

ARRIVA LONDON SOUTH LIMITED
ANNUAL REPORT
FOR THE YEAR ENDED 31ST DECEMBER 2000



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
R A Bowler

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 2000

The Directors present their report and the audited accounts for the Company for the year ended 31st December 2000.

Principal activities and review of business

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

Results and dividends

The results for the year are set out in the profit and loss account on page 5. The Directors recommend the payment of a dividend amounting to £2,000,000 (1999: £2,500,000).

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

R A Bowler (Appointed 27th July 2000)

Directors' interests

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

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

ARRIVA LONDON SOUTH LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31ST DECEMBER 2000

Directors' interests (continued)

E A T Milburn and his immediate family held 9,604 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, J D Pycroft and A J Sewell are shown in the table below:

	1st January 2000	Exercised	Granted	Lapsed	31st December 2000	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
	-		5,000		5,000+	175.00	19th Apr 2003 to 19th Apr 2007
M D J Yexley	15,558				15,558*	228.97	10th Apr 1998 to 10th Apr 2005
	10,000				10,000+	418.50	4th Mar 2001 to 4th Mar 2005
	2,567				2,567#	268.79	1st Jul 2001 to 31st Dec 2001
	2,289				2,289#	393.07	1st Jul 2003 to 31st Dec 2003
	15,000				15,000+	386.50	27th Apr 2002 to 27th Apr 2006
J D Pycroft	15,558				15,558*	228.97	10th Apr 1998 to 10th Apr 2005
	10,000				10,000+	418.50	4th Mar 2001 to 4th Mar 2005
	8,000				8,000+	386.50	27th Apr 2002 to 27th Apr 2006
	-		5,000		5,000+	175.00	19th Apr 2003 to 19th Apr 2007
A J Sewell	-		5,000		5,000+	175.00	19th Apr 2003 to 19th Apr 2007

* Executive share option scheme

+ Share incentive scheme

Savings related share option scheme

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

ARRIVA LONDON SOUTH LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31ST DECEMBER 2000

Directors' interests (continued)

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

Employees

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

Policy regarding payment of suppliers

The Company's policy regarding the payment of suppliers is to agree terms of payment at the start of business with each supplier to ensure that the supplier is made aware of the payment terms, and to pay in accordance with its contractual or legal obligations.

Statement of Directors' responsibilities

Company law requires the Directors to prepare accounts for each financial year that give a true and fair view of the state of affairs of the Company and of the profit or loss for that period.

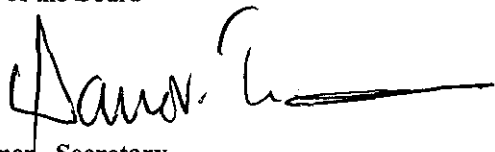
The Directors confirm that suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the accounts for the year ended 31st December 2000 and that applicable accounting standards have been followed.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and which enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

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

By order of the Board



D P Turner, Secretary
20th March 2001

AUDITORS' REPORT TO THE MEMBERS OF ARRIVA LONDON SOUTH LIMITED

We have audited the accounts on pages 5 to 14 which have been prepared under the historical cost convention and the accounting policies set out on page 7.

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 the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of the information in the accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of the Company's affairs at 31st December 2000 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
12th October 2001

ARRIVA LONDON SOUTH LIMITED**PROFIT AND LOSS ACCOUNT****FOR THE YEAR ENDED 31ST DECEMBER 2000**

	Notes	2000 £'000	1999 £'000
Turnover	2	50,775	42,885
Cost of sales		(42,353)	(35,287)
Gross profit		8,422	7,598
Administrative expenses		(4,664)	(3,902)
Other operating income		27	-
Operating profit	3	3,785	3,696
Interest receivable and similar income	4	13	445
Interest payable and similar charges	5	(873)	(555)
Profit on ordinary activities before taxation		2,925	3,586
Tax on profit on ordinary activities	7	(371)	(161)
Profit for the financial year		2,554	3,425
Dividends	8	(2,000)	(2,500)
Retained profit for the year	17	554	925

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.

