East Limited
Arriva London South Limited
Arriva Manchester Limited
Arriva Merseyside Limited
Arriva Midlands North Limited
Arriva Noroeste SL[2]
Arriva North East Limited
Arriva Northumbria Limited
Arriva North West Limited
APS (Leasing) Limited
Arriva Personenvervoer Nederland B.V.[3]
Arriva Portugal Transportes LDA[6]
Arriva Scotland West Limited[4]
Arriva Skandinavien A/S[1]
Arriva Southern Counties Limited
Arriva Sverige AB[5]
Arriva Tees & District Limited
Arriva Teesside Limited
Arriva The Shires Limited
Arriva Trains Limited
Arriva Trains Wales/Trenau Arriva Cymru Limited
Arriva Trains Northern Limited
Arriva Yorkshire Limited
Arriva Yorkshire West Limited
Autobus Sippel Gmbh[8]
London Pride Sightseeing Limited
Prignitzer Eisenbahn Gmbh[8]
Regentalbahn AG[11]
SAB Autoservizi S.r.L.[7]
Società Autoservizi F.V.G. S.p.A.[9]
Sadem S.p.A.[10]
Stevensons of Uttoxeter Limited
The Original London Sightseeing Tour Limited
Transportes Sul do Tejo S.A.[6]
Wulff Bus A/S[1]

Rental and Distribution of Buses and Coaches

Arriva Bus and Coach Rental (1) Limited
Arriva Bus and Coach Rental (2) Limited
Arriva Bus and Coach Rental (3) Limited
Arriva Bus and Coach Rental (4) Limited
Arriva Bus and Coach Limited

Investment

Arriva Findiv Limited*
Arriva Insurance (Gibraltar) Limited[12]*
Arriva International Limited*
Arriva Motor Holdings Limited*
Arriva Passenger Services Limited*
British Bus Group Limited
MTL Services Limited*

Distribution, Repair, Service and Rental of Motor Vehicles

Arriva Vehicle Rental Limited

Property

British Bus (Properties) Limited

Except where marked by * shares are held by a subsidiary company
1 Registered and operates in Denmark
2 Registered and operates in Spain
3 Registered and operates in the Netherlands
4 Registered and operates in Scotland
5 Registered and operates in Sweden
6 Registered and operates in Portugal
7 Registered and operates in Italy
8 Registered and operates in Germany
9 Registered and operates in Italy (60% owned)
10 Registered and operates in Italy (80% owned)
11 Registered and operates in Germany (96.7% owned)
12 Registered and operates in Gibraltar

29. COMMITMENTS

Capital amounts contracted for but not provided amount to £25.5 million (2004: £23.2 million) for the Group. At 31 December 2005 the Group had total commitments under non-cancellable operating leases, including access charges to the rail infrastructure and leases for rail rolling stock, expiring as follows:

	2005			2004		
	Land & buildings £m	**Other £m**	**Total £m**	Land & buildings £m	Other £m	Total £m
Within one year	**0.3**	**10.8**	**11.1**	0.2	14.0	14.2
Later than one year and less than five years	**2.1**	**7.4**	**9.5**	2.5	11.2	13.7
After five years	**16.5**	**1,527.8**	**1,544.3**	18.2	1,647.8	1,666.0
	18.9	**1,546.0**	**1,564.9**	20.9	1,673.0	1,693.9

30. POST BALANCE SHEET EVENTS

On 3 February 2006, the Group completed the disposal of Arriva Vehicle Rental Limited (AVR) for a total consideration of £129.3 million, comprising £53.9 million for the equity in the business, and £75.4 million in reduced debt. £4.2 million of the consideration is deferred to June 2006. The transaction represents a £23 million surplus over the net assets before any adjustments arising from the completion accounts process and selling expenses. Following the disposal, on a pro-forma basis, the net debt at the year end would have been reduced to £306.6 million. In accordance with IFRS5 'Non-current Assets Held for Sale and Discontinued Operations' AVR has not been treated as a discontinued operation for the year ended 31 December 2005, and will be classified as such for the year ending 31 December 2006.

