

ARRIVA LONDON SOUTH LIMITED
FINANCIAL STATEMENTS
31 DECEMBER 2002

Company Registration Number 2328467



ARRIVA LONDON SOUTH LIMITED

FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2002

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ARRIVA LONDON SOUTH LIMITED

OFFICERS AND PROFESSIONAL ADVISERS

The Board of Directors

P J Batty
R A Bowler
M D J Yexley
J E Quantrell
A J Sewell
I R Tarran

Company Secretary

D P Turner

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
NE99 1PL

ARRIVA LONDON SOUTH LIMITED

THE DIRECTORS' REPORT

YEAR ENDED 31 DECEMBER 2002

The Directors have pleasure in presenting their report and the financial statements of the company for the year ended 31 December 2002.

Principal activities and business review

The principal activity of the company during the year continued to be 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.

Directors

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

R A Bowler	
M D J Yexley	
A J Sewell	
I R Tarran	
P J Batty	(Appointed 7 April 2002)
J E Quantrell	(Appointed 29 April 2002)
R J Davies	(Resigned 26 March 2002)
J A Ray	(Resigned 1 May 2002)
J D Pycroft	(Resigned 31 January 2002)
S J Clayton	(Resigned 1 May 2002)
S P Lonsdale	(Resigned 1 May 2002)

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 intermediate parent company, Arriva Passenger Services Limited.

The interests of the other Directors in the ordinary share capital of Arriva plc are shown in the Directors' Report of Arriva London North Limited, a fellow subsidiary.

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 confirm that suitable accounting policies have been used and applied consistently, with the exception of the changes arising due to a change of accounting policy in relation to deferred taxation as explained under note 1 'accounting policies'. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 December 2002 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.

ARRIVA LONDON SOUTH LIMITED

THE DIRECTORS' REPORT *(continued)*

YEAR ENDED 31 DECEMBER 2002

Disabled 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.

Employee involvement

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.

Auditors

Following the conversion of the Company's auditor PricewaterhouseCoopers to a Limited Liability Partnership (LLP) from 1 January 2003, PricewaterhouseCoopers resigned on 23 January 2003 and the Directors appointed its successor, PricewaterhouseCoopers LLP, as auditors. An elective resolution has been passed to dispense with the obligation to appoint auditors annually.

Signed by order of the Directors



D P Turner
Company Secretary

5 March 2003

ARRIVA LONDON SOUTH LIMITED

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

YEAR ENDED 31 DECEMBER 2002

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

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. 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 in to 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 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 financial statements. 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 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 of the state of the Company's affairs as at 31 December 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Newcastle upon Tyne
23 September 2003

ARRIVA LONDON SOUTH LIMITED

PROFIT AND LOSS ACCOUNT

YEAR ENDED 31 DECEMBER 2002

	Note	2002 £000	2001 (restated) £000
Turnover	2	59,453	54,531
Cost of sales		(50,053)	(45,641)
Gross profit		9,400	8,890
Administrative expenses		(5,822)	(5,209)
Other operating income		68	21
Operating profit	3	3,646	3,702
Interest receivable		1	303
Interest payable	5	(1,034)	(1,337)
Profit on ordinary activities before taxation		2,613	2,668
Tax on profit on ordinary activities	6	(953)	(632)
Profit on ordinary activities after taxation		1,660	2,036
Dividends	7	(2,000)	(2,000)
(Loss)/retained profit for the financial year	18	(340)	36

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

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

The notes on pages 8 to 14 form part of these financial statements.

ARRIVA LONDON SOUTH LIMITED

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

YEAR ENDED 31 DECEMBER 2002

	2002	2001
	£000	(restated) £000
Profit for the financial year attributable to the shareholders	1,660	2,036
Total recognised gains and losses relating to the year	1,660	2,036
Prior year adjustment (see note 8)	(2,762)	
Total gains and losses recognised since the last annual report	(1,102)	

The notes on pages 8 to 14 form part of these financial statements.

