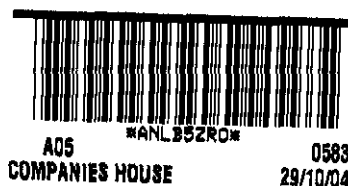


**COMPANY REGISTRATION NUMBER 2328467**

**ARRIVA LONDON SOUTH LIMITED**  
**FINANCIAL STATEMENTS**  
**31 DECEMBER 2003**



# **ARRIVA LONDON SOUTH LIMITED**

## **FINANCIAL STATEMENTS**

**YEAR ENDED 31 DECEMBER 2003**

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# **ARRIVA LONDON SOUTH LIMITED**

## **OFFICERS AND PROFESSIONAL ADVISERS**

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### **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 2003**

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The Directors present their report and the financial statements of the Company for the year ended 31 December 2003.

### **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.

The Directors recommend the payment of a dividend amounting to £Nil (2002: £2,000,000).

### **Directors**

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

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

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 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 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 2003 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 2003

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#### 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.

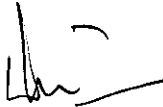
#### Employee involvement

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

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 Directors



D P Turner  
Company Secretary

3 March 2004

# ARRIVA LONDON SOUTH LIMITED

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

YEAR ENDED 31 DECEMBER 2003

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We have audited the financial statements which comprise the profit and loss account, the balance sheet and related notes.

### 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 2003 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  
19 October 2004

# ARRIVA LONDON SOUTH LIMITED

## PROFIT AND LOSS ACCOUNT

YEAR ENDED 31 DECEMBER 2003

	Note	2003 £000	2002 £000
Turnover	2	70,234	59,453
Cost of sales		(59,597)	(50,053)
Gross profit		10,637	9,400
Administrative expenses		(4,658)	(5,822)
Other operating income		4	68
Operating profit	3	5,983	3,646
Interest receivable		—	1
Interest payable	5	(979)	(1,034)
Profit on ordinary activities before taxation		5,004	2,613
Tax on profit on ordinary activities	6	(1,596)	(953)
Profit on ordinary activities after taxation		3,408	1,660
Dividends	7	—	(2,000)
Retained profit / (loss) for the financial year	17	3,408	(340)

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 / (loss) for the year stated above, and their historical cost equivalents.

The notes on pages 7 to 12 form part of these financial statements.

# ARRIVA LONDON SOUTH LIMITED

## BALANCE SHEET

31 DECEMBER 2003

	Note	2003 £000	2002 £000
<b>Fixed assets</b>			
Tangible assets	8	<u>41,700</u>	<u>22,518</u>
<b>Current assets</b>			
Stocks	9	220	265
Debtors	10	19,818	12,681
Cash at bank		<u>113</u>	<u>65</u>
		20,151	13,011
<b>Creditors: Amounts falling due within one year</b>	11	<u>33,284</u>	<u>13,958</u>
<b>Net current liabilities</b>		(13,133)	(947)
<b>Total assets less current liabilities</b>		<u>28,567</u>	<u>21,571</u>
<b>Creditors: Amounts falling due after more than one year</b>	12	<u>10,891</u>	<u>8,869</u>
		17,676	12,702
<b>Provisions for liabilities and charges</b>			
Deferred taxation	15	<u>4,930</u>	<u>3,364</u>
		<u>12,746</u>	<u>9,338</u>
<b>Capital and reserves</b>			
Called-up equity share capital	16	3,992	3,992
Share premium account	17	3,991	3,991
Profit and loss account	17	<u>4,763</u>	<u>1,355</u>
<b>Equity shareholders' funds</b>	18	<u>12,746</u>	<u>9,338</u>

These financial statements were approved by the Directors on 3 March 2004 and are signed on their behalf by:



R A Bowler  
Director

The notes on pages 7 to 12 form part of these financial statements.



# ARRIVA LONDON SOUTH LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2003

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### 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 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.

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.

#### Deferred taxation

The Group accounting policy is to provide for deferred taxation 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 from 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.