FIVE-YEAR FINANCIAL SUMMARY

Assets employed	2001* £m	2002* £m	2003* £m	2004 £m	**2005 £m**
Goodwill	152.0	198.3	226.2	266.7	**277.5**
Other intangible assets	-	-	-	45.6	**40.8**
Property, plant and equipment	691.3	736.7	761.5	962.6	**1,092.8**
Other net liabilities	(30.3)	(36.9)	(64.6)	(381.7)	**(341.0)**
Quoted investments	3.2	-	-	-	**-**
Unquoted investments	-	5.7	5.2	6.2	**7.9**
	816.2	903.8	928.3	899.4	**1,078.0**
Financed by					
Share capital	10.3	10.0	9.8	9.8	**9.8**
Reserves	412.9	454.6	461.9	417.8	**477.6**
Minority interests	-	(6.2)	-	2.2	**16.3**
Bank overdrafts	25.6	43.4	13.7	5.1	**22.5**
Syndicated loans	-	-	-	82.6	**203.8**
Other loans	196.4	204.0	198.6	155.7	**93.3**
Short-term loans	50.1	62.6	66.0	126.2	**122.9**
Obligations under finance leases	59.6	66.0	109.1	62.1	**87.5**
Deferred liabilities	61.3	69.4	69.2	37.9	**44.3**
	816.2	903.8	928.3	899.4	**1,078.0**
Trading					
Revenue	1,998.4	2,084.4	1,751.1	1,759.0	**1,626.8**
Profit before taxation	76.0	80.6	83.8	109.3	**107.9**
Taxation	27.7	1.6	26.0	26.0	**21.6**
Profit after taxation	48.3	79.0	57.8	83.3	**86.3**
Statistics					
Funds attributable to shareholders	423.2	464.6	471.7	427.6	**487.4**
Equity shareholders' funds per ordinary share	206.0p	232.7p	241.9p	218.4p	**247.5p**
Basic earnings per share	23.1p	38.0p	28.7p	42.6p	**43.7p**
Dividends per ordinary share	16.4p	17.2p	18.0p	18.90p	**19.84p**

* The financial information for 2001, 2002 and 2003 has been prepared under UK generally accepted accounting practice. Details of the nature of the adjustments required for International Financial Reporting Standards are included in the report on transition to International Financial Reporting Standards, extracts of which follow this Five-Year Financial Summary.

Summary

The main impacts of IFRS on the Group's reported results for the year ended 31 December 2004 are shown below:

- An increase in profit before tax for the year ended 31 December 2004 of £10.9 million, principally the result of acquired goodwill no longer being amortised
- Basic earnings per share for the same period increases from 36.2 pence to 42.6 pence, principally the result of not amortising goodwill. Earnings per share, excluding goodwill impairment, intangible asset amortisation and exceptional items, increases marginally from 44.9 pence to 45.1 pence
- Net assets at 1 January 2004 decreased by £107.8 million, mainly arising from:
  - Recognition of obligations in respect of defined benefit pension schemes (decrease £174.8 million), and a related intangible asset (increase £12.0 million)
  - Recognition of fair value of UK land and buildings as deemed cost (increase £24.6 million)
  - Elimination from liabilities of 2003 final dividend (increase £26.1 million)
- Net debt decreases by £7.9 million at 30 June 2004 and by £3.4 million at 31 December 2004 due to the proportional consolidation of joint venture cash.

Impact of key changes

Employee benefits: defined benefit pension schemes (IAS19)

The Group has previously accounted for pensions under UK GAAP using SSAP24. In addition, the Group has previously made disclosures in its notes to the accounts required by the transitional rules of FRS17. The Group will not be adopting FRS17 for measurement purposes, and has moved directly from SSAP24 to IAS19 for the year ending 31 December 2005 and restated comparatives for 2004. The pension charge for the year ended 31 December 2004 was £0.1 million lower under IAS19 than SSAP24.

Group defined benefit schemes

IAS19 requires the recognition on the balance sheet of the assets and obligations of the Group's defined benefit schemes in accordance with its own requirements and the de-recognition of balances relating to SSAP24. This represents a significant change in balance sheet treatment and at 1 January 2004 results in a reduction in net assets of £162.8 million, net of deferred tax.

Subsequent to the initial recognition above, the pension deficit will be calculated at each year end. The profit and loss account will be charged with the estimated cost of providing current service benefits, together with a pension finance charge or credit representing the difference between the expected return on the schemes' assets and the interest charged on the schemes' liabilities. Both the service cost and pension finance charge/credit will be reported as part of net operating expenses. Movements in the pension deficit arising from actuarial gains and losses and changes to actuarial assumptions will be charged or credited in the Statement of Recognised Income and Expense in the period in which they arise.