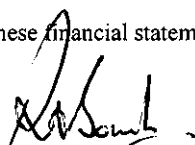
ARRIVA LONDON SOUTH LIMITED

BALANCE SHEET

31 DECEMBER 2002

	Note	2002 £000	2001 (restated) £000
Fixed assets			
Tangible assets	9	22,518	23,382
Current assets			
Stocks	10	265	238
Debtors	11	12,681	12,106
Cash at bank		65	124
		13,011	12,468
Creditors: Amounts falling due within one year	12	13,958	12,832
Net current liabilities		(947)	(364)
Total assets less current liabilities		21,571	23,018
Creditors: Amounts falling due after more than one year	13	8,869	10,574
		12,702	12,444
Provisions for liabilities and charges			
Deferred taxation	16	3,364	2,766
		9,338	9,678
Capital and reserves			
Called-up equity share capital	17	3,992	3,992
Share premium account	18	3,991	3,991
Profit and loss account	18	1,355	1,695
Equity shareholders' funds	19	9,338	9,678

These financial statements were approved by the Directors on the 5 March 2003 and are signed on their behalf by:



R A Bowler
Director

The notes on pages 8 to 14 form part of these financial statements.

ARRIVA LONDON SOUTH LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2002

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 cashflow 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 the business, excluding VAT.

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:

Plant, machinery, fixtures and motor vehicles - 10% 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, after making due allowance for obsolete and slow moving items.

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.

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.

Deferred taxation

FRS 19 'Deferred Tax' has now been adopted. Previously, provision was made on a liability basis for tax deferred by timing differences to the extent that there was a reasonable probability that the tax deferral would crystallise in the foreseeable future. The new 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 the undistributed profits of overseas subsidiaries. Deferred tax is calculated at the rates at which it is estimated the tax will arise. Deferred tax is not discounted to net present value.

ARRIVA LONDON SOUTH LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2002

2. Turnover

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

3. Operating profit

Operating profit is stated after charging/(crediting):

	2002	2001
	£000	£000
Depreciation of owned fixed assets	606	461
Depreciation of assets held under hire purchase and finance lease agreements	1,483	1,339
Profit on disposal of fixed assets	(68)	(21)
Operating lease costs:		
Land and buildings	106	101
Plant and equipment	6	6

4. Particulars of employees

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

	2002	2001
	No	No
Bus operations	1,656	1,551

The aggregate payroll costs of the above were:

	2002	2001
	£000	£000
Wages and salaries	38,508	33,804
Social security costs	3,252	2,883
Other pension costs (note 15)	1,190	1,151
	42,950	37,838

None of the Directors received any remuneration from the Company (2001: £nil).

5. Interest payable

	2002	2001
	£000	£000
Bank interest payable	250	562
Hire purchase and finance lease charges	784	775
	1,034	1,337

ARRIVA LONDON SOUTH LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2002

6. Tax on profit on ordinary activities

(a) Analysis of charge in the year

	2002	2001
	£000	(restated) £000
Current tax:		
In respect of the year:		
UK Corporation tax based on the results for the year at 30% (2001 - 30%)	355	(113)
Total current tax	355	(113)
Deferred tax:		
Increase in deferred tax provision	598	745
Tax on profit on ordinary activities	953	632

(b) Factors affecting current tax charge

The tax assessed on the profit on ordinary activities for the year is lower than the standard rate of corporation tax in the UK of 30% (2001 - 30%).

	2002	2001
	£000	(restated) £000
Profit on ordinary activities before taxation	2,613	2,668
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30%	784	800
Capital allowances in excess of depreciation - eligible assets	(510)	(881)
(Profit)/Loss on disposal of qualifying assets	37	-
Adjustment to tax charge in respect of prior periods	44	(32)
Total current tax (note 6(a))	355	(113)

(c) Factors that may affect future tax charges

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

7. Dividends

The following dividends have been proposed in respect of the year:

	2002	2001
	£000	£000
Proposed dividend on ordinary shares of 50.1p per share (2001: 50.1p per share)	2,000	2,000

8. Prior year adjustment

As disclosed in the accounting policies FRS 19 'Deferred Tax' has now been adopted. The impact of this change in accounting policy on the taxation credit for the year ended 31 December 2001 is a decrease of £747,000 to a tax charge of £632,000.

