

ARRIVA LONDON SOUTH LIMITED
ANNUAL REPORT
FOR THE YEAR ENDED 31ST DECEMBER 2001



ARRIVA LONDON SOUTH LIMITED

COMPANY INFORMATION

Directors

S P Lonsdale
J A Ray
S J Clayton
R J Davies
M D J Yexley
J D Pycroft
A J Sewell
R A Bowler
I R Tarran

Secretary

D P Turner

Company number

2328467

Registered office

Admiral Way
Doxford International Business Park
Sunderland
SR3 3XP

Auditors

PricewaterhouseCoopers
89 Sandyford Road
Newcastle upon Tyne
NE99 1PL

ARRIVA LONDON SOUTH LIMITED

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ARRIVA LONDON SOUTH LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31ST DECEMBER 2001

The Directors present their report and the audited accounts for the Company for the year ended 31st December 2001.

Principal activities and review of business

The Company's principal activity continues to be the operation of bus and coach services.

Results and dividends

The results for the year are set out in the profit and loss account on page 5. The Directors recommend the payment of a dividend amounting to £2,000,000 (2000: £2,000,000).

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.

Directors

The Directors who held office during the year were:

S P Lonsdale

J A Ray

S J Clayton

R J Davies

E A T Milburn (resigned 31 August 2001)

M D J Yexley

D Pycroft (resigned 31 January 2002)

A J Sewell

R A Bowler

R Tarran (appointed 9 August 2001)

Directors' interests

None of the Directors had any interest in the share capital of the Company during the year.

S P Lonsdale, J A Ray, S J Clayton and R J Davies are also Directors of the ultimate parent company, ARRIVA plc, and their interests in the share capital of that company are disclosed in its Directors' Report. The interests of R A Bowler in the ordinary share capital of ARRIVA plc are shown in the Directors' Report of intermediate parent company ARRIVA Passenger Services Limited.

ARRIVA LONDON SOUTH LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31ST DECEMBER 2001

Directors' interests (continued)

M D J Yexley held 317 ordinary shares in ARRIVA plc throughout the financial year.

Details of the ordinary share options in ARRIVA plc held by I R Tarran, M D J Yexley, J D Pycroft, and A J Sewell are shown in the table below:

	1st January 2001 or date appointed	Exercised	Granted	Lapsed	31st December 2001	Ordinary share options Exercise price (p)	Period of exercise
I R Tarran	5,000				5,000+	418.50	4th Mar 2001 to 4th Mar 2005
	4,000				4,000+	386.50	27th Apr 2002 to 27th Apr 2006
	5,000				5,000+	175.00	19th Apr 2003 to 19th Apr 2007
	-		5,000		5,000+	272.55	9th Mar 2004 to 9th Mar 2008
M D J Yexley	15,558				15,558*	228.97	10th Apr 1998 to 10th Apr 2005
	10,000				10,000+	418.50	4th Mar 2001 to 4th Mar 2005
	2,567	(2,567)#			-	268.79	1st Jul 2001 to 31st Dec 2003
	2,289				2,289#	393.07	1st Jul 2003 to 31st Dec 2003
	15,000				15,000+	386.50	27th Apr 2002 to 27th Apr 2006
J D Pycroft	15,558				15,558*	228.97	10th Apr 1998 to 10th Apr 2005
	10,000				10,000+	418.50	4th Mar 2001 to 4th Mar 2005
	8,000				8,000+	386.50	27th Apr 2002 to 27th Apr 2006
	5,000				5,000+	175.00	19th Apr 2003 to 19th Apr 2007
	-		5,000		5,000+	272.55	9th Mar 2004 to 9th Mar 2008
A J Sewell	5,000				5,000+	175.00	19th Apr 2003 to 19th Apr 2007
	-		5,000		5,000+	272.55	9th Mar 2004 to 9th Mar 2008

Executive share option scheme
Share incentive scheme
Savings related share option scheme

Details of the performance criteria relating to the share option schemes are shown in the Annual Report of ARRIVA plc.