Railways Pension Scheme

Most employees in our UK Trains business are members of certain sections of the Railways Pension Scheme. The agreement under which the Group operates the Arriva Trains Wales franchise states that all pension obligations to the scheme will cease on expiry of the franchise, and therefore the obligations recognised on the balance sheet under IAS19 should only be those arising during the franchise term. The amended obligation will be made by way of a 'franchise adjustment' to the pension obligation.

The Group's current franchise commenced operation in December 2003. At the time, the anticipated contribution levels and investment returns were sufficient to reduce the IAS19 pension deficit to £nil by the end of the franchise. Accordingly there is no franchise adjustment made on transition at 1 January 2004, and the full IAS19 liability of £12.0 million is reported in the balance sheet. Also on transition, an associated intangible asset has been recognised of the same amount. This is considered further under the heading 'Intangible assets' below.

At 31 December 2004, the full IAS19 liability is calculated as £13.1 million. The franchise adjustment, which represents the present value of the IAS19 liability at the end of the current franchise is £2.3 million, resulting in a reported pension obligation of £10.8 million.

UK properties revaluation (IFRS1)

The Group has elected to use the fair value of the UK land and buildings at 1 January 2004 as deemed cost. This has resulted in an increase in net assets at transition of £24.6 million, net of deferred tax, and an increase in depreciation for the year ended 31 December 2004 of £0.4 million.

No adjustment has been made to the carrying value of non-UK land and buildings.

Dividends proposed (IAS10)

IAS10 'Events after the Balance Sheet Date', does not permit the recognition of a liability for dividends until they have been approved. On this basis, dividends approved after the year end cannot be recognised as a liability in those year end accounts.

The final dividend declared for the year ended 31 December 2003 was approved in April 2004, and therefore requires reversing in the transitional balance sheet at 1 January 2004. Net assets are increased on transition by £26.1 million, and at 31 December 2004 by a further £1.4 million.

Business combinations (IFRS3)

On transition, the Group has taken the option under the transitional arrangements not to apply IFRS3 'Business Combinations' retrospectively to business combinations that occurred prior to the transition date. Accordingly, except for the adjustment required to negative goodwill noted below, the goodwill carried in the balance sheet under UK GAAP at 31 December 2003 has become the opening balance of goodwill under IFRS at 1 January 2004.

IFRS3 does not permit the annual amortisation of goodwill, but does require an annual impairment review of carrying values. Impairment reviews have been conducted on the carrying value of goodwill arising on business combinations at the transition date and 31 December 2004. Goodwill amortisation charged to the income statement in 2004 of £15.3 million is reversed under IFRS.

Negative goodwill arose on an acquisition prior to the transition date. The book value of the negative goodwill at 31 December 2003 was £3.9 million, and has been fully released in the transitional balance sheet at 1 January 2004.

Intangible assets (IFRS3, IAS38, IFRS1)

For business combinations made after the transition date, the Group has applied the criteria set out in IAS38 'Intangible Assets' in identifying and measuring the value of intangible assets. Customer contracts to provide bus and rail services have been identified on the 2004 acquisitions of SAF, PEG and Regentalbahn. The total value of intangible assets purchased on these business combinations was £34.8 million, and is being amortised over the lives of the contracts to which they relate, resulting in a charge in 2004 under IFRS of £1.8 million. To the extent of the identification of these intangible assets, goodwill previously disclosed on the acquisitions has been adjusted downwards accordingly. Deferred tax has been provided on the intangible assets arising from the business combinations, resulting in additional goodwill reported of £12.8 million. This additional goodwill was reduced when the annual impairment test was applied to it, together with an associated release from the deferred tax provision, as the contracts unwound. In the year ended 31 December 2004 the impairment charged to the income statement was £0.6 million.

As noted earlier, the Group has recognised a pension deficit in respect of the Railways Pension Scheme of £12.0 million at 1 January 2004. A detailed consultation process has taken place with our peer group in the UK rail industry as to how to recognise such a deficit whilst also reflecting the position where there is no obligation to fund pensions beyond the expiry of the franchise. The outcome is the recognition of an intangible asset on transition of £12.0 million reflecting the right to operate the Arriva Trains Wales franchise. The Group has followed the initial recognition criteria of IAS38 which requires the retrospective assessment of the value of the intangible asset as at the date it was created. The intangible asset is being amortised over the life of the Arriva Trains franchise resulting in a charge of £0.8 million in the year ended 31 December 2004.

