

ARRIVA LONDON SOUTH LIMITED
FINANCIAL STATEMENTS
31 DECEMBER 2004



ARRIVA LONDON SOUTH LIMITED

FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2004

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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
D G Johnstone
D P Turner

Company Secretary

E A Thorpe

Registered Office

Admiral Way
Doxford International Business Park
Sunderland
SR3 3XP

Independent Auditors

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

ARRIVA LONDON SOUTH LIMITED

THE DIRECTORS' REPORT

YEAR ENDED 31 DECEMBER 2004

The directors present their report and the audited financial statements of the company for the year ended 31 December 2004.

Principal activities and business review

The principal activity of the Company during the year continued to be the operation of bus and coach services.

The Directors consider the state of the Company's affairs to be satisfactory and there have been no material changes since the balance sheet date.

Results and dividends

The trading results for the year, and the company's financial position at the end of the year are shown in the attached financial statements.

The Directors do not recommend the payment of a dividend (2003: £Nil).

Directors

The directors who served the company during the year were as follows:

P J Batty	
R A Bowler	
M D J Yexley	
J E Quantrell	
A J Sewell	
I R Tarran	
D G Johnstone	(Appointed 6 October 2004)
D P Turner	(Appointed 6 October 2004)

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

The interests of R A Bowler in the ordinary share capital of Arriva plc are shown in the Directors' Report of the immediate parent company, Arriva Passenger Services Limited.

The interests of D P Turner in the ordinary share capital of Arriva plc are shown in the Directors' Report of Arriva International Limited.

The interests of D G Johnstone in the ordinary share capital of Arriva plc are shown in the Directors' Report of Arriva Northumbria Limited, a fellow subsidiary.

The interests of the other Directors in the ordinary share capital of Arriva plc are shown in the Directors' Report of Arriva London North Limited, a fellow subsidiary.

ARRIVA LONDON SOUTH LIMITED

THE DIRECTORS' REPORT *(continued)*

YEAR ENDED 31 DECEMBER 2004

Statement of directors' responsibilities

Company law requires the Directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company and of the profit or loss of the Company for that period. The Directors are required to prepare the financial statements on a going concern basis, unless it is inappropriate to presume that the Company will continue in business.

The Directors confirm that suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 December 2004 and that applicable accounting standards have been followed.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Disabled employees

The Company continues to give full and fair consideration to applications for employment by disabled persons, having regard to their respective aptitudes and abilities. The Company's policy includes, where applicable, the continued employment of those who may become disabled during their employment.

Employee involvement

The Company has continued its policy of employee involvement, by making information available to employees and encouraging their participation in schemes which are related to the Company's progress and profitability.

Auditors

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

Signed by order of the directors



E A Thorpe
Company Secretary

3 March 2005

ARRIVA LONDON SOUTH LIMITED

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

YEAR ENDED 31 DECEMBER 2004

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

Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the Statement of Directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions is not disclosed.

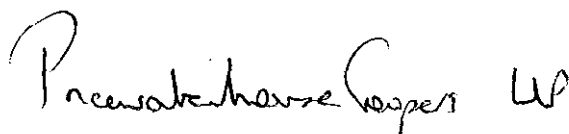
Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the Company's affairs as at 31 December 2004 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Newcastle upon Tyne

26 October 2005

ARRIVA LONDON SOUTH LIMITED

PROFIT AND LOSS ACCOUNT

YEAR ENDED 31 DECEMBER 2004

	Note	2004 £000	2003 £000
Turnover	2	84,533	70,234
Cost of sales		(69,938)	(59,597)
Gross profit		14,595	10,637
Administrative expenses		(5,141)	(4,658)
Other operating income		—	4
Operating profit	3	9,454	5,983
Interest payable and similar charges	5	(862)	(979)
Profit on ordinary activities before taxation		8,592	5,004
Tax on profit on ordinary activities	6	(2,406)	(1,596)
Retained profit for the financial year	17	6,186	3,408

All of the activities of the company are classed as continuing.

The company has no recognised gains or losses other than the profits for the year as set out above.

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.

The notes on pages 7 to 13 form part of these financial statements.

