

LTS RAIL LIMITED

Registered in England No: 2938993

DIRECTORS' REPORT AND ACCOUNTS

31 MARCH 1996



LTS RAIL LIMITED

DIRECTORS' REPORT

The Directors submit their report and the accounts for the year ended 31 March 1996.

PRINCIPAL ACTIVITY

The principal activity of the Company during the year was the operation of passenger railway services between London Fenchurch Street and Shoeburyness.

The Company was incorporated on 9 June 1994 as LTS Rail Limited. Under the Railways Act 1993 the British Railways Board (the Board) vested the business assets and liabilities of London, Tilbury and Southend division of the Board in the Company on 18 December 1994. The company commenced trading on that date.

RESULTS

	Year ended 31 March 1996 £'000	Periods to 31 March 1995 £'000
Profit for the year/period	5,438	744
Dividends paid	(2,500)	—
Transfer to reserves	2,938	744

BUSINESS REVIEW AND PROSPECTS

Turnover was £87.3m and operating profit was £5.0m for the year ended 31 March 1996. The net profit after tax and dividends was £2.9m which has been transferred to reserves.

DIRECTORS AND THEIR INTERESTS

The directors of the Company during the period and since the year end were as follows:

John Nelson (Chairman)

I Cross

C Kinchin-Smith

R Turner

D Burton

E Cameron

I Powney

K Bird

(resigned 8 February 1996)

(resigned 8 February 1996)

(appointed 1 December 1995)

(appointed 13 February 1996)

(appointed 19 April 1996)

(appointed 19 April 1996)

None of the directors had a beneficial interest in any shares of the Company or of any other group undertaking. No director had a material interest in any contract with the Company or with the Board.

LTS RAIL LIMITED

DIRECTORS' REPORT (CONTINUED)

DIRECTORS' RESPONSIBILITIES

Company law requires the Directors to prepare financial statements for each financial year 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. 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 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.

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 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.

EMPLOYEES

LTS Rail Limited is a non-discriminatory employer operating an Equal Opportunities Policy which aims to eliminate unfair discrimination, harassment, victimisation and bullying. The Company is committed to ensuring that all individuals are treated fairly, with respect and are valued irrespective of disability, race, gender, health, social class, sexual preference, marital status, nationality, religion, employment status, age or membership or non-membership of trade union.

The Company uses the consultative procedures agreed with its staff and elected representatives with a view to ensuring that employees are aware of the financial and economic factors which affect the Company's performance and prospects.

As at 31 March 1996 the Company employed no registered disabled persons. Its policy is to employ those who become disabled in service, together with some recruitment where circumstances permit. Training is adjusted to cater for an individual disability and the disabled share the same conditions of service as other staff in relation to career development and promotion.

FIXED ASSETS

Changes in the tangible fixed assets of the Company are as detailed in note 8 to the accounts.

POST BALANCE SHEET EVENTS

On 8 May 1996 the Board entered into an agreement with Prism Rail plc to sell to them the whole of the issued share capital of the company. The completion date for this agreement is scheduled for 26 May 1996.

No other major events have occurred or come to light since 31 March 1996 which have a bearing on the state of the Company's affairs as at that date.

LTS RAIL LIMITED

DIRECTORS' REPORT (CONTINUED)

CHARITABLE CONTRIBUTIONS

No political or charitable donations were made by the Company during the period.

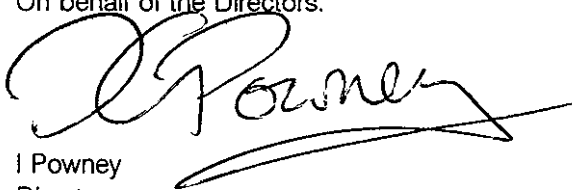
DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

The directors and other officers of the company have insurance which, subject to the terms of the policy, indemnified them against any personal liability and defence costs which might result from claims brought against them in their capacity, as directors and officers of the company.

AUDITORS

On 26 May 1996 Price Waterhouse are expected to resign at which time new auditors will be appointed.

On behalf of the Directors.


I Powney
Director

24 May 1996

Price Waterhouse



**AUDITORS' REPORT TO THE SHAREHOLDERS OF
LTS RAIL LIMITED**

We have audited the financial statements on pages 5 to 14 which have been prepared under the historical cost convention and the accounting policies set out on pages 7 and 8.

Respective responsibilities of directors and auditors

As described on page 2 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

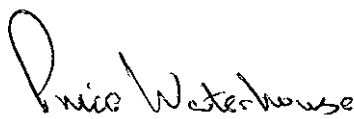
Basis of opinion

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 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 information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the affairs of the Company as at 31 March 1996 and of the profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


PRICE WATERHOUSE
Chartered Accountants
and Registered Auditors

24 May 1996

LTS RAIL LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 MARCH 1996

	Notes	Year ended 31 March 1996			Period ended 31 March 1995		
		Before exceptional items £'000	Exceptional items (see note 3) £'000	Total £'000	Before exceptional items £'000	Exceptional items (see note 3) £'000	Total £'000
TURNOVER	1, 3						
Passenger income		51,725		51,725	16,328	-	16,328
Revenue grant		31,271	1,810	33,081	8,426	590	9,016
Other income		2,532		2,532	1,205	-	1,205
		<u>85,528</u>	<u>1,810</u>	<u>87,338</u>	<u>25,959</u>	<u>590</u>	<u>26,549</u>
Operating expenditure	3	(81,244)	(1,090)	(82,334)	(25,408)	(590)	(25,998)
OPERATING PROFIT	2(a), 3	<u>4,284</u>	<u>720</u>	<u>5,004</u>	<u>551</u>	<u>-</u>	<u>551</u>
Loss on disposal of fixed assets				(8)			-
Profit before interest				4,996			551
Interest receivable	4			442			193
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION				5,438			744
Taxation on profit on ordinary activities	5			-			-
Profit after taxation				5,438			744
Dividend	6			(2,500)			-
PROFIT FOR THE PERIOD TRANSFERRED TO RESERVES	13			<u>2,938</u>			<u>744</u>

All activities relate to continuing operations.

