

ARRIVA LONDON SOUTH LIMITED
FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2007

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ARRIVA LONDON SOUTH LIMITED

FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2007

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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

E A Thorpe

Registered office

Admiral Way
Doxford International Business Park
Sunderland
SR3 3XP

Independent auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
89 Sandyford Road
Newcastle upon Tyne
NE1 8HW

ARRIVA LONDON SOUTH LIMITED

THE DIRECTORS' REPORT

YEAR ENDED 31 DECEMBER 2007

The directors present their report and the audited financial statements of the company for the year ended 31 December 2007

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 company paid a dividend of £35,840,000 during the year (2006 £nil)

We remain confident that we will maintain our current level of performance in the future

Financial risk management objectives and policies

Details of financial risk management objectives and policies are shown in the accounts of the ultimate parent company, Arriva plc

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 London South 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 and up to the date of signing the financial statements were as follows

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

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. There are no trade creditors at the year end (2006 nil)

ARRIVA LONDON SOUTH LIMITED

THE DIRECTORS' REPORT

YEAR ENDED 31 DECEMBER 2007

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to 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.

In preparing those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements 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.

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.

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.

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.

By order of the board



E A Thorpe
Company secretary

5 March 2008

ARRIVA LONDON SOUTH LIMITED

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

YEAR ENDED 31 DECEMBER 2007

We have audited the financial statements of Arriva London South Limited for the year ended 31 December 2007 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 2007 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
Chartered Accountants and Registered Auditors
Newcastle upon Tyne

14 July 2008

ARRIVA LONDON SOUTH LIMITED

PROFIT AND LOSS ACCOUNT

YEAR ENDED 31 DECEMBER 2007

	Note	2007 £000	2006 £000
Turnover	2	97,760	91,556
Cost of sales		(80,945)	(74,650)
Gross profit		16,815	16,906
Administrative expenses		(9,887)	(8,798)
Operating profit	3	6,928	8,108
Interest receivable and similar income	5	222	2
Interest payable and similar charges	6	(375)	(2,585)
Profit on ordinary activities before taxation		6,775	5,525
Tax on profit on ordinary activities	7	(2,283)	12,527
Profit for the financial year	20	4,492	18,052

All of the activities of the company are classed as continuing

The company has no recognised gains or losses other than the profit 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 LONDON SOUTH LIMITED

BALANCE SHEET

AS AT 31 DECEMBER 2007

	Note	2007 £000	2006 £000
Fixed assets			
Intangible assets	9	2,640	2,880
Tangible assets	10	3,513	3,714
		<u>6,153</u>	<u>6,594</u>
Current assets			
Stocks	11	640	524
Debtors	12	14,421	17,256
Cash at bank		28,455	40,787
		<u>43,516</u>	<u>58,567</u>
Creditors: Amounts falling due within one year	14	<u>(36,954)</u>	<u>(18,854)</u>
Net current assets		<u>6,562</u>	<u>39,713</u>
Total assets less current liabilities		<u>12,715</u>	<u>46,307</u>
Creditors: Amounts falling due after more than one year	15	<u>(240)</u>	<u>(1,415)</u>
		<u>12,475</u>	<u>44,892</u>
Provisions for liabilities			
Deferred taxation	13	-	(1,069)
Net assets		<u>12,475</u>	<u>43,823</u>
Capital and reserves			
Called up share capital	19	3,992	3,992
Share premium account	20	3,991	3,991
Profit and loss account	20	4,492	35,840
Total shareholders' funds	21	<u>12,475</u>	<u>43,823</u>

These financial statements were approved by the directors on the 5 March 2008 and are signed on their behalf by



R A Bowler
Director

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

ARRIVA LONDON SOUTH LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2007

1 Accounting policies

Basis of accounting

These financial statements are prepared on the going concern basis, under the historical cost convention, and in accordance with the Companies Act 1985, and applicable accounting standards in the United Kingdom. The principal accounting policies, which have been applied consistently throughout the year, are set out below.

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. Income is accrued where it is earned in an earlier period to that in which it is billed or received in cash. Income is deferred where it is received in an earlier period than that to which it relates.

