

ARRIVA LONDON SOUTH LIMITED
ANNUAL REPORT
FOR THE YEAR ENDED 31ST DECEMBER 1999



Company No. 2328467

ARRIVA LONDON SOUTH LIMITED

COMPANY INFORMATION

Directors

S P Lonsdale
J A Ray
S J Clayton
R J Davies
E A T Milburn
M D J Yexley
J D Pycroft
A J Sewell

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 1999

The Directors present their report and the audited accounts for the Company for the year ended 31st December 1999.

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 6. The Directors recommend the payment of a dividend amounting to £2,500,000 (1998: £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

M D J Yexley

J D Pycroft

A J Sewell

(Appointed 10th May 1999)

ARRIVA LONDON SOUTH LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31ST DECEMBER 1999

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.

E A T Milburn held 4,802 ordinary shares in ARRIVA plc throughout the financial year. 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 E A T Milburn, M D J Yexley and J D Pycroft are shown in the table below. A J Sewell had no interests in the ordinary share capital of ARRIVA plc during the year.

	1st January 1999	Exercised	Granted	Lapsed	31st December 1999	Ordinary share options Exercise price (p)	Period of exercise
E A T Milburn	10,000				10,000+	418.50	4th Mar 2001 to 4th Mar 2005
	2,901				2,901#	268.79	1st Jul 2003 to 31st Dec 2003
	2,289				2,289#	393.07	1st Jul 2003 to 31st Dec 2003
	-		8,000		8,000+	386.50	27th Apr 2002 to 27th Apr 2006
						228.97	10th Apr 1998 to 10th Apr 2005
M D J Yexley	15,558				15,558*	418.50	4th Mar 2001 to 4th Mar 2005
	10,000				10,000+	268.79	1st Jul 2001 to 31st Dec 2001
	2,567				2,567#	393.07	1st Jul 2003 to 31st Dec 2003
	2,289				2,289#	386.50	27th Apr 2002 to 27th Apr 2006
	-		15,000		15,000+	228.97	10th Apr 1998 to 10th Apr 2005
J D Pycroft	15,558				15,558*	418.50	4th Mar 2001 to 4th Mar 2005
	10,000				10,000+	386.50	27th Apr 2002 to 27th Apr 2006
	-		8,000		8,000+		

* Executive share option scheme

+ Share incentive scheme

Savings related share option scheme

The shares options granted in the year were granted on 27th Apr 1999.

DIRECTORS' REPORT

FOR THE YEAR ENDED 31ST DECEMBER 1999

Employees

The Company aims to provide all employees with information on matters of interest to them as employees and to keep them involved in, and aware of, the Company's activities and performance. The Company is concerned with employees' health and safety and pays particular attention to the health and safety at work legislation.

Decisions are made wherever possible in consultation with employee representatives.

Disabled persons

It is the Company's policy to give full and fair consideration to applications for suitable employment by disabled persons having regard to their individual aptitudes and abilities.

Opportunities exist for employees of the Company who become disabled to continue in employment or be trained for other positions in the Company's employment wherever this is practical.

Policy for 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.

Year 2000

There were no material adverse effects on the Company's business and computer systems arising from the date change to year 2000.

Single European Currency

The Directors do not consider that there will be any material impact on the Company from the introduction of the Euro.

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 1999 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.

ARRIVA LONDON SOUTH LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31ST DECEMBER 1999

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

A handwritten signature in black ink, appearing to read 'D P Turner', followed by a long horizontal flourish.

D P Turner, Secretary
16th March 2000

AUDITORS' REPORT TO THE MEMBERS OF ARRIVA LONDON SOUTH LIMITED

We have audited the accounts on pages 6 to 14 which have been prepared under the historical cost convention and the accounting policies set out on page 8.

Respective responsibilities of Directors and Auditors

The Directors are responsible for preparing the Annual Report. As described on page 3, this includes responsibility for preparing the accounts in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and our profession's ethical guidance.

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 United Kingdom Companies Act. 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.