ARRIVA LONDON SOUTH LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31ST DECEMBER 2001

Directors' interests (continued)

On 2nd May 2000, M D J Yexley was granted a conditional award over 24,633 ordinary shares of ARRIVA plc under the ARRIVA plc Long Term Incentive Plan 2000. On 9th March 2001, M D J Yexley was granted a further conditional award over 17,102 ordinary shares of ARRIVA plc under the ARRIVA plc Long Term Incentive Plan 2000. Details of the performance criteria for the vesting of the shares are shown in the Annual Report of ARRIVA plc.

Employees

The Company continues to give full and fair consideration to applications for employment by disabled persons, having regard to their respective aptitudes and abilities. The Company's policy includes, where applicable, the continued employment of those who may become disabled during their employment. The Company has continued its policy of employee involvement, by making information available to employees and encouraging their participation in schemes which are related to the Company's progress and profitability.

Policy regarding payment of suppliers

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 accounts 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 for that period.

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 accounts for the year ended 31st December 2001 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 which enable them to ensure that the accounts 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.

Auditors

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

By order of the Board



P Turner, Secretary
9th March 2002

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ARRIVA LONDON SOUTH LIMITED

We have audited the accounts which comprise the profit and loss account, the balance sheet and related notes which have been prepared under the historical cost convention and the accounting policies set out in the statement of accounting policies.

Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards 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 United Kingdom Auditing Standards issued by the Auditing Practices Board.

We report to you our opinion as to whether the accounts 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 accounts, 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 transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts. The other information comprises only the Directors' Report.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts, 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 accounts 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 the information in the accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of the Company's affairs at 31st December 2001 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



ricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Newcastle upon Tyne
14th October 2002

ARRIVA LONDON SOUTH LIMITED**PROFIT AND LOSS ACCOUNT****FOR THE YEAR ENDED 31ST DECEMBER 2001**

	Notes	2001 £'000	2000 £'000
Turnover	2	54,531	50,775
Cost of sales		(45,641)	(42,353)
Gross profit		8,890	8,422
Administrative expenses		(5,209)	(4,664)
Other operating income		21	27
Operating profit	3	3,702	3,785
Interest receivable and similar income	4	303	13
Interest payable and similar charges	5	(1,337)	(873)
Profit on ordinary activities before taxation		2,668	2,925
Tax on profit on ordinary activities	7	115	(371)
Profit for the financial year		2,783	2,554
Dividends	8	(2,000)	(2,000)
Retained profit for the year	17	783	554

All amounts relate to continuing activities.

The Company has no recognised gains and losses other than those included in the profit and loss account, and therefore no separate statement of total recognised gains and losses has been presented.

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.

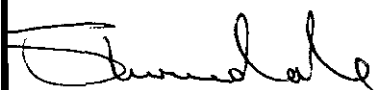
ARRIVA LONDON SOUTH LIMITED

BALANCE SHEET

AS AT 31ST DECEMBER 2001

	Notes	2001 £'000	2001 £'000	2000 £'000	2000 £'000
Fixed assets					
Tangible assets	9		23,382		17,830
Current assets					
Stocks	10	238		295	
Debtors	11	12,106		12,108	
Cash at bank and in hand		124		12,691	
		<u>12,468</u>		<u>25,094</u>	
Creditors: amounts falling due within one year	12	<u>(12,832)</u>		<u>(21,192)</u>	
Net current (liabilities)/assets			(364)		3,902
Total assets less current liabilities			<u>23,018</u>		<u>21,732</u>
Creditors: amounts falling due after more than one year	13		(10,574)		(10,069)
Provisions for liabilities and charges					
Deferred taxation	15		(4)		(6)
			<u>12,440</u>		<u>11,657</u>
Capital and reserves					
Called up equity share capital	16		3,992		3,992
Share premium account	17		3,991		3,991
Profit and loss account	17		4,457		3,674
Equity shareholders' funds	18		<u>12,440</u>		<u>11,657</u>

The accounts on pages 5 to 14 were approved by the Board on 6th March 2002 and signed on its behalf by:



P Lonsdale
Director

ARRIVA LONDON SOUTH LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31ST DECEMBER 2001

1 Accounting policies

Basis of accounting

The accounts 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 FRS 1, 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 business, excluding VAT.