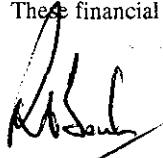
ARRIVA LONDON SOUTH LIMITED

BALANCE SHEET

31 DECEMBER 2004

	Note	2004 £000	2003 £000
Fixed assets			
Intangible assets	7	3,360	-
Tangible assets	8	45,709	41,700
		<u>49,069</u>	<u>41,700</u>
Current assets			
Stocks	9	279	220
Debtors	10	2,415	19,818
Cash at bank		100	113
		<u>2,794</u>	<u>20,151</u>
Creditors: Amounts falling due within one year	11	19,169	33,284
Net current liabilities		<u>(16,375)</u>	<u>(13,133)</u>
Total assets less current liabilities		<u>32,694</u>	<u>28,567</u>
Creditors: Amounts falling due after more than one year	12	7,589	10,891
		<u>25,105</u>	<u>17,676</u>
Provisions for liabilities and charges			
Deferred taxation	15	6,173	4,930
Net assets		<u>18,932</u>	<u>12,746</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	10,949	4,763
Equity shareholders' funds	18	<u>18,932</u>	<u>12,746</u>

These financial statements were approved by the directors on 2 March 2005 and are signed on their behalf by:



R A Bowler
Director

The notes on pages 7 to 13 form part of these financial statements.

ARRIVA LONDON SOUTH LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2004

1. Accounting policies

Basis of accounting

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

Cash flow statement

The Company is a wholly owned subsidiary and the ultimate parent company has prepared a group cash flow statement. Accordingly, under Financial Reporting Standards No. 1 (Revised), the Company is exempt from preparing a cash flow statement.

Turnover

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

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.

Depreciation

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Plant, machinery, fixtures and motor vehicles	- 10% to 48% per annum on cost
Public service vehicles	- Over periods up to 15 years

Stocks

Stocks are valued at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items.

Leasing and hire purchase commitments

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

Rentals payable under operating leases are charged in the profit and loss account on a straight line basis over the lease term.

Pension costs

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

Deferred taxation

The Group accounting policy is to provide for deferred taxation on all timing differences except those arising from the revaluation of fixed assets for which there is no binding agreement to sell or on undistributed profits from overseas subsidiaries. Deferred tax is calculated at the rates at which it is estimated the tax will arise. Deferred tax is not discounted to net present value.

ARRIVA LONDON SOUTH LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2004

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):

	2004	2003
	£000	£000
Amortisation of intangible fixed assets	240	—
Depreciation of owned fixed assets	1,547	1,087
Depreciation of assets held under hire purchase agreements	2,948	1,839
Profit on disposal of fixed assets	(77)	(4)
Operating lease costs:		
Land and buildings	247	233
Plant and equipment	8	12

4. Particulars of employees

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

	2004	2003
	No	No
Drivers	1,584	1,475
Engineering	212	202
Administrative	177	157
	<u>1,973</u>	<u>1,834</u>

The aggregate payroll costs of the above were:

	2004	2003
	£000	£000
Wages and salaries	53,534	46,111
Social security costs	5,228	4,293
Other pension costs	1,804	1,301
	<u>60,566</u>	<u>51,705</u>

None of the Directors received any remuneration from the Company during the year (2003: £nil).

5. Interest payable and similar charges

	2004	2003
	£000	£000
Bank interest payable	65	187
Hire purchase and finance lease charges	797	792
	<u>862</u>	<u>979</u>

ARRIVA LONDON SOUTH LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2004

6. Tax on profit on ordinary activities

(a) Analysis of charge in the year

	2004	2003
	£000	£000
Current tax:		
In respect of the year:		
UK Corporation tax based on the results for the year at 30% (2003 - 30%)	1,163	30
Total current tax	1,163	30
Deferred tax:		
Current year	1,275	1,648
Prior year	(32)	(82)
Total deferred tax (note 15)	1,243	1,566
Tax on profit on ordinary activities	2,406	1,596

(b) Factors affecting current tax charge

The tax assessed on the profit on ordinary activities for the year is lower than the standard rate of corporation tax in the UK of 30% (2003 - 30%).

	2004	2003
	£000	£000
Profit on ordinary activities before taxation	8,592	5,004
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30%	2,578	1,501
Difference between capital allowances and depreciation	(1,275)	(1,650)
Loss on disposal of qualifying assets	-	2
Adjustment to tax charge in respect of prior periods	(139)	174
Expenses not deductible for tax purposes	(1)	3
Total current tax (note 6(a))	1,163	30

(c) Factors that may affect future tax charges

There are no factors which are expected to materially affect future tax charges.