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. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. 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. Assets held under finance leases are depreciated over their estimated useful life or the term of the lease, whichever is the shorter.

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 each period.

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.

ARRIVA LONDON SOUTH LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2007

1 Accounting policies *(continued)*

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date

A net deferred tax asset is recognised as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on an undiscounted basis

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)

	2007	2006
	£000	£000
Amortisation of intangible fixed assets	240	240
Depreciation of owned fixed assets	206	2,002
Depreciation of assets held under hire purchase agreements	423	3,596
Profit on disposal of fixed assets	-	(2)
Auditors' remuneration		
- audit fees	10	10
Operating lease costs		
Public service vehicles	6,670	638
Land and buildings	240	239

Auditors' remuneration is paid by Arriva London North Limited, a fellow group company

ARRIVA LONDON SOUTH LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2007

4 Particulars of employees

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

	2007	2006
	No	No
Drivers	1,423	1,356
Engineering	190	205
Administrative	173	165
	<u>1,786</u>	<u>1,726</u>

The aggregate payroll costs of the above were

	2007	2006
	£000	£000
Wages and salaries	54,686	51,095
Social security costs	5,531	5,317
Other pension costs (note 17)	2,218	2,037
	<u>62,435</u>	<u>58,449</u>

None of the directors received any remuneration from the company during the year (2006 £nil)

5 Interest receivable and similar income

	2007	2006
	£000	£000
Bank interest receivable	198	-
Finance charges receivable	24	2
	<u>222</u>	<u>2</u>

6 Interest payable and similar charges

	2007	2006
	£000	£000
Bank interest payable	-	1,893
Hire purchase and finance lease charges	375	692
	<u>375</u>	<u>2,585</u>

ARRIVA LONDON SOUTH LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2007

7 Tax on profit on ordinary activities

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

	2007 £000	2006 £000
Current tax		
In respect of the year		
UK corporation tax		
Current year	-	(6,535)
Adjustments in respect of prior years	5,361	46
Total current tax	5,361	(6,489)
Deferred tax		
Current year	2,247	(6,039)
Prior year	(5,325)	1
Total deferred tax (note 13)	(3,078)	(6,038)
Tax on profit on ordinary activities	2,283	(12,527)

(b) Factors affecting current tax credit

The tax assessed for the year is higher (2006 lower) than the standard rate of corporation tax in the UK of 30% (2006 - 30%) The differences are explained below

	2007 £000	2006 £000
Profit on ordinary activities before taxation	6,775	5,525
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2006 30%)	2,033	1,658
Capital allowances in excess of depreciation	(1,999)	(8,265)
Adjustment to tax charge in respect of prior years	5,361	46
Utilisation of tax losses	(106)	-
Expenses not deductible for tax purposes	72	72
Total current tax (note 7 (a))	5,361	(6,489)

(c) Factors that may affect future tax charges

The standard rate of corporation tax in the UK changed to 28% with effect from 1 April 2008

8 Dividends

The following dividends have been paid in respect of the year

	2007 £000	2006 £000
Final dividend on ordinary shares of £8 98 per share (2006 £nil per share)	35,840	-

ARRIVA LONDON SOUTH LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2007

9 Intangible assets

	Licences £000
Cost	
At 1 January 2007 and 31 December 2007	<u>3,600</u>
Accumulated amortisation	
At 1 January 2007	720
Charge for the year	<u>240</u>
At 31 December 2007	<u>960</u>
Net book value	
At 31 December 2007	<u>2,640</u>
At 31 December 2006	<u>2,880</u>

10 Tangible assets

	Plant, machinery, fixtures and motor vehicles £000	Public service vehicles £000	Total £000
Cost			
At 1 January 2007	1,437	6,266	7,703
Additions	275	99	374
Transfers with other group companies	-	222	222
At 31 December 2007	<u>1,712</u>	<u>6,587</u>	<u>8,299</u>
Accumulated depreciation			
At 1 January 2007	626	3,363	3,989
Charge for the year	178	451	629
Transfers with other group companies	-	168	168
At 31 December 2007	<u>804</u>	<u>3,982</u>	<u>4,786</u>
Net book value			
At 31 December 2007	<u>908</u>	<u>2,605</u>	<u>3,513</u>
At 31 December 2006	<u>811</u>	<u>2,903</u>	<u>3,714</u>

Hire purchase agreements

Included within the net book value of £3,513,000 is £2,499,000 (2006 - £2 803,000) 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 £423,000 (2006 - £3,596,000).