The impact of this change in accounting policy on the balance sheet as at 31 December 2001 is to increase the provision for deferred tax by £1,859,000 to £2,766,000.

ARRIVA LONDON SOUTH LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2002

9. Tangible fixed assets

	Plant, machinery, fixtures and motor vehicles £000	Public service vehicles £000	Total £000
Cost			
At 1 January 2002	1,196	40,315	41,511
Additions	159	1,441	1,600
Disposals	—	(1,063)	(1,063)
Transfers	—	(720)	(720)
At 31 December 2002	1,355	39,973	41,328
Depreciation			
At 1 January 2002	1,019	17,110	18,129
Charge for the year	93	1,996	2,089
On disposals	—	(1,051)	(1,051)
Transfer	—	(357)	(357)
At 31 December 2002	1,112	17,698	18,810
Net book value			
At 31 December 2002	243	22,275	22,518
At 31 December 2001	177	23,205	23,382

Hire Purchase and finance lease agreements

Included within the net book value of £22,518,000 is £19,099,000 (2001 - £17,963,000) relating to assets held under hire purchase and finance lease agreements. The depreciation charged to the financial statements in the year in respect of such assets amounted to £1,483,000 (2001 - £1,339,000).

10. Stocks

	2002 £000	2001 £000
Raw materials	265	238

11. Debtors

	2002 £000	2001 £000
Amounts owed by group undertakings	12,149	11,949
Prepayments and accrued income	532	157
	12,681	12,106

ARRIVA LONDON SOUTH LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2002

12. Creditors: Amounts falling due within one year

	2002	2001
	£000	£000
Bank loans and overdrafts	3,399	923
Amounts owed to group undertakings	2,000	2,091
Corporation tax	385	30
Hire Purchase and finance lease agreements	4,562	4,116
Other creditors	396	220
Accruals and deferred income	3,216	5,452
	<u>13,958</u>	<u>12,832</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

	2002	2001
	£000	£000
Hire Purchase and finance lease agreements	<u>8,869</u>	<u>10,574</u>

14. Commitments under hire purchase and finance lease agreements

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

	2002	2001
	£000	£000
Amounts payable within 1 year	4,562	4,116
Amounts payable between 2 to 5 years	8,869	10,574
	<u>13,431</u>	<u>14,690</u>

ARRIVA LONDON SOUTH LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2002

15. Pensions

At 31 December 2002 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 & 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 was £31.4 million.

The pensions cost charge for the year represents contributions payable by the Company to both schemes and amount to 1,190,000 (2001: £1,082,000).

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 31 December 2002.

16. Deferred taxation

	2002	2001
		(restated)
	£000	£000
The movement in the deferred taxation provision during the year was:		
Provision brought forward	2,766	2,021
Profit and loss account movement arising during the year	598	745
Provision carried forward	3,364	2,766

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

	2002	2001
		(restated)
	£000	£000
Excess of taxation allowances over depreciation on fixed assets	3,364	2,762
Other timing differences	—	4
	3,364	2,766

ARRIVA LONDON SOUTH LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2002

17. Share capital

Authorised share capital:

	2002	2001
	£000	£000
15,000,000 Ordinary shares of £1 each	15,000	15,000

Allotted, called up and fully paid:

	2002		2001	
	No	£000	No	£000
Ordinary shares of £1 each	3,992,000	3,992	3,992,000	3,992

18. Reserves

	Share premium account	Profit and loss account (restated)
	£000	£000
Balance brought forward	3,991	4,457
Prior year adjustment (note 8)	—	(2,762)
Restated balance brought forward	3,991	1,695
Loss for the year	—	(340)
Balance carried forward	3,991	1,355

19. Reconciliation of equity shareholders' funds

	2002	2001 (restated)
	£000	£000
Profit for the financial year	1,660	2,036
Dividends	(2,000)	(2,000)
	(340)	36
Opening equity shareholders' funds	12,440	9,642
Prior year adjustment (see note 8)	(2,762)	—
	9,678	9,642
Closing equity shareholders' funds	9,338	9,678

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 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.