### 2. Turnover

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

**ARRIVA LONDON SOUTH LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**YEAR ENDED 31 DECEMBER 2003**

**3. Operating profit**

Operating profit is stated after charging/(crediting):

	2003 £000	2002 £000
Depreciation of owned fixed assets	1,087	606
Depreciation of assets held under hire purchase and finance lease agreements	1,839	1,483
Profit on disposal of fixed assets	(4)	(68)
Operating lease costs:		
Land and buildings	233	106
Plant and equipment	12	6
	<u>233</u>	<u>106</u>
	<u>12</u>	<u>6</u>

**4. Particulars of employees**

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

	2003 No	2002 No
Drivers	1,475	1,334
Engineering	202	198
Administration	157	124
	<u>1,834</u>	<u>1,656</u>

The aggregate payroll costs of the above were:

	2003 £000	2002 £000
Wages and salaries	46,111	38,508
Social security costs	4,293	3,252
Other pension costs	1,301	1,190
	<u>51,705</u>	<u>42,950</u>

None of the Directors received any remuneration from the Company during the year (2002: £nil).

**5. Interest payable**

	2003 £000	2002 £000
Bank interest payable	187	250
Hire purchase and finance lease charges	792	784
	<u>979</u>	<u>1,034</u>

**6. Tax on profit on ordinary activities**

**(a) Analysis of charge in the year**

	2003 £000	2002 £000
Current tax:		
In respect of the year:		
UK Corporation tax based on the results for the year at 30% (2002 - 30%)	30	355
Total current tax	<u>30</u>	<u>355</u>
Deferred tax:		
Increase in deferred tax provision	1,566	598
Tax on profit on ordinary activities	<u>1,596</u>	<u>953</u>

**ARRIVA LONDON SOUTH LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**YEAR ENDED 31 DECEMBER 2003**

**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 lower than the standard rate of corporation tax in the UK of 30% (2002 - 30%).

	<b>2003</b>	<b>2002</b>
	<b>£000</b>	<b>£000</b>
Profit on ordinary activities before taxation	<u><b>5,004</b></u>	<u><b>2,613</b></u>
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30%	<b>1,501</b>	784
Difference between capital allowances and depreciation	<b>(1,650)</b>	(510)
Loss on disposal of qualifying assets	<b>2</b>	37
Adjustment to tax charge in respect of prior periods	<b>174</b>	44
Expenses not deductible for tax purposes	<b>3</b>	—
Total current tax (note 6(a))	<u><b>30</b></u>	<u><b>355</b></u>

**(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:

	<b>2003</b>	<b>2002</b>
	<b>£000</b>	<b>£000</b>
Proposed dividend on ordinary shares of £nil per share (2002: 50.1p per share)	<u><b>—</b></u>	<u><b>2,000</b></u>

**8. Tangible fixed assets**

	<b>Plant, machinery, fixtures and motor vehicles</b>	<b>Public service vehicles</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Cost</b>			
At 1 January 2003	<b>1,355</b>	<b>39,973</b>	<b>41,328</b>
Additions	<b>130</b>	<b>23,065</b>	<b>23,195</b>
Disposals	<b>(3)</b>	<b>(5,362)</b>	<b>(5,365)</b>
Transfers	<b>—</b>	<b>28</b>	<b>28</b>
<b>At 31 December 2003</b>	<u><b>1,482</b></u>	<u><b>57,704</b></u>	<u><b>59,186</b></u>
<b>Depreciation</b>			
At 1 January 2003	<b>1,112</b>	<b>17,698</b>	<b>18,810</b>
Charge for the year	<b>98</b>	<b>2,828</b>	<b>2,926</b>
On disposals	<b>(2)</b>	<b>(4,250)</b>	<b>(4,252)</b>
Transfer	<b>—</b>	<b>2</b>	<b>2</b>
<b>At 31 December 2003</b>	<u><b>1,208</b></u>	<u><b>16,278</b></u>	<u><b>17,486</b></u>
<b>Net book value</b>			
<b>At 31 December 2003</b>	<u><b>274</b></u>	<u><b>41,426</b></u>	<u><b>41,700</b></u>
<b>At 31 December 2002</b>	<u><b>243</b></u>	<u><b>22,275</b></u>	<u><b>22,518</b></u>