Share-based payments (IFRS2)

IFRS2 'Share-Based Payments' requires the Group to charge its income statement with the fair value of equity settled share-based payments. In accordance with the transitional provisions, IFRS2 has been applied to all grants of equity instruments after 7 November 2002 that had not vested at 1 January 2005. The Group has used the Black Scholes model to measure the fair value of options granted. Profit before tax for the year ended 31 December 2004 is reduced by £0.2 million.

Joint ventures (IAS31)

Under IAS31 'Interests in Joint Ventures', proportional consolidation is the preferred basis for representing interests, with equity accounting permitted as an alternative.

The Group has used proportional consolidation to account for joint ventures. This has led to the restatement of 2004 comparatives for SAF and certain other smaller joint venture arrangements. Whilst there is no impact on net assets or profit before tax, the inclusion of balance sheet items on a line by line basis has reduced net debt by £3.4 million at 31 December 2004, principally representing the cash balances held in SAF.

Proceeds from the disposal of fixed assets (IAS16)

Under UK GAAP, the reported turnover for the Vehicle Rental and Bus and Coach distribution businesses included proceeds from the disposals of rental fleet held in fixed assets. IAS16 'Property, Plant and Equipment' does not permit the recognition of revenue on disposal of non-current assets. Accordingly, reported revenue for the year ended 31 December 2004 is reduced by £52.0 million.

Financial instruments (IAS32, IAS39)

The Group uses various derivative financial instruments to hedge its exposures to foreign exchange translation risk, interest rate exposure and fuel prices.

The Group has opted to take advantage of the exemption in IFRS1 not to prepare comparative information under IAS32 and IAS39. The date of transition for IAS32 and IAS39 is therefore 1 January 2005, with net assets increasing by £3.7 million, net of deferred tax, reflecting the fair value of the derivatives at that date.

First-time adoption (IFRS1)

In accordance with the requirements of IFRS1 'First-time Adoption of International Financial Reporting Standards', the Group is subject to a number of voluntary and mandatory exemptions from full restatement to the requirements of IFRS, which have been applied as follows:

- IAS32 'Financial Instruments: Disclosure and Presentation', and IAS39 'Financial Instruments: Recognition and Measurement' have been adopted with effect from 1 January 2005
- The Group has elected to use fair value as deemed cost for UK land and buildings at the date of transition
- The Group has not applied IFRS3 'Business Combinations' retrospectively to business combinations that occurred before the transition date
- The Group has set cumulative translation differences to zero at the transition date for all subsidiaries. From the date of transition onwards foreign exchange differences on the retranslation of foreign subsidiaries are recognised in a separate reserve within equity
- IFRS2 'Share-Based Payment' has been applied to all grants of equity instruments after 7 November 2002 that had not vested at 1 January 2005.

Reconciliation of total equity	2004 £m	2003 £m
Previously reported at 31 December	510.6	471.7
Employee benefits	(151.3)	(162.8)
UK land and buildings revaluation	24.3	24.6
Adjustment to dividends proposed	27.5	26.1
Business combinations	17.7	3.9
Share-based payments	1.0	0.4
Restated position at 31 December	429.8	363.9
Financial Instruments at 1 January 2005	3.7	
Restated position at 1 January 2005	433.5	

Reconciliation of reported profit for the year ended 31 December 2004	2004 £m
Profit on ordinary activities after taxation as previously reported	70.8
Employee benefits	(0.6)
UK land and buildings revaluation	(0.3)
Business combinations	13.5
Share-based payments	(0.1)
Restated profit for the year under IFRS	83.3

COMPANY BALANCE SHEET at 31 December 2005

PREPARED USING UK GENERALLY ACCEPTED ACCOUNTING PRACTICE (UK GAAP)

	notes	2005 £m	2004 As restated £m
Fixed assets			
Tangible assets	2	**8.1**	8.4
Investments	3	**726.9**	724.2
		735.0	732.6
Current assets			
Debtors	4	**93.7**	105.3
Cash at bank and in hand		**98.5**	19.3
		192.2	124.6
Creditors			
Amounts falling due within one year	6	**(18.9)**	(24.5)
Net current assets		**173.3**	100.1
Total assets less current liabilities		**908.3**	832.7
Creditors			
Amounts falling due after more than one year	6	**(542.7)**	(469.3)
Provisions for liabilities and charges	5	**-**	(0.3)
Net pension liability	11	**(7.1)**	(10.3)
		358.5	352.8
Represented by:			
Capital and reserves			
Called-up equity share capital	7	**9.8**	9.8
Share premium account	9	**19.1**	15.3
Capital redemption reserve	9	**1.8**	1.8
Special reserve	9	**59.1**	59.1
Profit and loss account	9	**268.7**	266.8
Equity shareholders' funds	10	**358.5**	352.8

R J Davies
Directors
S P Lonsdale

Approved by the Board on 1 March 2006.

