COMPANY REGISTRATION NUMBER 803241

ARRIVA TEESSIDE LIMITED

FINANCIAL STATEMENTS

31 DECEMBER 2005

ARRIVA TEESSIDE LIMITED

FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2005

Contents

ARRIVA TEESSIDE LIMITED

OFFICERS AND PROFESSIONAL ADVISERS

The Board of Directors	R A Bowler J Greaves S L Noble
Company Secretary	E A Thorpe
Registered Office	Admiral Way Doxford International Business Park Sunderland SR3 3XP
Independent Auditors	PricewaterhouseCoopers LLP Chartered Accountants & Registered Auditors 89 Sandyford Road Newcastle upon Tyne NE1 8HW

The directors have pleasure in presenting their report and the financial statements of the company for the year ended 31 December 2005.

Principal activities and business review

The principal activity of the company during the year was the operation of bus and coach services.

The directors consider the state of the company's affairs to be satisfactory and there have been no material changes since the balance sheet date.

Results and dividends

The trading results for the year, and the company's financial position at the end of the year, are shown in the attached financial statements.

The directors do not recommend the payment of a dividend (2004: £Nil).

Directors

The directors who served the company during the year were as follows:

R A Bowler	
J Greaves	
S L Noble	
D G Johnstone	(Resigned 29 April 2005)
D P Turner	(Resigned 29 April 2005)

None of the directors had any interest in the share capital of the company during the year.

The interests of R A Bowler in the ordinary share capital of Arriva plc are shown in the directors' report of the immediate parent company, Arriva Passenger Services Limited.

The interests of S L Noble and J Greaves in the ordinary share capital of Arriva plc are shown in the directors' report of Arriva Northumbria Limited, a fellow group company.

Policy on the payment of creditors

The company's policy regarding the payment of suppliers is to agree terms of payment at the start of business with each supplier to ensure that the supplier is made aware of the payment terms, and to pay in accordance with its contractual or legal obligations.

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial period which 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. 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 which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Independent auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office. The company has elected to dispense with the requirement to appoint auditors annually.

Signed by order of the board

E A Thorpe
Company Secretary

1 March 2006

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ARRIVA TEESSIDE LIMITED

YEAR ENDED 31 DECEMBER 2005

We have audited the financial statements of Arriva Teesside Limited for the year ended 31 December 2005 which comprise the profit and loss account, the balance sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the 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 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 financial statements give a true and fair view and are 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 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 the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

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 financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the 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 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 financial statements.

Opinion

In our opinion the 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 and of its profit for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PRICEWATERHOUSECOOPERS LLP
Chartered Accountants & Registered Auditors
Newcastle upon Tyne

20 October 2006

ARRIVA TEESSIDE LIMITED

PROFIT AND LOSS ACCOUNT

YEAR ENDED 31 DECEMBER 2005

	Note	2005 £000	2004 £000
Turnover	2	6,720	6,748
Cost of sales		(5,300)	(5,126)
Gross profit		1,420	1,622
Administrative expenses		(805)	(717)
Other operating income		58	32
Operating profit	3	673	937
Interest payable and similar charges	5	(73)	(74)
Profit on ordinary activities before taxation		600	863
Tax on profit on ordinary activities	6	(180)	(145)
Retained profit for the financial year	18	420	718

All of the activities of the company are classed as continuing.

The company has no recognised gains or losses other than the results for the year as set out above.

There is no difference between the profit on ordinary activities before taxation and the retained profit for the year stated above, and their historical cost equivalents.

The notes on pages 7 to 13 form part of these financial statements.

ARRIVA TEESSIDE LIMITED

BALANCE SHEET

31 DECEMBER 2005

	Note	2005 £000	2004 £000
Fixed assets			
Intangible assets	7	346	373
Tangible assets	8	2,769	3,287
		3,115	3,660
Current assets			
Stocks	9	13	11
Debtors	10	164	197
Cash at bank		34,812	167,834
		34,989	168,042
Creditors: Amounts falling due within one year	11	(30,934)	(164,703)
Net current assets		4,055	3,339
Total assets less current liabilities		7,170	6,999
Creditors: Amounts falling due after more than one year	12	(302)	(500)
		6,868	6,499
Provisions for liabilities			
Deferred taxation	15	(361)	(412)
Net assets		6,507	6,087
Capital and reserves			
Called-up equity share capital	17	5	5
Profit and loss account	18	6,502	6,082
Equity shareholders' funds	19	6,507	6,087

These financial statements were approved by the directors on the 1 March 2006 and are signed on their behalf by:

R A Bowler
Director

The notes on pages 7 to 13 form part of these financial statements.

1. Accounting policies

Basis of accounting

The financial statements have been prepared under the historical cost convention, using the accounting policies set out below and in accordance with applicable accounting standards.