# ARRIVA LONDON SOUTH LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### YEAR ENDED 31 DECEMBER 2003

#### 8. Tangible fixed assets (continued)

##### Hire Purchase and finance lease agreements

Included within the net book value of £41,700,000 is £25,162,000 (2002 - £19,099,000) 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 £1,839,000 (2002 - £1,483,000).

#### 9. Stocks

	2003	2002
	£000	£000
Raw materials	<u>220</u>	<u>265</u>

#### 10. Debtors

	2003	2002
	£000	£000
Amounts owed by group undertakings	17,563	12,149
Other debtors	8	—
Prepayments and accrued income	<u>2,247</u>	<u>532</u>
	<u>19,818</u>	<u>12,681</u>

#### 11. Creditors: Amounts falling due within one year

	2003	2002
	£000	£000
Bank loans and overdrafts	24,001	3,399
Amounts owed to group undertakings	—	2,000
Corporation tax	415	385
Hire Purchase and finance lease agreements	5,605	4,562
Other creditors	185	396
Accruals and deferred income	<u>3,078</u>	<u>3,216</u>
	<u>33,284</u>	<u>13,958</u>

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

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

	2003	2002
	£000	£000
Hire Purchase and finance lease agreements	<u>10,891</u>	<u>8,869</u>

#### 13. Commitments under hire purchase and finance lease agreements

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

	2003	2002
	£000	£000
Amounts payable within 1 year	5,605	4,562
Amounts payable between 1 and 2 years	4,979	3,992
Amounts payable between 2 to 5 years	<u>5,912</u>	<u>4,877</u>
	<u>16,496</u>	<u>13,431</u>

# ARRIVA LONDON SOUTH LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### YEAR ENDED 31 DECEMBER 2003

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#### 14. Pensions

At 31 December 2003 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 2003, 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

(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 82 per cent of the benefits then accrued to members. The market value of the scheme's assets at 5th April 2003 was £34 million.

The pensions cost for the year represents contributions payable by the Company to both schemes and amounts to £1,301,000 (2002: £1,190,000).

#### 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 2003.

#### 15. Deferred taxation

	2003 £000	2002 £000
The movement in the deferred taxation provision during the year was:		
Provision brought forward	3,364	2,766
Profit and loss account movement arising during the year	1,566	598
Provision carried forward	<u>4,930</u>	<u>3,364</u>

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

	2003 £000	2002 £000
Excess of taxation allowances over depreciation on fixed assets	4,939	3,370
Short – term timing differences	(9)	(6)
	<u>4,930</u>	<u>3,364</u>

**ARRIVA LONDON SOUTH LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**YEAR ENDED 31 DECEMBER 2003**

**16. Share capital**

**Authorised share capital:**

	2003	2002
	£	£
15,000,000 Ordinary shares of £1 each	<u>15,000,000</u>	<u>15,000,000</u>

**Allotted, called up and fully paid:**

	2003	2002
	No	No
	£	£
Ordinary shares of £1 each	<u>3,992,000</u>	<u>3,992,000</u>

**17. Reserves**

	Share premium account	Profit and loss account
	£000	£000
Balance brought forward	3,991	1,355
Retained profit for the year	—	3,408
Balance carried forward	<u>3,991</u>	<u>4,763</u>

**18. Reconciliation of movements in shareholders' funds**

	2003	2002
	£000	£000
Profit for the financial year	3,408	1,660
Dividends	—	(2,000)
	<u>3,408</u>	<u>(340)</u>
Opening equity shareholders' funds	9,338	9,678
Closing equity shareholders' funds	<u>12,746</u>	<u>9,338</u>

**19. 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.