Basis of preparation
The separate financial statements of the company are presented as required by the Companies Act 1985. They have been prepared in accordance with applicable United Kingdom generally accepted accounting practice. The company prepares its financial statements on the historic cost basis of accounting as modified by the revaluation of certain tangible fixed assets.

Changes in accounting policy
The company has adopted FRS17, 'Retirement benefits', FRS20, 'Share-based payments', FRS21, 'Events after the balance sheet date', FRS25, 'Financial instruments: Disclosure and presentation', and FRS26, 'Financial instruments: Measurement'. The adoption of each of these standards represents a change in accounting policy and the comparative figures have been restated accordingly except where the exemption to restate comparatives has been taken. Details of the effect of the prior year adjustments are given in note 9.

Tangible fixed assets
Tangible fixed assets are stated at cost or valuation, net of depreciation and any provision for impairment.

Depreciation is calculated using the straight-line method to allocate the cost or valuation of each asset to its residual value over its estimated useful life as follows:

Freehold properties	2% per annum on cost or valuation
Plant, company vehicles, fixtures & fittings	3–10 years

Investments
Fixed asset investments in subsidiaries and associates are shown at cost less provision for impairment.

Impairment
At each balance sheet date the company reviews the carrying amount of its tangible assets to determine whether there are any indicators of impairment. If indicators of impairment exist then the recoverable amount of an asset is estimated.

If the recoverable amount of an asset is less than its carrying amount, the difference is recognised in the profit and loss account as an impairment loss.

Pensions
The company operates retirement benefit schemes; both defined benefit and defined contribution schemes.

The liability recognised in the balance sheet in respect of the company's defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of the plan assets, together with adjustments for unrecognised past service costs. The defined benefit obligation is calculated using the projected unit credit method. Formal actuarial valuations are carried out on a triennial basis, with updated calculations being prepared at each balance sheet date. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

The cost of providing future benefits is charged to the profit and loss account as required. The return on scheme assets and interest obligation on scheme liabilities comprise a pension finance adjustment which is included in interest costs. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to reserves in the period they arise.

Contributions payable under defined contribution schemes are charged to the profit and loss account as they arise.

Share-based payments
The company issues equity settled share-based payments to certain employees, which are measured at fair value at the date of grant. The fair value is expensed on a straight-line basis over the vesting period, based on the company's estimate of shares that will eventually vest. The impact of revising original estimates, if any, is included in the profit and loss account, with a corresponding adjustment to reserves.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

Dividend distribution
Dividend distribution to the company's shareholders is recognised as a liability in the company's financial statements in the period in which the dividends are approved by the company's shareholders.

Deferred taxation
The company accounting policy is to provide for deferred tax on all timing differences except those arising on the revaluation of fixed assets for which there is no binding agreement to sell or on the undistributed profits of overseas subsidiaries. Deferred tax is calculated at the rates at which it is estimated the tax will arise. The tax rates are those expected to arise based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. The deferred tax provision is not discounted to net present value.

1. ARRIVA PLC PROFIT AND LOSS ACCOUNT

Arriva plc has not presented its own profit and loss account as permitted by Section 230 of the Companies Act 1985. The profit for the financial year dealt with in the accounts of Arriva plc is £35.1 million (2004 restated: £26.5 million).

2. TANGIBLE FIXED ASSETS

	Freehold land & buildings £m	Plant, company vehicles, fixtures & fittings £m	Total £m
Cost or valuation			
At 1 January 2005	9.2	2.4	11.6
Additions	-	0.1	0.1
Disposals	(0.1)	-	(0.1)
At 31 December 2005	**9.1**	**2.5**	**11.6**
Comprising:			
Cost	8.3	2.5	10.8
Valuation 1997	0.8	-	0.8
	9.1	**2.5**	**11.6**
Accumulated depreciation			
At 1 January 2005	1.2	2.0	3.2
Charge for the year	0.2	0.1	0.3
At 31 December 2005	**1.4**	**2.1**	**3.5**
Net book amounts			
At 31 December 2005	**7.7**	**0.4**	**8.1**
At 31 December 2004	8.0	0.4	8.4

3. INVESTMENTS

Fixed asset investments	Shares in subsidiaries at cost £m	Impairment £m	Shares in subsidiaries net book amount £m
At 1 January 2005	738.9	(14.7)	724.2
Additions	2.7	-	2.7
At 31 December 2005	**741.6**	**(14.7)**	**726.9**

Particulars of fixed asset investments are detailed in note 28 to the Group financial statements.