Cash flow statement

The company is a wholly owned subsidiary and the ultimate parent company has prepared a group cash flow statement. Accordingly, under Financial Reporting Standards No. 1 (Revised), the company is exempt from preparing a cash flow statement.

Turnover

Turnover consists of the gross revenue for road passenger transport together with the aggregate amounts receivable for other goods and services supplied in the ordinary course of the business, excluding Value Added Tax.

Intangible fixed assets

Intangible fixed assets, which relate to licences for the use of the Arriva brand name, are being amortised through the profit and loss account over the licence period of 15 years.

Depreciation

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Freehold Property	-	2% per annum on cost or valuation
Plant & machinery, fixtures and motor vehicles	-	10% to 48% per annum on cost
Public service vehicles	-	Over period up to 15 years

Stocks

Stocks are valued at the lower of cost and net realisable value.

Leasing and hire purchase commitments

Where assets are financed by leasing agreements ('finance leases') the assets are included in the balance sheet at cost less depreciation in accordance with the company's normal accounting policies. The present value of future rentals is shown as a liability. The interest element of rental obligations is charged to the profit and loss account over the period of the lease in proportion to the balance of capital repayments outstanding.

Rentals payable under operating leases are charged in the profit and loss account on a straight line basis over the lease term.

Pension costs

Arriva plc operates retirement benefit schemes, both defined benefit and defined contribution schemes, which cover employees of the company. Contributions made to the defined benefit scheme are based on the cost of providing pensions across all participating group companies. Costs are not determined for each individual company. Contributions payable by the company are charged to the profit and loss account in the period in which they fall due. Contributions payable under the defined contribution scheme are charged to the profit and loss account as they arise.

1. Accounting policies *(continued)*

Deferred taxation

The accounting policy is to provide for deferred tax on all timing differences except those arising from the revaluation of fixed assets for which there is no binding agreement to sell or on undistributed profits of overseas subsidiaries. Deferred tax is calculated at the rates at which it is estimated the tax will arise. The deferred tax provision is not discounted to net present value.

Financial instruments

Financial instruments are classified and accounted for, according to the substance of the contractual arrangement, as either financial assets, financial liabilities, or equity instruments. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

2. Turnover

The turnover was derived from the company's principal activity which was carried out wholly in the United Kingdom.

3. Operating profit

Operating profit is stated after charging/(crediting):

	2005	2004
	£000	£000
Amortisation of intangible fixed assets	27	27
Depreciation of owned fixed assets	309	233
Depreciation of assets held under hire purchase agreements	247	335
(Profit)/loss on disposal of fixed assets	(1)	15
Auditor's remuneration		
- as auditor	3	3
- for other services	1	–
Operating lease costs:		
Land and buildings	25	27
Plant and equipment	11	11

4. Particulars of employees

The average number of staff employed by the company during the financial year amounted to:

	2005	2004
	No	No
Drivers	161	158
Engineering	22	20
Administrative	18	19
	201	197

The aggregate payroll costs of the above were:

	2005	2004
	£000	£000
Wages and salaries	3,330	3,066
Social security costs	293	261
Other pension costs	56	66
	3,679	3,393

None of the directors received any remuneration from the company during the year (2004: £nil).

5. Interest payable and similar charges

	2005 £000	2004 £000
Bank interest payable	43	–
Hire purchase and finance lease charges	30	74
	73	74

6. Tax on profit on ordinary activities

(a) Analysis of charge in the year

	2005 £000	2004 £000
Current tax:		
In respect of the year:		
UK Corporation tax	231	312
Total current tax	231	312
Deferred tax:		
Current year	(43)	(31)
Prior year	(8)	(136)
Total deferred tax (note 15)	(51)	(167)
Tax on profit on ordinary activities	180	145

(b) Factors affecting current tax charge

The tax assessed on the profit on ordinary activities for the year is higher than the standard rate of corporation tax in the UK of 30% (2004 - 30%). The differences are explained below:

	2005 £000	2004 £000
Profit on ordinary activities before taxation	600	863
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30%	180	259
Depreciation in respect of ineligible assets	5	2
Adjustment to tax charge in respect of prior periods	3	20
Difference between capital allowances and depreciation	43	31
Total current tax (note 6(a))	231	312

(c) Factors that may affect future tax charges

There are no factors which are expected to materially affect future tax charges.

7. Intangible assets

	Total £000
Cost	
At 1 January 2005 and 31 December 2005	**400**
Amortisation	
At 1 January 2005	27
Charge for the year	27
At 31 December 2005	**54**
Net book value	
At 31 December 2005	**346**
At 31 December 2004	373

8. Tangible assets

	Freehold property £000	Plant & machinery, fixtures and motor vehicles £000	Public service vehicles £000	Total £000
Cost				
At 1 January 2005	151	538	6,673	7,362
Additions	7	22	164	193
Disposals	–	(2)	(110)	(112)
Transfers	–	(48)	261	213
At 31 December 2005	**158**	**510**	**6,988**	**7,656**
Depreciation				
At 1 January 2005	35	437	3,603	4,075
Charge for the year	16	32	508	556
On disposals	–	(2)	(110)	(112)
Transfers	–	(48)	416	368
At 31 December 2005	**51**	**419**	**4,417**	**4,887**
Net book value				
At 31 December 2005	**107**	**91**	**2,571**	**2,769**
At 31 December 2004	116	101	3,070	3,287

Hire purchase agreements

Included within the net book value of £2,769,000 is £769,000 (2004 - £2,227,000) relating to assets held under hire purchase agreements. The depreciation charged to the financial statements in the year in respect of such assets amounted to £247,000 (2004 - £335,000).