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 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 as at 31st December 1999 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Newcastle upon Tyne
18th October 2000

ARRIVA LONDON SOUTH LIMITED**PROFIT AND LOSS ACCOUNT****FOR THE YEAR ENDED 31ST DECEMBER 1999**

	Notes	1999 £'000	1998 £'000
Turnover	2	42,885	42,028
Cost of sales		(35,287)	(36,478)
Gross profit		7,598	5,550
Administrative expenses		(3,902)	(1,723)
Other operating income		-	38
Operating profit	3	3,696	3,865
Interest receivable and similar income	4	445	584
Interest payable and similar charges	5	(555)	(540)
Profit on ordinary activities before taxation		3,586	3,909
Tax on profit on ordinary activities	7	(161)	(1,077)
Profit for the financial year		3,425	2,832
Dividends	8	(2,500)	(2,000)
Retained profit for the year	17	925	832

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.

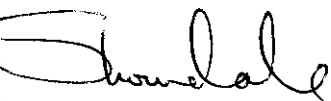
ARRIVA LONDON SOUTH LIMITED

BALANCE SHEET

AS AT 31ST DECEMBER 1999

	Notes	1999 £'000	1999 £'000	1998 £'000	1998 £'000
Fixed assets					
Tangible assets	9		14,153		5,340
Current assets					
Stocks	10	292		220	
Debtors	11	14,952		11,409	
Cash at bank and in hand		4,469		7,229	
		<u>19,713</u>		<u>18,858</u>	
Creditors: amounts falling due within one year	12	<u>(17,980)</u>		<u>(10,176)</u>	
Net current assets			1,733		8,682
Total assets less current liabilities			<u>15,886</u>		<u>14,022</u>
Creditors: amounts falling due after more than one year	13		(4,772)		(3,844)
Provisions for liabilities and charges					
Deferred taxation	15		(11)		-
			<u>11,103</u>		<u>10,178</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		3,120		2,195
Equity shareholders' funds	18		<u>11,103</u>		<u>10,178</u>

The accounts on pages 6 to 14 were approved by the Board on 16th March 2000 and signed on its behalf by:



S P Lonsdale
Director

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31ST DECEMBER 1999

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.

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.

Cash flow statement

The ultimate parent company has prepared a group cash flow statement. Accordingly the Company is exempt from preparing a cash flow statement.

ARRIVA LONDON SOUTH LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31ST DECEMBER 1999

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 or (crediting):

	1999 £'000	1998 £'000
Depreciation of tangible fixed assets:		
-owned assets	132	418
-assets held under finance leases and hire purchase	1,180	987
Profit on disposal of fixed assets	-	(32)
Operating leases:		
-plant and equipment	4	1
-land and buildings	95	-
Auditors' remuneration	28	39

4 Interest receivable and similar income

	1999 £'000	1998 £'000
Bank interest receivable	445	584

5 Interest payable and similar charges

	1999 £'000	1998 £'000
Interest payable on bank loans and overdrafts	13	-
Finance leases and hire purchase contracts	542	540
	555	540

ARRIVA LONDON SOUTH LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31ST DECEMBER 1999

6 Directors and employees

Staff costs were as follows:

	1999 £'000	1998 £'000
Wages and salaries	24,974	22,520
Social security costs	2,055	1,946
Pension costs	1,033	994
	<u>28,062</u>	<u>25,460</u>

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

	1999 Number	1998 Number
Bus operations	1,406	1,379

Directors' emoluments

	1999 £'000	1998 £'000
Aggregate emoluments	-	-

7 Taxation

	1999 £'000	1998 £'000
Based on the profit for the year:		
UK corporation tax at 30.25% (1998: 31%)	224	1,068
Deferred tax charge	11	-
	<u>235</u>	<u>1,068</u>
Prior periods:		
UK corporation tax	(74)	9
	<u>161</u>	<u>1,077</u>

The effective rate of taxation is less than the standard rate of 30.25% principally as a result of the excess of capital allowances over depreciation in the bus fleet.

8 Dividends

	1999 £'000	1998 £'000
Equity dividends		
Ordinary dividends payable of 62.6p per share (1998: 50.1p per share)	2,500	2,000

ARRIVA LONDON SOUTH LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31ST DECEMBER 1999

9 Tangible fixed assets

	Plant, machinery, fixtures and motor vehicles £'000	Public service vehicles £'000	Total £'000
Cost			
At 1st January 1999	836	24,744	25,580
Additions	36	7,795	7,831
Disposals	-	(49)	(49)
Intra-group transfers	245	2,801	3,046
At 31st December 1999	1,117	35,291	36,408
Depreciation			
At 1st January 1999	685	19,555	20,240
Charge for the year	56	1,256	1,312
Disposals	-	(49)	(49)
Intra-group transfers	223	529	752
At 31st December 1999	964	21,291	22,255
Net book value			
At 31st December 1999	153	14,000	14,153
At 31st December 1998	151	5,189	5,340

Assets held under finance leases and hire purchase have a net book value of £7,272,000 (1998: £1,780,000).
Depreciation charged for the year was £1,180,000 (1998: £987,000).