11 Stocks

	2007 £000	2006 £000
Raw materials	<u>640</u>	<u>524</u>

ARRIVA LONDON SOUTH LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2007

12 Debtors

	2007 £000	2006 £000
Amounts owed by group undertakings	86	-
Corporation tax repayable	-	5,373
Other debtors	386	351
Amounts receivable under finance leases	360	408
Prepayments and accrued income	11,580	11,124
Deferred tax (note 13)	2,009	-
	<u>14,421</u>	<u>17,256</u>

13 Deferred taxation

The deferred tax included in the balance sheet is as follows

	2007 £000	2006 £000
Included in (debtors)/provisions	<u>(2,009)</u>	<u>1,069</u>

The movement in deferred tax during the year was

	2007 £000
Balance brought forward	1,069
Profit and loss account movement arising during the year (note 7)	(3,078)
Balance carried forward	<u>(2,009)</u>

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

	2007 £000	2006 £000
Excess of taxation allowances over depreciation on fixed assets	1,663	1,072
Tax losses	(3,672)	-
Other timing differences	-	(3)
	<u>(2,009)</u>	<u>1,069</u>

14 Creditors Amounts falling due within one year

	2007 £000	2006 £000
Bank overdrafts	-	24
Amounts owed to group undertakings	32,945	13,507
Corporation tax	75	-
Hire purchase and finance lease agreements	1,176	2,504
Other creditors	12	247
Accruals and deferred income	2,746	2,572
	<u>36,954</u>	<u>18,854</u>

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

15 Creditors Amounts falling due after more than one year

	2007 £000	2006 £000
Hire purchase and finance lease agreements	<u>240</u>	<u>1,415</u>

ARRIVA LONDON SOUTH LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2007

16 Commitments under hire purchase agreements and finance leases

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

	2007	2006
	£000	£000
Other		
Amounts payable within 1 year	1,176	2,504
Amounts payable between 1 and 5 years	240	1,415
	<u>1,416</u>	<u>3,919</u>

Hire purchase and finance lease balances are secured over the related assets

17 Pensions

At 31 December 2007 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 scheme, 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 2006, 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 2006 was sufficient to cover 92 per cent of the benefits then accrued to members. The market value of the Scheme's assets at 5th April 2006 was £71.6 million.

The pension cost for the year represents contributions payable by the company to both schemes and amounts to £2,218,000 (2006: £2,037,000).

FRS 17 'Retirement benefits'

The company makes contributions to a defined benefit Scheme, 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 2007.

18 Commitments under operating leases

At 31 December 2007 the company had annual commitments under non-cancellable operating leases as set out below

	Public service vehicles	
	2007	2006
	£000	£000
Operating leases which expire		
Within 2 to 5 years	465	-
In more than 5 years	6,638	6,638
	<u>7,103</u>	<u>6,638</u>

ARRIVA LONDON SOUTH LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2007

19 Called up share capital

Authorised share capital

	2007	2006
	£	£
15,000,000 ordinary shares of £1 each	<u>15,000,000</u>	<u>15,000,000</u>

Allotted and fully paid

	2007	2006
	No	No
	£	£
Ordinary shares of £1 each	<u>3,992,000</u>	<u>3,992,000</u>

20 Reserves

	Share premium account	Profit and loss account
	£000	£000
Balance brought forward	3,991	35,840
Profit for the year	–	4,492
Dividends	–	(35,840)
Balance carried forward	<u>3,991</u>	<u>4,492</u>

21 Reconciliation of movements in shareholders' funds

	2007	2006
	£000	£000
Profit for the financial year	4,492	18,052
Dividends	(35,840)	–
Net (decrease)/increase in shareholders' funds	(31,348)	18,052
Opening shareholders' funds	<u>43,823</u>	<u>25,771</u>
Closing shareholders' funds	<u>12,475</u>	<u>43,823</u>

22 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 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.