9. Stocks

	2005	2004
	£000	£000
Raw materials	13	11

10. Debtors

	2005	2004
	£000	£000
Trade debtors	2	45
Amounts owed by group undertakings	23	–
Other debtors	15	15
Prepayments and accrued income	124	137
	164	197

11. Creditors: Amounts falling due within one year

	2005	2004
	£000	£000
Payments received on account	14	17
Amounts owed to group undertakings	29,388	163,043
Corporation tax	746	515
Other taxation and social security	110	114
Hire purchase agreements	97	410
Other creditors	185	200
Accruals and deferred income	394	404
	30,934	164,703

12. Creditors: Amounts falling due after more than one year

	2005	2004
	£000	£000
Hire purchase agreements	172	439
Accruals and deferred income	130	61
	302	500

13. Commitments under hire purchase agreements

Future commitments under hire purchase agreements are as follows:

	2005	2004
	£000	£000
Amounts payable within 1 year	97	410
Amounts payable between 1 and 5 years	172	439
	269	849

14. Pensions

At 31 December 2005 the ultimate parent company, Arriva plc, operated both defined benefit and defined contribution retirement benefit schemes providing benefits to certain employees within Arriva Teesside Limited. The schemes are financed through separate Trustee administered funds managed by independent professional fund managers on behalf of the Trustees.

Contributions to the defined benefit scheme, the Arriva Northumbria Pension Scheme, are based upon actuarial advice following the most recent actuarial valuation of the fund. The latest actuarial valuation was performed as at 5th April 2000, using the Projected Unit Method. The principal actuarial assumptions were that:

(i) the annual rate of return on investment would be 2.5 per cent higher than the annual increase in total pensionable remuneration of 3.75 per cent; and

(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 5th April 2003 was sufficient to cover 75 per cent of the benefits then accrued to members. The market value of the Scheme's assets at 5th April was £3.9 million.

The pensions cost for the year represents contributions payable by the company to both schemes and amount to £56,000 (2004: £66,000).

FRS 17 'Retirement Benefits'

The company makes contributions to a defined benefit scheme, the Arriva Northumbria Pension Scheme which is operated by the ultimate parent company, Arriva plc. Other companies within the Arriva Group make contributions to the Scheme, therefore it is not possible for the company to identify its share of the underlying assets and liabilities as at 31 December 2005.

15. Deferred taxation

The movement in the deferred taxation provision during the year was:

	2005 £000
Provision brought forward	412
Profit and loss account movement arising during the year	(51)
Provision carried forward	**361**

The provision for deferred taxation consists of the tax effect of timing differences in respect of:

	2005 £000	2004 £000
Excess of taxation allowances over depreciation on fixed assets	**372**	419
Other timing differences	**(11)**	(7)
	361	412

16. Commitments under operating leases

At 31 December 2005 the company had annual commitments under non-cancellable operating leases as set out below.

	Land & Buildings	
	2005	2004
	£000	£000
Operating leases which expire:		
Within 2 to 5 years	**16**	-
After more than 5 years	-	15
	16	15

17. Called-up equity share capital

Authorised share capital:

	2005	2004
	£	£
5,000 ordinary shares of £1 each	**5,000**	5,000

Allotted, called up and fully paid:

	2005		2004	
	No	**£**	No	£
Ordinary shares of £1 each	**5,000**	**5,000**	5,000	5,000

18. Reserves

	Profit and loss account
	£000
Balance brought forward	6,082
Retained profit for the financial year	420
Balance carried forward	**6,502**

19. Reconciliation of movements in equity shareholders' funds

	2005	2004
	£000	£000
Retained profit for the financial year	**420**	718
Opening equity shareholders' funds	**6,087**	5,369
Closing equity shareholders' funds	**6,507**	6,087

20. Ultimate parent company

The ultimate parent company and ultimate controlling party is Arriva plc, a company registered in England and Wales, and which has prepared group accounts incorporating the results of Arriva Teesside Limited. Copies of these accounts can be obtained from Admiral Way, Doxford International Business Park, Sunderland, SR3 3XP.

Transactions with other companies in the Arriva Group are not specifically disclosed as the company has taken advantage of the exemption available under FRS 8 'Related Party Disclosures' for wholly-owned subsidiaries.