Depreciation

Depreciation is calculated to write off cost or valuation of tangible fixed assets on the following bases:

Plant and machinery	10% to 20% per annum on cost
Fixtures, fittings and equipment	10% to 20% per annum on cost
Other motor vehicles	24% to 48% per annum on cost
Public service vehicles	Over periods up to 15 years

Stocks

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

Deferred taxation

Provision is made on a liability basis for tax deferred by timing differences to the extent that there is a reasonable probability that the tax deferral will crystallise in the foreseeable future.

Pensions

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.

Hire purchase and leased assets

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.

ARRIVA LONDON SOUTH LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31ST DECEMBER 2001

2 Turnover

The turnover was derived from the Company's principal activity which was carried out wholly in the UK.

3 Operating profit

The operating profit is stated after charging/(crediting):

	2001 £'000	2000 £'000
Depreciation of tangible fixed assets:		
-owned assets	461	518
-assets held under finance leases and hire purchase	1,339	1,114
Profit on disposal of fixed assets	(21)	(27)
Operating leases:		
-plant and equipment	6	4
-land and buildings	101	98
Auditors' remuneration	-	-

Interest receivable and similar income

	2001 £'000	2000 £'000
Bank interest receivable	299	13
Other interest receivable	4	-
	303	13

Interest payable and similar charges

	2001 £'000	2000 £'000
Interest payable on bank loans and overdrafts	562	213
Finance leases and hire purchase contracts	775	660
	1,337	873

ARRIVA LONDON SOUTH LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31ST DECEMBER 2001

6 Directors and employees

Staff costs were as follows:

	2001 £'000	2000 £'000
Wages and salaries	33,804	29,690
Social security costs	2,883	2,492
Pension costs	1,151	1,071
	<u>37,838</u>	<u>33,253</u>

The average number of employees during the year was as follows:

	2001 Number	2000 Number
Bus operations	<u>1,551</u>	<u>1,543</u>

Directors' emoluments

	2001 £'000	2000 £'000
Aggregate emoluments	<u>-</u>	<u>-</u>

Taxation

	2001 £'000	2000 £'000
Based on the profit for the year:		
UK corporation tax (credit)/charge at 30% (2000: 30%)	(81)	208
Deferred tax credit	(2)	(5)
	<u>(83)</u>	<u>203</u>
Prior periods:		
UK corporation tax (credit)/charge	(32)	168
	<u>(115)</u>	<u>371</u>

The effective rate of taxation is less than the standard rate of 30% principally as a result of the excess of capital allowances over depreciation in the bus fleet.

	2001 £'000	2000 £'000
Equity dividends		
Ordinary dividends payable of 50.1p per share (2000: 50.1p per share)	<u>2,000</u>	<u>2,000</u>

ARRIVA LONDON SOUTH LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31ST DECEMBER 2001

9 Tangible fixed assets

	Plant, machinery, fixtures and motor vehicles	Public service vehicles	Total
Cost	£'000	£'000	£'000
At 1st January 2001	1,141	35,666	36,807
Additions	124	7,969	8,093
Disposals	(69)	(2,099)	(2,168)
Intra-group transfers	-	(1,221)	(1,221)
At 31st December 2001	1,196	40,315	41,511
Depreciation			
At 1st January 2001	1,024	17,953	18,977
Charge for the year	64	1,736	1,800
Disposals	(69)	(2,099)	(2,168)
Intra-group transfers	-	(480)	(480)
At 31st December 2001	1,019	17,110	18,129
Net book value			
At 31st December 2001	177	23,205	23,382
At 31st December 2000	117	17,713	17,830

Assets held under finance leases and hire purchase have a net book value of £17,963,000 (2000: £15,682,000).

Depreciation charged for the year was £1,339,000 (2000: £1,114,000).

