COMPANY REGISTRATION NUMBER 2328467

ARRIVA LONDON SOUTH LIMITED

FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2008

ARRIVA LONDON SOUTH LIMITED

FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2008

Contents

Contents	Pages
Officers and professional advisers	1
The directors' report	2 to 4
Independent auditors' report to the members of Arriva London South Limited	5
Profit and loss account	6
Balance sheet	7
Notes to the financial statements	8 to 15

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 2008

The directors present their report and the audited financial statements of the company for the year ended 31 December 2008.

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 did not pay a dividend during the year (2007: £35,840,000).

The directors remain confident that the company will maintain its 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 (2007: nil).

ARRIVA LONDON SOUTH LIMITED

THE DIRECTORS' REPORT

YEAR ENDED 31 DECEMBER 2008

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.

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 recognises that its employees are key to its success and is committed to creating a working environment where everyone has the opportunity to learn, develop and contribute to the success of the group, working within a common set of values.

The group continues to aim to be an employer of choice and to employ a diverse workforce with the skills, abilities and attitudes to meet business objectives and needs. The group's aim is to provide appropriate remuneration, benefits and conditions of employment which will serve to attract, retain, motivate and reward such employees.

The group has, subject to the restraints of commercial confidentiality, continued its policy of employee involvement, by making information available to employees on a regular basis regarding recent and probable future developments and business activities.

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.

ARRIVA LONDON SOUTH LIMITED

THE DIRECTORS' REPORT

YEAR ENDED 31 DECEMBER 2008

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

4 March 2009

ARRIVA LONDON SOUTH LIMITED

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

YEAR ENDED 31 DECEMBER 2008

We have audited the financial statements of Arriva London South Limited for the year ended 31 December 2008 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 annual report and 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 other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the officers and professional advisers section and the directors' report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

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 2008 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

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Newcastle upon Tyne
27 October 2009

ARRIVA LONDON SOUTH LIMITED

PROFIT AND LOSS ACCOUNT

YEAR ENDED 31 DECEMBER 2008

	Note	2008 £000	2007 £000
Turnover	2	**104,359**	97,760
Cost of sales		**(86,803)**	(80,945)
Gross profit		**17,556**	16,815
Administrative expenses		**(12,323)**	(9,887)
Other operating income		**68**	-
Operating profit	3	**5,301**	6,928
Interest receivable and similar income	5	**300**	222
Interest payable and similar charges	6	**(120)**	(375)
Profit on ordinary activities before taxation		**5,481**	6,775
Tax on profit on ordinary activities	7	**(1,792)**	(2,283)
Profit for the financial year	20	**3,689**	4,492

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 financial 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 8 to 15 form part of these financial statements.

ARRIVA LONDON SOUTH LIMITED

BALANCE SHEET

AS AT 31 DECEMBER 2008

	Note	2008 £000	2007 £000
Fixed assets			
Intangible assets	9	2,399	2,640
Tangible assets	10	3,393	3,513
		5,792	6,153
Current assets			
Stocks	11	674	640
Debtors	12	16,274	14,421
Cash at bank and in hand		28	28,455
		16,976	43,516
Creditors: Amounts falling due within one year	14	(6,604)	(36,954)
Net current assets		10,372	6,562
Total assets less current liabilities		16,164	12,715
Creditors: Amounts falling due after more than one year	15	-	(240)
Net assets		16,164	12,475
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	8,181	4,492
Total shareholders' funds	21	16,164	12,475

These financial statements were approved by the directors on the 4 March 2009 and are signed on their behalf by:

R A Bowler
Director

The notes on pages 8 to 15 form part of these financial statements.

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 1985/2006 applicable to companies reporting under UK GAAP, and applicable accounting standards in the United Kingdom. The principal accounting policies, which have been applied consistently throughout the period, 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 Standard 1 (Revised 1996) 'Cash Flow Statements', 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% straight line
Public service vehicles – straight line over periods up to 15 years

Stocks

Stocks are valued at the lower of cost and net realisable value. Where necessary, provision is made for obsolete, slow moving and defective stocks.

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.

1. Accounting policies *(continued)*

Pension costs

Arriva plc operates retirement benefit schemes, both defined benefit and defined contribution schemes, which cover employees of the company. The assets of the defined benefit scheme are held separately from those of the company in independently administered funds. As the company is unable to identify its share of the assets and liabilities of the group scheme, it accounts for contributions as if they were to a defined contribution pension scheme. 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

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.

Dividends

Dividend distributions to the company's shareholders are recognised in the company's financial statements in the period in which the dividends are paid.

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:

	2008	2007
	£000	£000
Amortisation of intangible fixed assets	241	240
Depreciation of owned fixed assets	235	206
Depreciation of assets held under hire purchase agreements	456	423
Loss on disposal of fixed assets	1	–
Auditors' remuneration:		
- audit fees	6	10
Operating lease costs:		
- public service vehicles	6,984	6,670
- land and buildings	255	240

4. Particulars of employees

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

	2008 Number	2007 Number
Drivers	1,480	1,423
Engineering	185	190
Administrative	173	173
	1,838	1,786

The aggregate payroll costs of the above were:

	2008 £000	2007 £000
Wages and salaries	59,062	54,686
Social security costs	5,787	5,531
Other pension costs (note 17)	2,265	2,218
	67,114	62,435

None of the directors received any remuneration from the company during the year (2007: £nil).