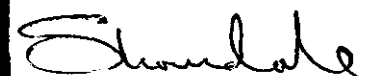
ARRIVA LONDON SOUTH LIMITED

BALANCE SHEET

AS AT 31ST DECEMBER 2000

	Notes	2000 £'000	2000 £'000	1999 £'000	1999 £'000
Fixed assets					
Tangible assets	9		17,830		14,153
Current assets					
Stocks	10	295		292	
Debtors	11	12,108		14,952	
Cash at bank and in hand		12,691		4,469	
		<u>25,094</u>		<u>19,713</u>	
Creditors: amounts falling due within one year	12	<u>(21,192)</u>		<u>(17,980)</u>	
Net current assets			3,902		1,733
Total assets less current liabilities			<u>21,732</u>		<u>15,886</u>
Creditors: amounts falling due after more than one year	13		(10,069)		(4,772)
Provisions for liabilities and charges					
Deferred taxation	15		(6)		(11)
			<u>11,657</u>		<u>11,103</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		3,674		3,120
Equity shareholders' funds	18		<u>11,657</u>		<u>11,103</u>

The accounts on pages 5 to 14 were approved by the Board on 20th March 2001 and signed on its behalf by:



S P Lonsdale
Director

ARRIVA LONDON SOUTH LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31ST DECEMBER 2000

1 Accounting policies

Basis of accounting

The accounts have been prepared under the historical cost convention, using the accounting policies set out below and in accordance with applicable accounting standards.

Cash flow statement

The Company is a wholly owned subsidiary and the ultimate parent company has prepared a group cash flow statement. Accordingly, under FRS 1, the Company is exempt from preparing a cash flow statement.

Turnover

Turnover consists of the gross revenue for road passenger transport together with the aggregate amounts receivable for other goods and services supplied in the ordinary course of business, excluding VAT.

Depreciation

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

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

Stocks

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

Deferred taxation

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

Pensions

ARRIVA plc operates retirement benefit schemes, both defined benefit and defined contribution schemes, which cover employees of the Company. Contributions made to the defined benefit scheme are based on the cost of providing pensions across all participating group companies. Costs are not determined for each individual company. Contributions payable by the Company are charged to the profit and loss account in the period in which they fall due. Contributions payable under the defined contribution scheme are charged to the profit and loss account as they arise.

Hire purchase and leased assets

Where assets are financed by leasing agreements ('finance leases') the assets are included in the balance sheet at cost less depreciation in accordance with the Company's normal accounting policies. The present value of future rentals is shown as a liability. The interest element of rental obligations is charged to the profit and loss account over the period of the lease in proportion to the balance of capital repayments outstanding.

ARRIVA LONDON SOUTH LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31ST DECEMBER 2000

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):

	2000	1999
	£'000	£'000
Depreciation of tangible fixed assets:		
-owned assets	518	132
-assets held under finance leases and hire purchase	1,114	1,180
Profit on disposal of fixed assets	(27)	-
Operating leases:		
-plant and equipment	4	4
-land and buildings	98	95
Auditors' remuneration	-	28

4 Interest receivable and similar income

	2000	1999
	£'000	£'000
Bank interest receivable	13	445

5 Interest payable and similar charges

	2000	1999
	£'000	£'000
Interest payable on bank loans and overdrafts	213	13
Finance leases and hire purchase contracts	660	542
	873	555

ARRIVA LONDON SOUTH LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31ST DECEMBER 2000

6 Directors and employees

Staff costs were as follows:

	2000	1999
	£'000	£'000
Wages and salaries	29,690	24,974
Social security costs	2,492	2,055
Pension costs	1,071	1,033
	<u>33,253</u>	<u>28,062</u>

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

	2000	1999
	Number	Number
Bus operations	<u>1,543</u>	<u>1,406</u>

Directors' emoluments

	2000	1999
	£'000	£'000
Aggregate emoluments	<u>-</u>	<u>-</u>

7 Taxation

	2000	1999
	£'000	£'000
Based on the profit for the year:		
UK corporation tax at 30% (1999: 30.25%)	208	224
Deferred tax charge	(5)	11
	<u>203</u>	<u>235</u>
Prior periods:		
UK corporation tax	168	(74)
	<u>371</u>	<u>161</u>

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

8 Dividends

	2000	1999
	£'000	£'000
Equity dividends		
Ordinary dividends payable of 50.1p per share (1999: 62.6p per share)	<u>2,000</u>	<u>2,500</u>

ARRIVA LONDON SOUTH LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31ST DECEMBER 2000

9 Tangible fixed assets

	Plant, machinery, fixtures and motor vehicles £'000	Public service vehicles £'000	Total £'000
Cost			
At 1st January 2000	1,117	35,291	36,408
Additions	47	6,189	6,236
Disposals	(21)	(1,281)	(1,302)
Intra-group transfers	(2)	(4,533)	(4,535)
At 31st December 2000	1,141	35,666	36,807
Depreciation			
At 1st January 2000	964	21,291	22,255
Charge for the year	82	1,550	1,632
Disposals	(21)	(1,281)	(1,302)
Intra-group transfers	(1)	(3,607)	(3,608)
At 31st December 2000	1,024	17,953	18,977
Net book value			
At 31st December 2000	117	17,713	17,830
At 31st December 1999	153	14,000	14,153

Assets held under finance leases and hire purchase have a net book value of £15,682,000 (1999: £7,272,000).