4. DEBTORS

	2005 £m	As restated 2004 £m
Amounts falling due within one year:		
Trade debtors	**0.4**	0.4
Deferred tax (note 5)	**0.2**	-
Prepayments and accrued income	**0.2**	0.5
Other debtors	**40.7**	11.5
	41.5	12.4
Amounts falling due after more than one year:		
Amounts owed by group undertakings	**52.2**	92.9
	93.7	105.3

5. DEFERRED TAXATION

	2005 £m	As restated 2004 £m
Accelerated capital allowances	**1.8**	1.8
Other timing differences	**(2.0)**	(1.5)
Deferred tax excluding that relating to pension liability	**(0.2)**	0.3
Deferred tax on pension liability	**(3.1)**	(4.4)
Deferred tax	**(3.3)**	(4.1)

At 1 January 2005 (as previously reported)	**1.8**
Prior year adjustments:	
FRS17	**(5.6)**
FRS20	**(0.3)**
At 1 January 2005 (as restated)	**(4.1)**
Deferred tax credited in profit and loss account	**(0.5)**
Deferred tax charges taken to reserves	**1.3**
At 31 December 2005	**(3.3)**

Deferred tax excluding deferred tax on pension liability:

At 1 January 2005 (as previously reported)	**0.6**
Prior year adjustment:	
FRS20	**(0.3)**
At 1 January 2005 (as restated)	**0.3**
Deferred tax credited in profit and loss account	**(0.5)**
At 31 December 2005	**(0.2)**

Factors that may affect future tax charges

No deferred tax asset is provided in respect of the unremitted earnings of overseas subsidiaries unless a binding agreement exists at the balance sheet date to remit such earnings in the future. No assets have been recognised in respect of tax losses carried forward because of uncertainty regarding the recoverability of the resulting deferred tax assets.

6. CREDITORS

	2005 £m	As restated 2004 £m
Amounts falling due within one year:		
Short-term loans	-	0.2
Trade creditors	**0.5**	0.9
Creditors for taxation and social security	**2.9**	6.7
Other creditors	**7.4**	9.8
Accruals and deferred income	**8.1**	6.9
	18.9	24.5
Amounts falling due after more than one year:		
Other loans	**60.0**	-
Amounts due to group companies	**446.1**	427.3
Accruals and deferred income	**36.6**	42.0
	542.7	469.3

Loans are repayable as follows:	2005 £m	2004 £m
In one year or less, or on demand	-	0.2
In more than two years, but not more than five years	**60.0**	-
	60.0	0.2

The company provides cross guarantees in respect of the bank borrowings of a number of the Group's subsidiaries. Syndicated loans are secured by debentures giving fixed and floating charges over the assets of certain subsidiaries of the company and by guarantees given by the company.

Fair value of non-current liabilities

The company considers there to be no material difference between the fair value of non-current liabilities and their carrying amount in the balance sheet.

Borrowing facilities

The company has the following undrawn committed floating rate borrowing facilities available at 31 December in respect of which all conditions precedent had been met at that date:

	2005 £m	2004 £m
Expiring within one year	**19.9**	94.3
Expiring in more than two years	**107.1**	228.8
	127.0	323.1

7. CALLED UP EQUITY SHARE CAPITAL

	Authorised		Allotted – fully paid	
	2005	2004	**2005**	2004
Ordinary shares of 5p each	**£14,500,000**	£14,500,000	**£9,846,118**	£9,787,495
Number of shares	**290,000,000**	290,000,000	**196,922,357**	195,749,903

Reconciliation of movement in issued share capital:		
Shares in issue 1 January 2005	**195,749,903**	195,035,046
Share allotments on exercise of options	**1,172,454**	1,849,857
Shares purchased	–	(1,135,000)
Shares in issue 31 December	**196,922,357**	195,749,903

Consideration of £3.8 million was received in respect of the above issues. At 31 December 2005 there were outstanding options to receive allotments of 2,846,467 ordinary shares under the Executive Share Option Scheme, the Share Incentive Scheme and the Long Term Incentive Plan. The price for the vested share for the Long Term Incentive Plan is nil. The option exercise prices for all of the other schemes range from 175.0p to 548.0p. The options are exercisable up to March 2015. At 31 December 2005 the middle market quotation of the ordinary share, as derived from the Stock Exchange Official List, was 582.4p. The highest price attained by the ordinary share in 2005 was 598.4p and the lowest level during 2005 was 505.0p.