5. Interest receivable and similar income

	2008 £000	2007 £000
Bank interest receivable	172	198
Finance charges receivable	21	24
Other interest receivable	107	-
	300	222

6. Interest payable and similar charges

	2008 £000	2007 £000
Hire purchase and finance lease charges	120	375

7. Tax on profit on ordinary activities

(a) Analysis of charge in the year

	2008 £000	2007 £000
Current tax:		
In respect of the year:		
UK corporation tax		
Current year	(194)	-
Adjustments in respect of prior years	1,802	5,361
Total current tax	1,608	5,361
Deferred tax:		
Current year – origination and reversal of timing differences	1,793	2,247
Adjustment in respect of prior years	(1,609)	(5,325)
Total deferred tax (note 13)	184	(3,078)
Tax on profit on ordinary activities	1,792	2,283

7. Tax on profit on ordinary activities (continued)

(b) Factors affecting current tax charge

The tax assessed for the year is higher (2007: higher) than the standard rate of corporation tax in the UK of 28.5% (2007 - 30%). The differences are explained below:

	2008	2007
	£000	£000
Profit on ordinary activities before taxation	**5,481**	6,775
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 28.5% (2007: 30%)	1,562	2,033
Capital allowances in excess of depreciation	(1,825)	(1,999)
Adjustment in respect of prior years	1,802	5,361
Utilisation of tax losses	-	(106)
Expenses not deductible for tax purposes	69	72
Total current tax (note 7 (a))	**1,608**	5,361

(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:

	2008	2007
	£000	£000
Final dividend on £1 ordinary shares of £nil per share (2007: £8.98 per share)	-	35,840

9. Intangible assets

	Licences
	£000
Cost	
At 1 January 2008 and 31 December 2008	**3,600**
Accumulated amortisation	
At 1 January 2008	960
Charge for the year	241
At 31 December 2008	**1,201**
Net book value	
At 31 December 2008	**2,399**
At 31 December 2007	2,640

10. Tangible assets

	Plant, machinery, fixtures and motor vehicles £000	Public service vehicles £000	Total £000
Cost			
At 1 January 2008	1,712	6,587	8,299
Additions	101	90	191
Disposals	(8)	-	(8)
Transfers from group companies	2	379	381
At 31 December 2008	**1,807**	**7,056**	**8,863**
Accumulated depreciation			
At 1 January 2008	804	3,982	4,786
Charge for the year	202	489	691
Disposals	(7)	-	(7)
At 31 December 2008	**999**	**4,471**	**5,470**
Net book value			
At 31 December 2008	**808**	**2,585**	**3,393**
At 31 December 2007	908	2,605	3,513

Hire purchase agreements

Included within the net book value of £3,393,000 is £2,406,000 (2007: £2,499,000) 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 £456,000 (2007: £423,000).

11. Stocks

	2008 £000	2007 £000
Raw materials and consumables	**674**	640

12. Debtors

	2008 £000	2007 £000
Amounts owed by group undertakings	**1,280**	86
Corporation tax	**138**	-
Other debtors	**547**	386
Amounts receivable under finance leases	**308**	360
Deferred tax (note 13)	**1,825**	2,009
Prepayments and accrued income	**12,176**	11,580
	16,274	14,421

13. Deferred taxation

The deferred tax included in the balance sheet is as follows:

	2008	2007
	£000	£000
Included in debtors (note 12)	1,825	2,009

The movement in deferred tax during the year was:

	2008
	£000
Deferred tax asset brought forward	2,009
Profit and loss account movement arising during the year (note 7)	(184)
Deferred tax asset carried forward	1,825

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

	2008	2007
	£000	£000
Excess of capital allowances over depreciation of fixed assets/(excess of depreciation of fixed assets over capital allowances)	1,825	(1,663)
Tax losses	-	3,672
	1,825	2,009

14. Creditors: Amounts falling due within one year

	2008	2007
	£000	£000
Amounts owed to group undertakings	3,551	32,945
Corporation tax	-	75
Hire purchase and finance lease agreements (note 16)	242	1,176
Other creditors	69	12
Accruals and deferred income	2,742	2,746
	6,604	36,954

15. Creditors: Amounts falling due after more than one year

	2008	2007
	£000	£000
Hire purchase and finance lease agreements (note 16)	-	240

16. Commitments under hire purchase agreements and finance leases

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

	2008	2007
Other:	£000	£000
Amounts payable within 1 year	242	1,176
Amounts payable between 1 and 5 years	-	240
	242	1,416

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

17. Pensions

At 31 December 2008 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 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 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 £2,265,000 (2007: £2,218,000).

FRS 17 'Retirement benefits'

The company makes contributions to a defined benefit Scheme, the Arriva London North and 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 2008. As the company is unable to identify its share of the assets and liabilities of the group scheme, it accounts for contributions as if they were to a defined contribution pension scheme. Contributions payable by the company are charged to the profit and loss account in the period in which they fall due.

18. Commitments under operating leases

At 31 December 2008 the company had annual commitments under non-cancellable operating leases as set out below.

	Public service vehicles	
	2008	2007
	£000	£000
Operating leases which expire:		
Within 2 to 5 years	**3,891**	465
In more than 5 years	**3,335**	6,638
	7,226	7,103

19. Called up share capital

Authorised share capital:

	2008	2007
	£	£
15,000,000 ordinary shares of £1 each	**15,000,000**	15,000,000

Allotted and fully paid:

	2008		2007	
	Number	**£**	Number	£
Ordinary shares of £1 each	**3,992,000**	**3,992,000**	3,992,000	3,992,000

20. Reserves

	Share premium account 2008 £000	Profit and loss account 2008 £000
Balance brought forward	3,991	4,492
Profit for the financial year	–	3,689
Balance carried forward	**3,991**	**8,181**

21. Reconciliation of movements in shareholders' funds

	2008 £000	2007 £000
Profit for the financial year	**3,689**	4,492
Dividends (note 8)	-	(35,840)
Net increase/(decrease) in shareholders' funds	**3,689**	(31,348)
Opening shareholders' funds	**12,475**	43,823
Closing shareholders' funds	**16,164**	12,475

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.