COMPANY REGISTRATION NUMBER 803241

ARRIVA TEESSIDE LIMITED

FINANCIAL STATEMENTS

31 DECEMBER 2006

ARRIVA TEESSIDE LIMITED

FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2006

Contents	Pages

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 present their report and the audited financial statements of the company for the year ended 31 December 2006

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 (2005, £Nil)

Principal risks and uncertainties

The management of the business and the execution of the company's strategy are subject to a number of risks The key business risks and uncertainties affecting the company are considered to relate to local and national competition and factors which would cause a decline in the market Further discussion of these risks and uncertainties in the context of the group as a whole, is provided in the annual report of the ultimate parent company, Arriva plc, which does not form part of this report

Key performance indicators

The directors of Arriva plc manage the group's operations on a divisional basis For this reason, the company's directors believe that analysis using key performance indicators for the company is not necessary or appropriate for an understanding of the development, performance or position of the business of Arriva Teesside Limited The development, performance and position of the group, including this company, is discussed in the group's annual report which does not form part of this report

Directors

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

R A Bowler
J Greaves
S L Noble

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

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 2006 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

Disclosure of information to Auditors

Each of the persons who is a director at the date of approval of this report confirms that

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware, and
- the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985

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 Thorpe

E A Thorpe
Company Secretary

7 March 2007

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ARRIVA TEESSIDE LIMITED

YEAR ENDED 31 DECEMBER 2006

We have audited the financial statements of Arriva Teesside Limited for the year ended 31 December 2006 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

The directors' responsibilities for preparing the 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

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 whether in our opinion the information given in the Directors' Report is consistent with the financial statements

In addition we report to you if, in our opinion, 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 2006 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

PricewaterhouseCoopers LLP

PRICEWATERHOUSECOOPERS LLP
Chartered Accountants & Registered Auditors
Newcastle upon Tyne

22 October 2007

ARRIVA TEESSIDE LIMITED

PROFIT AND LOSS ACCOUNT

YEAR ENDED 31 DECEMBER 2006

	Note	2006 £000	2005 £000
Turnover	2	6,924	6,720
Cost of sales		(5,923)	(5,300)
Gross profit		1,001	1,420
Administrative expenses		(831)	(805)
Other operating income		49	58
Operating profit	3	219	673
Interest payable and similar charges	5	(67)	(73)
Profit on ordinary activities before taxation		152	600
Tax on profit on ordinary activities	6	137	(180)
Profit for the financial year	18	289	420

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 profit for the financial year stated above, and their historical cost equivalents

The notes on pages 7 to 14 form part of these financial statements

ARRIVA TEESSIDE LIMITED

BALANCE SHEET

31 DECEMBER 2006

	Note	2006 £000	2005 £000
Fixed assets			
Intangible assets	7	319	346
Tangible assets	8	968	2,769
		1,287	3,115
Current assets			
Stocks	9	43	13
Debtors	10	1,337	164
Cash at bank		63,235	34,812
		64,615	34,989
Creditors Amounts falling due within one year	12	(58,761)	(30,934)
Net current assets		5,854	4,055
Total assets less current liabilities		7,141	7,170
Creditors. Amounts falling due after more than one year	13	(224)	(302)
		6,917	6,868
Provisions for liabilities			
Deferred taxation	11	(121)	(361)
Net assets		6,796	6,507
Capital and reserves			
Called-up equity share capital	17	5	5
Profit and loss account	18	6,791	6,502
Equity shareholders' funds	19	6,796	6,507

These financial statements were approved by the directors on the 7 March 2007 and are signed on their behalf by

R A Bowler
Director

The notes on pages 7 to 14 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

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less accumulated 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

Where assets are leased out under a finance lease arrangement any amounts due from the lessee are recorded in the balance sheet as a debtor at the amount of the net investment in the lease Finance lease income under the finance lease is allocated to accounting periods so as to give a constant periodic rate of return on the net cash investment in the lease 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 company provides 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 Deferred tax is calculated at the rates at which it is estimated the tax will rise Deferred tax is not discounted to net present value

Deferred tax is determined using the tax rates (and laws) that have been enacted or substantially enacted at the balance sheet date and which are expected to apply when the related deferred tax asset or 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 timing differences can be utilised

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)

	2006	2005
	£000	£000
Amortisation of intangible fixed assets	**27**	27
Depreciation of owned fixed assets	**333**	309
Depreciation of assets held under hire purchase agreements	**141**	247
Loss/(profit) on disposal of fixed assets	**70**	(1)
Auditors' remuneration		
- as auditor	**3**	3
- for other services	**1**	1
Operating lease costs		
Public service vehicles	**25**	-
Plant and equipment	**4**	11
Land and buildings	**26**	25

4. Particulars of employees

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

	2006	2005
	No	No
Drivers	159	161
Engineering	22	22
Administrative	15	18
	196	201

The aggregate payroll costs of the above were

	2006	2005
	£000	£000
Wages and salaries	3,499	3,330
Social security costs	306	293
Other pension costs (note 15)	54	56
	3,859	3,679

None of the directors received any remuneration from the company during the year (2005 £Nil)

5. Interest payable and similar charges

	2006	2005
	£000	£000
Bank interest payable	51	43
Hire purchase and finance lease charges	16	30
	67	73

6 Tax on profit on ordinary activities

(a) Analysis of (credit)/charge in the year

	2006	2005
	£000	£000
Current tax		
In respect of the year		
UK Corporation tax		
Current year	41	228
Adjustments to tax (credit)/charge in respect of prior years	62	3
Total current tax	103	231
Deferred tax		
Current year	(298)	(43)
Adjustments to tax (credit)/charge in respect of prior years	58	(8)
Total deferred tax (note 11)	(240)	(51)
Tax on profit on ordinary activities	(137)	180