8. SHARE-BASED PAYMENTS

The grants and related accounting treatment adopted by Arriva plc under FRS20 'Share-based payment', are identical to that adopted by the Group under IFRS2 'Share-based Payment'. For details please refer to note 23 in the Group financial statements.

9. RESERVES

	Capital redemption reserve £m	Share premium account £m	Special reserve £m	Profit and loss account £m	**Total £m**
At 31 December 2004 (as previously stated)	1.8	15.3	59.1	252.0	**328.2**
Prior year adjustments:					
FRS17	-	-	-	(13.1)	**(13.1)**
FRS20	-	-	-	0.4	**0.4**
FRS21	-	-	-	27.5	**27.5**
At 1 January 2005 (as restated)	1.8	15.3	59.1	266.8	**343.0**
Arising on issue of shares	-	3.8	-	-	**3.8**
Profit for the year	-	-	-	35.1	**35.1**
Dividends	-	-	-	(37.7)	**(37.7)**
Actuarial gain on pension deficit	-	-	-	4.4	**4.4**
Movement on deferred tax relating to pension	-	-	-	(1.3)	**(1.3)**
Share-based payments	-	-	-	1.4	**1.4**
At 31 December 2005	**1.8**	**19.1**	**59.1**	**268.7**	**348.7**

10. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2005 £m	2004 As restated £m
Profit for the year	**35.1**	26.5
Dividends	**(37.7)**	(35.6)
	(2.6)	(9.1)
New share capital subscribed	**3.8**	5.8
Purchase of own shares	-	(4.3)
Actuarial gain on pension deficit	**4.4**	0.3
Movement on deferred tax relating to pension deficit	**(1.3)**	(0.1)
Share-based payments	**1.4**	0.7
Net addition to/(reduction in) shareholders' funds	**5.7**	(6.7)
Opening shareholders' funds (as previously reported)	**338.0**	
Prior year adjustments:		
FRS17	**(13.1)**	
FRS20	**0.4**	
FRS21	**27.5**	
Opening shareholders' funds (as restated)	**352.8**	
Closing shareholders' funds	**358.5**	

11. PENSIONS

At 31 December 2005 the company operated a number of retirement benefit schemes, both defined benefit and defined contribution which are financed through separate Trustee administered funds managed by independent professional fund managers on behalf of the Trustees. Contributions to the defined benefit funds are based upon actuarial advice following the most recent of a regular series of valuations of the funds by their representative independent actuaries.

For the purpose of arriving at the pension cost charged in the accounts the defined benefit funds were last assessed on 5 April 2003 by their respective actuaries, using the Projected Unit Method. The principal actuarial assumptions were that: (i) the annual rate of return on investment would be 2.75 per cent higher than the annual increase in total pensionable remuneration of 3.75 per cent and, where relevant, (ii) there would be no variation from a scheme's rules to pensions in payment. On the basis of these assumptions the actuarial value of the funds at 5 April 2003 was sufficient to cover 85 per cent of the benefits then accrued to members.

Total pension cost
The total pension cost for the company was £0.4 million (2004 restated: £0.6 million). The pension costs in respect of the company's defined contribution scheme was £0.2 million (2004: £0.2 million).