Depreciation charged for the year was £1,114,000 (1999: £1,180,000).

10 Stocks

	2000 £'000	1999 £'000
Raw materials and consumables	295	292

11 Debtors

	2000 £'000	1999 £'000
Amounts owed by group undertakings	11,961	13,426
Other debtors	-	343
Prepayments and accrued income	147	1,183
	12,108	14,952

ARRIVA LONDON SOUTH LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31ST DECEMBER 2000

12	Creditors: amounts falling due within one year	2000	1999
		£'000	£'000
	Amounts owed to group undertakings	12,711	10,487
	Other creditors	225	110
	Accruals and deferred income	3,740	3,924
	Corporation tax	143	854
	Obligations under hire purchase and finance lease (Note 14)	4,373	2,605
		<u>21,192</u>	<u>17,980</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	2000	1999
		£'000	£'000
	Obligations under hire purchase and finance lease (Note 14)	10,069	4,772

14	Obligations under hire purchase and finance leases	2000	1999
		£'000	£'000
	Obligations under hire purchase contracts and finance leases are analysed between amounts payable:		
	In the next year	4,373	2,605
	In the second to fifth years inclusive	10,069	4,772
		<u>14,442</u>	<u>7,377</u>

ARRIVA LONDON SOUTH LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31ST DECEMBER 2000

15 Deferred taxation

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

	2000 £'000	1999 £'000
At 1st January	11	-
Movement in the year	(5)	11
At 31st December	6	11

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

	Amount provided		Amount unprovided	
	2000 £'000	1999 £'000	2000 £'000	1999 £'000
Accelerated capital allowances	-	-	2,015	844
Other timing differences	6	11	-	-
	6	11	2,015	844

16 Called up share capital

	2000 £'000	1999 £'000
Authorised		
Equity shares		
15,000,000 Ordinary shares of £1 each	15,000	15,000
Allotted and fully paid		
Equity shares		
3,992,000 Allotted, called up and fully paid ordinary shares of £1 each	3,992	3,992

17 Reserves

	Share premium account £'000	Profit and loss account £'000
At 1st January 2000	3,991	3,120
Profit for the year	-	554
At 31st December 2000	3,991	3,674

ARRIVA LONDON SOUTH LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31ST DECEMBER 2000

18 Reconciliation of movement in equity shareholders' funds

	2000	1999
	£'000	£'000
Profit for the financial year	2,554	3,425
Dividends	(2,000)	(2,500)
Increase in equity shareholders' funds	554	925
Opening equity shareholders' funds	11,103	10,178
Closing equity shareholders' funds	11,657	11,103

19 Capital commitments

The company had the following capital commitments:

	2000	1999
	£'000	£'000
Contracted for but not provided in the financial statements	4,426	726

20 Operating lease commitments

At 31st December 2000 the company had annual commitments under non-cancellable operating leases as set out below:

	Land and buildings	
	2000	1999
	£'000	£'000
Operating leases which expire:		
Within one year	-	47
Between two and five years	-	51
	-	98

ARRIVA LONDON SOUTH LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31ST DECEMBER 2000

21 Pension scheme

At 31 December 2000 the ultimate parent company, ARRIVA plc, operated both defined benefit and defined contribution retirement benefit schemes providing benefits to certain employees within ARRIVA London South Limited. The schemes are financed through separate Trustee administered funds managed by independent professional fund managers on behalf of the Trustees.

Contributions to the defined benefit fund, the ARRIVA London North and ARRIVA London South Pension Scheme, are based upon actuarial advice following the most recent actuarial valuation of the fund. The latest actuarial valuation was performed as at 5th April 2000, using the Projected Unit Method. The principal actuarial assumptions were that:

- (i) the annual rate of return on investment would be 2.5 per cent higher than the annual increase in total pensionable remuneration;
- (ii) there would be no variation from a scheme's rules to pensions in payment.

On the basis of these assumptions the actuarial value of the funds at 5th April 2000 was sufficient to cover 130 per cent of the benefits then accrued to members. The market value of the scheme's assets at 5th April 2000 was £31.4 million.

The pensions cost charge for the year represents contributions payable by the Company to both schemes and amount to £1,071,000 (1999: £1,033,000).

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.