7. Intangible fixed assets

	Total
	£000
Cost	
Additions	3,600
At 31 December 2004	3,600
Amortisation	
Charge for the year	240
At 31 December 2004	240
Net book value	
At 31 December 2004	3,360
At 31 December 2003	-

ARRIVA LONDON SOUTH LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2004

8. Tangible fixed assets

	Plant, machinery, fixtures and motor vehicles £000	Public service vehicles £000	Total £000
Cost			
At 1 January 2004	1,482	57,704	59,186
Additions	252	8,952	9,204
Disposals	(40)	(6,508)	(6,548)
Transfers	—	(343)	(343)
At 31 December 2004	1,694	59,805	61,499
Depreciation			
At 1 January 2004	1,208	16,278	17,486
Charge for the year	111	4,293	4,404
On disposals	(40)	(6,150)	(6,008)
Transfers	—	(92)	(92)
At 31 December 2004	1,279	14,511	15,790
Net book value			
At 31 December 2004	415	45,294	45,709
At 31 December 2003	274	41,426	41,700

Hire purchase agreements

Included within the net book value of £45,709,000 is £33,719,000 (2003 - £25,162,000) 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 £2,948,000 (2003 - £1,839,000).

9. Stocks

	2004 £000	2003 £000
Raw materials	279	220

10. Debtors

	2004 £000	2003 £000
Amounts owed by group undertakings	—	17,563
Other debtors	8	8
Prepayments and accrued income	2,407	2,247
	2,415	19,818

ARRIVA LONDON SOUTH LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2004

11. Creditors: Amounts falling due within one year

	2004	2003
	£000	£000
Bank loans and overdrafts	1,097	24,001
Amounts owed to group undertakings	8,443	-
Corporation tax	1,019	415
Hire purchase agreements	5,457	5,605
Other creditors	213	185
Accruals and deferred income	2,940	3,078
	<u>19,169</u>	<u>33,284</u>

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

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

	2004	2003
	£000	£000
Hire purchase agreements	<u>7,589</u>	<u>10,891</u>

13. Commitments under hire purchase agreements

Future commitments under hire purchase agreements are as follows:

	2004	2003
	£000	£000
Amounts payable within 1 year	5,457	5,605
Amounts payable between 1 and 2 years	3,585	4,979
Amounts payable between 2 and 5 years	4,004	5,912
	<u>13,046</u>	<u>16,496</u>

ARRIVA LONDON SOUTH LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2004

14. Pensions

At 31 December 2004 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 2003, using the Projected Unit Method. The principal actuarial assumptions were that:

(i) the annual rate of return on investment would be 2.75 per cent higher than the annual increase in total pensionable remuneration of 3.75 per cent; and

(ii) there would be no variation from a scheme's rules to pensions in payment.

On the basis of these assumptions the actuarial value of the funds at 5th April 2003 was sufficient to cover 82 per cent of the benefits then accrued to members. The market value of the Scheme's assets at 5th April 2003 was £34 million.

The pensions cost for the year represents contributions payable by the Company to both schemes and amounts to £1,804,000 (2003: £1,301,000).

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 2004.

15. Deferred taxation

The movement in the deferred tax provision during the year was:

	2004	2003
	£000	£000
Provision brought forward	4,930	3,364
Profit and loss account movement arising during the year	1,243	1,566
Provision carried forward	<u>6,173</u>	<u>4,930</u>

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

	2004	2003
	£000	£000
Excess of taxation allowances over depreciation on fixed assets	6,183	4,939
Other timing differences	(10)	(9)
	<u>6,173</u>	<u>4,930</u>

16. Called-up equity share capital

Authorised share capital:

	2004	2003
	£	£
15,000,000 Ordinary shares of £1 each	<u>15,000,000</u>	<u>15,000,000</u>

Allotted, called up and fully paid:

	2004		2003	
	No	£	No	£
Ordinary shares of £1 each	<u>3,992,000</u>	<u>3,992,000</u>	<u>3,992,000</u>	<u>3,992,000</u>

ARRIVA LONDON SOUTH LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2004

17. Reserves

	Share premium account £000	Profit and loss account £000
Balance brought forward	3,991	4,763
Retained profit for the financial year	—	6,186
Balance carried forward	<u>3,991</u>	<u>10,949</u>

18. Reconciliation of movements in equity shareholders' funds

	2004 £000	2003 £000
Profit for the financial year	6,186	3,408
Opening equity shareholders' funds	<u>12,746</u>	<u>9,338</u>
Closing equity shareholders' funds	<u>18,932</u>	<u>12,746</u>

19. Ultimate parent company

The ultimate parent company and ultimate controlling party is Arriva plc, a company registered in England and Wales, and which has prepared group accounts incorporating the results of Arriva London South Limited. Copies of these accounts can be obtained from Admiral Way, Doxford International Business Park, Sunderland, SR3 3XP.

Transactions with other companies in the Arriva Group are not specifically disclosed as the Company has taken advantage of the exemption available under FRS 8 'Related Party Disclosures' for wholly-owned subsidiaries.