6 Tax on profit on ordinary activities ***(continued)***

(b) Factors affecting current tax charge

The tax assessed on the profit on ordinary activities for the year is higher (2005 higher) than the standard rate of corporation tax in the UK of 30% (2005 - 30%) The differences are explained below

	2006	2005
	£000	£000
Profit on ordinary activities before taxation	**152**	600
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30%	**46**	180
Depreciation in respect of ineligible assets	**7**	5
Adjustment to tax charge in respect of prior years	**62**	3
Non-allowable amortisation of intangible fixed assets	**8**	-
Difference between capital allowances and depreciation	**(20)**	43
Total current tax (note 6(a))	**103**	231

(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 2006 and 31 December 2006	**400**
Amortisation	
At 1 January 2006	54
Charge for the year	27
At 31 December 2006	**81**
Net book value	
At 31 December 2006	**319**
At 31 December 2005	346

8 Tangible assets

	Freehold Property £000	Plant, Machinery, fixtures & motor vehicles £000	Public Service Vehicles £000	Total £000
Cost				
At 1 January 2006	158	510	6,988	7,656
Additions	55	–	46	101
Disposals	–	–	(413)	(413)
Transfers from/(to) group companies	–	239	(4,245)	(4,006)
At 31 December 2006	**213**	**749**	**2,376**	**3,338**
Depreciation				
At 1 January 2006	51	419	4,417	4,887
Charge for the year	24	35	415	474
On disposals	–	–	(343)	(343)
Transfers from/(to) group companies	–	115	(2,763)	(2,648)
At 31 December 2006	75	569	1,726	2,370
Net book value				
At 31 December 2006	**138**	**180**	**650**	**968**
At 31 December 2005	107	91	2,571	2,769

Hire purchase agreements

Included within the net book value of £968,000 is £490,000 (2005 - £769,000) 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 £141,000 (2005 - £247,000)

Capital commitments

	2006 £000	2005 £000
Contracted but not provided for in the financial statements	-	199

9. Stocks

	2006 £000	2005 £000
Raw materials	43	13

10 Debtors

	2006 £000	2005 £000
Trade debtors	665	2
Amounts owed by group undertakings	304	23
Other debtors	11	15
Amounts receivable under finance leases	11	-
Prepayments and accrued income	346	124
	1,337	164

11 Deferred taxation

The deferred tax included in the balance sheet is as follows

	2006 £000	2005 £000
Included in provisions	**121**	361

The movement in deferred tax during the year was

	2006 £000
Deferred tax provision brought forward	361
Profit and loss account movement arising during the year	(240)
Deferred tax provision carried forward	**121**

The deferred tax balance consists of the tax effect of timing differences in respect of

	2006 £000	2005 £000
Excess of taxation allowances over depreciation on fixed assets	**123**	372
Other timing differences	**(2)**	(11)
	121	361

12 Creditors Amounts falling due within one year

	2006 £000	2005 £000
Payments received on account	–	14
Trade creditors	**17**	–
Amounts owed to group undertakings	**57,075**	29,388
Corporation tax	**334**	746
Other taxation and social security	**120**	110
Hire purchase and finance lease agreements	**138**	97
Other creditors	**165**	185
Accruals and deferred income	**912**	394
	58,761	30,934

13 Creditors. Amounts falling due after more than one year

	2006 £000	2005 £000
Hire purchase and finance lease agreements	**106**	172
Accruals and deferred income	**118**	130
	224	302

14 Commitments under hire purchase and finance lease agreements

Future commitments under hire purchase and finance lease agreements are as follows

	2006 £000	2005 £000
Amounts payable within 1 year	**138**	97
Amounts payable between 1 and 5 years	**106**	172
	244	269

15 Pensions

At 31 December 2006 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 Passenger Services Pension Plan, are based upon actuarial advice following the most recent actuarial valuation of the fund The latest actuarial valuation was performed as at 5th April 2003, 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 the 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 69 per cent of the benefits then accrued to members The market value of the Scheme's assets at 5th April was £46 3 million

The pensions cost for the year represents contributions payable by the company to both schemes and amounted to £54,000 (2005 £56,000)

FRS 17 'Retirement Benefits'

The company makes contributions to a defined benefit scheme, the Arriva Passenger Services Pension Plan 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 2006

16 Commitments under operating leases

At 31 December 2006 the company had annual commitments under non-cancellable operating leases as set out below

	2006 £000	2005 £000
Land and buildings operating leases which expire		
Within 1 year	11	-
Within 2 to 5 years	58	16
After more than 5 years	43	-
	112	16
Other operating leases which expire		
Within 1 year	132	-
After more than 5 years	128	-
	260	-

17 Called-up equity share capital

Authorised share capital.

	2006	2005
	£	£
5,000 Ordinary shares of £1 each	5,000	5,000

Allotted, called up and fully paid

	2006		2005	
	No	£	No	£
Ordinary shares of £1 each	5,000	5,000	5,000	5,000

18 Profit and loss account

	2006
	£000
Balance brought forward	6,502
Profit for the financial year	289
Balance carried forward	6,791

19. Reconciliation of movements in equity shareholders' funds

	2006	2005
	£000	£000
Profit for the financial year	289	420
Opening equity shareholders' funds	6,507	6,087
Closing equity shareholders' funds	6,796	6,507

20 Ultimate parent company

The ultimate parent company and ultimate controlling party is Arriva plc, a company registered in England and Wales, and which is the smallest and largest group of undertakings that 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