10 Stocks

	1999 £'000	1998 £'000
Raw materials and consumables	292	220

11 Debtors

	1999 £'000	1998 £'000
Amounts owed by group undertakings	13,426	9,694
Other debtors	343	46
Prepayments and accrued income	1,183	1,669
	14,952	11,409

ARRIVA LONDON SOUTH LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31ST DECEMBER 1999

12	Creditors: amounts falling due within one year	1999 £'000	1998 £'000
	Amounts owed to group undertakings	10,487	3,892
	Other creditors	110	-
	Accruals and deferred income	3,924	3,623
	Corporation tax	854	1,077
	Obligations under hire purchase and finance lease (Note 14)	2,605	1,584
		<u>17,980</u>	<u>10,176</u>

13	Creditors: amounts falling due after more than one year	1999 £'000	1998 £'000
	Obligations under hire purchase and finance lease (Note 14)	4,772	3,844

14	Obligations under hire purchase and finance leases	1999 £'000	1998 £'000
	Obligations under hire purchase contracts and finance leases are analysed between amounts payable:		
	In the next year	2,605	1,584
	In the second to fifth years inclusive	4,772	3,844
		<u>7,377</u>	<u>5,428</u>

15 Deferred taxation

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

	1999 £'000	1998 £'000
At 1st January 1999	-	-
Movement in the year	11	-
At 31st December 1999	<u>11</u>	<u>-</u>

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

	Amount provided		Amount unprovided	
	1999 £'000	1998 £'000	1999 £'000	1998 £'000
Accelerated capital allowances	-	-	844	544
Other timing differences	11	-	-	-

ARRIVA LONDON SOUTH LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31ST DECEMBER 1999

16	Called up share capital	1999	1998
		£'000	£'000
	Authorised		
	Equity shares		
	15,000,000 Ordinary shares of £1.00 each	15,000	15,000
	Allotted and fully paid		
	Equity shares		
	3,992,000 Allotted, called up and fully paid ordinary shares of £1.00 each	3,992	3,992
17	Reserves		
		Share premium account	Profit and loss account
		£'000	£'000
	At 1st January 1999	3,991	2,195
	Profit for the year	-	925
	At 31st December 1999	3,991	3,120
18	Reconciliation of movement in equity shareholders' funds	1999	1998
		£'000	£'000
	Profit for the financial year	3,425	2,832
	Dividends	(2,500)	(2,000)
	Increase in equity shareholders' funds	925	832
	Opening equity shareholders' funds	10,178	9,346
	Closing equity shareholders' funds	11,103	10,178
19	Capital commitments		
	The company had the following capital commitments:		
		1999	1998
		£'000	£'000
	Contracted for but not provided in the financial statements	726	2,207

ARRIVA LONDON SOUTH LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31ST DECEMBER 1999

20 Operating lease commitments

At 31st December 1999 the company had annual commitments under non-cancellable operating leases as set out below:

	Land and buildings	
	1999 £'000	1998 £'000
Operating leases which expire:		
Within one year	47	-
Between two and five years	51	-
	<u>98</u>	<u>-</u>

21 Pension scheme

ARRIVA plc operates two retirement benefit schemes providing benefits to certain employees within the Company:

ARRIVA London North and London South Pension Scheme

This final salary scheme was established in September 1994 to provide benefits for those employees of ARRIVA London North Limited who at the date of joining the ARRIVA Group were provided with retirement benefits under the LRT Pension Fund. The scheme was extended in January 1997 to include employees of ARRIVA London South Limited who were similarly provided with benefits under the LRT Pension Fund. The scheme is financed through a separate Trustee administered fund and is independently managed by a professional fund manager on behalf of the Trustees. Contributions are based upon actuarial advice from the scheme's actuaries, William M Mercer Limited. The scheme had no assets at its inception although subsequently transfer values have been received from LRT Pension Fund in respect of members who wished to transfer their accrued benefits. These benefits are not expected to lead to any material surplus or deficit.

Money Purchase Scheme

This defined contribution scheme is established under Trust. Independent fund managers are employed by the Trustees to invest the contributions received from both the employer and the employees.

22 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.