0 Stocks

	2001	2000
	£'000	£'000
Raw materials and consumables	238	295

1 Debtors

	2001	2000
	£'000	£'000
Amounts owed by group undertakings	11,949	11,961
Prepayments and accrued income	157	147
	12,106	12,108

ARRIVA LONDON SOUTH LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31ST DECEMBER 2001

12	Creditors: amounts falling due within one year	2001 £'000	2000 £'000
	Bank overdraft	923	-
	Amounts owed to group undertakings	2,091	12,711
	Other creditors	220	225
	Accruals and deferred income	5,452	3,740
	Corporation tax	30	143
	Obligations under hire purchase and finance lease (Note 14)	4,116	4,373
		<u>12,832</u>	<u>21,192</u>

The Company is party to an unlimited multi-lateral guarantee involving the bank borrowings of ARRIVA plc and other group undertakings.

13	Creditors: amounts falling due after more than one year	2001 £'000	2000 £'000
	Obligations under hire purchase and finance lease (Note 14)	<u>10,574</u>	<u>10,069</u>

14	Obligations under hire purchase and finance leases	2001 £'000	2000 £'000
	Obligations under hire purchase contracts and finance leases are analysed between amounts payable:		
	In the next year	4,116	4,373
	In the second to fifth years inclusive	<u>10,574</u>	<u>10,069</u>
		<u>14,690</u>	<u>14,442</u>

ARRIVA LONDON SOUTH LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31ST DECEMBER 2001

15 Deferred taxation

The movements in deferred taxation during the current and previous years are as follows:

	2001 £'000	2000 £'000
At 1st January	6	11
Movement in the year	(2)	(5)
At 31st December	4	6

Deferred taxation provided and unprovided for in the accounts is set out below:

	Amount provided		Amount unprovided	
	2001 £'000	2000 £'000	2001 £'000	2000 £'000
Accelerated capital allowances	-	-	2,762	2,015
Other timing differences	4	6	-	-
	4	6	2,762	2,015

16 Called up share capital

	2001 £'000	2000 £'000
Authorised		
Equity shares		
15,000,000 Ordinary shares of £1 each	15,000	15,000
Allotted and fully paid		
Equity shares		
3,992,000 Allotted, called up and fully paid ordinary shares of £1 each	3,992	3,992

7 Reserves

	Share premium account £'000	Profit and loss account £'000
At 1st January 2001	3,991	3,674
Profit for the year	-	783
At 31st December 2001	3,991	4,457

ARRIVA LONDON SOUTH LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31ST DECEMBER 2001

18	Reconciliation of movement in equity shareholders' funds	2001	2000
		£'000	£'000
	Profit for the financial year	2,783	2,554
	Dividends	(2,000)	(2,000)
	Increase in equity shareholders' funds	783	554
	Opening equity shareholders' funds	11,657	11,103
	Closing equity shareholders' funds	12,440	11,657

19 **Capital commitments**

The company had the following capital commitments:

	2001	2000
	£'000	£'000
Contracted for but not provided in the financial statements	513	4,426

20 **Pension scheme**

At 31 December 2001 the ultimate parent company, ARRIVA plc, operated both defined benefit and defined contribution retirement benefit schemes providing benefits to certain employees within ARRIVA London South 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 fund, the ARRIVA London North and ARRIVA London South 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;
- (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 2000 was sufficient to cover 130 per cent of the benefits then accrued to members. The market value of the scheme's assets at 5th April 2000 was £31.4 million.

The pensions cost charge for the year includes contributions payable by the Company to both schemes and amount to £1,082,000 (2000: £1,033,000).

FRS 17 'Retirement Benefits'

The Company makes contributions to a defined benefit fund, The ARRIVA London North & ARRIVA London South 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 31st December 2001.

ARRIVA LONDON SOUTH LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31ST DECEMBER 2001

21 Ultimate parent company

The ultimate parent company and ultimate controlling party is ARRIVA plc, a company which is registered in England and Wales, and which has prepared group accounts incorporating the results of ARRIVA London South 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.