FRS17 'Retirement Benefits'
The calculations used to assess the FRS17 liabilities of the retirement benefit schemes are based on the most recent actuarial valuations, updated by WM Mercers to 31 December 2005. The schemes' assets are stated at their market value at 31 December 2005. The following financial assumptions have been used for each of the schemes:

	2005 %	2004 %	2003 %
Valuation method	**Projected Unit**	Projected Unit	Projected Unit
Discount rate	**4.9**	5.4	5.4
Inflation rate	**2.6**	2.6	2.5
Increases to deferred benefits during deferment	**2.6**	2.6	2.5
Increases to pensions in payment	**2.6**	2.6	2.5
Salary increases	**3.8**	3.8	3.75
Expected long-term rate of return at 31 December, before deduction for scheme expenses:			
Equities	**7.55**	7.85	7.4
Bonds	**4.2**	4.55	4.6
Other	**3.8**	4.1	4.4
Weighted average expected long-term rate of return by scheme at 31 December	**6.7**	7.0	6.6

The amounts recognised in the balance sheet are determined as follows:	2005 £m	2004 £m
Equities	**35.4**	30.7
Bonds	**12.6**	11.9
Other	**0.1**	0.1
Total market value of assets	**48.1**	42.7
Present value of liabilities	**(58.3)**	(57.4)
Deficit	**(10.2)**	(14.7)
Related deferred tax asset	**3.1**	4.4
Net pension liability	**(7.1)**	(10.3)

The costs of the scheme for the year ended 31 December were as follows:	2005 £m	2004 £m
Analysis of the charge to operating profit:		
– Current service costs	**0.3**	0.3
Total operating charge	**0.3**	0.3
Analysis of the finance (credit)/charge:		
– Expected return on assets	**(2.9)**	(2.9)
– Interest on liabilities	**2.8**	3.0
Total finance (credit)/charge	**(0.1)**	0.1
Total charge before tax	**0.2**	0.4

Analysis of movement in deficit in the scheme for the year ended 31 December:	2005 £m	2004 £m
Gross deficit in the scheme at 1 January	**(14.7)**	(15.0)
Contributions paid	**0.3**	0.4
Current service cost	**(0.3)**	(0.3)
Total finance credit/(charge)	**0.1**	(0.1)
Actuarial gain	**4.4**	0.3
Gross deficit in the scheme at 31 December	**(10.2)**	(14.7)

11. PENSIONS (continued)

Analysis of amounts recognised in reserves:	**2005 £m**	2004 £m
Difference between expected and actual return on assets	**4.0**	0.7
Experience gains arising on the scheme liabilities	**5.8**	0.4
Effect of changing the financial assumptions	**(5.4)**	(0.8)
Actuarial gain recognised in reserves	**4.4**	0.3

Actuarial gain as a percentage of scheme assets and liabilities at 31 December:	**2005 %**	2004 %
Difference between expected and actual return on assets as a percentage of scheme assets	**8.3**	1.6
Experience gains arising on the scheme liabilities as a percentage of the present value of scheme liabilities	**9.9**	0.7
Total actuarial gain recognised in reserves as a percentage of the present value of scheme liabilities	**7.5**	0.5

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. The directors are required to prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the company will continue in business.

The directors confirm that suitable accounting policies have been used and applied consistently with the exception of the changes arising on the adoption of new accounting standards in the year as explained in the company accounting policies on page 81. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 December 2005 and that applicable accounting standards have been followed.

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

- The directors are responsible for the maintenance and integrity of the website

- Legislation in the UK concerning the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

We have audited the parent company financial statements of Arriva plc for the year ended 31 December 2005 which comprise the Company Balance Sheet and related notes. These parent company financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

We have reported separately on the group financial statements of Arriva plc for the year ended 31 December 2005.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the parent company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities. In addition, the directors are responsible for preparing the Annual Report and Directors' Remuneration Report.

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

We report to you our opinion as to whether the parent company financial statements give a true and fair view and whether the parent company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the parent company financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited parent company financial statements. The other information comprises only the Highlights of the year, the Chairman's Statement, the Group Development Across Europe, the Chief Executive's Review, the Financial Review, the Corporate Responsibility Review, the Directors' Report, the unaudited part of the Directors' Remuneration Report, the Corporate Governance Statement, the Five-Year Financial Summary and the Extracts from the Report on the Transition to IFRS. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent company financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the parent company financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the parent company financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the parent company financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- The parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2005
- The parent company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Newcastle upon Tyne
13 March 2006

FINANCIAL CALENDAR 2006/07

Annual General Meeting	
Meeting date	19 April 2006

Final ordinary dividend	
Record date	31 March 2006
Payment date	2 May 2006

Results for 6 months to 30 June 2006	
Announcement date	7 September 2006

Interim ordinary dividend	
Record date	15 September 2006
Payment date	2 October 2006

Results for the year ended 31 December 2006	
Announcement date	8 March 2007 – subject to confirmation

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