There are no recognised gains and losses other than the profit for the year.

The notes on pages 7 to 14 form part of these accounts.

LTS RAIL LIMITED

BALANCE SHEET

	Notes	31 March 1996 £'000	31 March 1995 £'000
TANGIBLE FIXED ASSETS	8	342	148
CURRENT ASSETS			
Stocks	9	466	380
Debtors and prepayments	10	16,509	16,833
Cash at bank and in hand		9,408	3,980
		26,383	21,193
CREDITORS - Amounts falling due within one year	11(a)	(22,948)	(18,600)
NET CURRENT ASSETS		3,435	2,593
TOTAL ASSETS LESS CURRENT LIABILITIES		3,777	2,741
CREDITORS - Amounts falling due after more than one year	11(b)	(95)	(23)
		3,682	2,718
CAPITAL AND RESERVES			
Called up share capital	12	-	-
Profit and loss account	13	3,682	744
Other reserves	13	-	1,974
SHAREHOLDERS' FUNDS		3,682	2,718

On behalf of the Directors


CHAIRMAN

24 MAY 1996

The notes on pages 7 to 14 form part of these accounts.

LTS RAIL LIMITED

NOTES TO THE ACCOUNTS - 31 MARCH 1996

ACCOUNTING POLICIES

The Company was incorporated on 9 June 1994. Under the Railways Act 1993, The British Railways Board (the Board) vested the business, assets and liabilities of London, Tilbury, Southend division of the Board in the Company on 18 December 1994. The Company commenced trading on that date.

The accounting policies adopted by the Company are set out below.

(a) Basis of accounting

The accounts are prepared under the historical cost convention and in accordance with applicable accounting standards.

(b) Turnover

- i) Passenger income represents agreed amounts attributed to the company by the Board's income allocation systems principally in respect of passenger receipts, based on detailed surveys of passenger flows. The attributed share of season ticket income is deferred within creditors and released to the profit and loss account over the life of the relevant season ticket.
- ii) Grant income relates to the Company's allocation from the Board of grants in respect of passenger services operated by the Company.

(c) Fixed assets depreciation

Plant and equipment are capitalised at cost subject to a minimum monetary level of £5,000.

Depreciation is provided on a straight line basis over periods related to the estimated useful economic lives of assets and commences from the beginning of the year following entry into service. The lives used for the major categories of assets are:

Land and buildings	30 - 40 years
Plant and equipment	3 - 20 years

(d) Leasing

The capital element (above the minimum monetary level) of finance leasing obligations for plant and equipment assets is included in fixed assets and depreciation in the same way as owned assets.

The capital element of leasing liabilities is included within creditors. The liability is stated at the deemed capital portion of the annual lease payments calculated on the annuity method, with the remainder of the annual payment, representing interest, being shown within interest payable and similar charges in the profit and loss account.

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

LTS RAIL LIMITED

NOTES TO THE ACCOUNTS - 31 MARCH 1996 (CONTINUED)

ACCOUNTING POLICIES (CONTINUED)

(e) Taxation

The company is assessable to taxation in accordance with the Taxes Acts. No provision is made for deferred taxation unless it is expected that a liability will crystallise within the foreseeable future.

(f) Stocks and work in progress

Stocks and work in progress are stated at the lower of cost and net realisable value. Raw materials include amounts incurred in respect of the rights to utilise stock of replaceable spares.

(g) Pensions

The Railways Pension Scheme provides pension benefits to the substantial majority of current employees on a defined benefit basis.

The contributions to the pension scheme are paid in accordance with its rules. The charge to the profit and loss account reflects the regular service cost of such obligations less a proportion of any actuarial surpluses calculated across the Board as a whole. These surpluses are credited over the estimated average remaining service lives of employees in the scheme.

LTS RAIL LIMITED

NOTES TO THE ACCOUNTS - 31 MARCH 1996 (CONTINUED)

1 TURNOVER

Turnover originates in the United Kingdom.

The Directors consider that the whole of the activities of the Company constitute a single class of business, the provision of Passenger Railway Services. Revenue grant received in respect of the provision of these services is also recognised in turnover.

2(a) OPERATING PROFIT

	<u>1995/96</u> £'000	<u>1994/95</u> £'000
The following amounts have been charged/(credited) in arriving at the operating profit:		
Depreciation	34	13
Auditors' remuneration		
Audit fees	39	11
Operating lease rentals		
Access charges payable to Railtrack	36,462	11,560
Rolling stock charge	17,285	4,893
Other plant and equipment	117	6
Research and development expenditure	67	49
Rents receivable	(768)	(13)

The Company has signed contracts which commit it to lease rolling stock from Angel Train Contracts Limited and Eversholt Leasing Limited over the next 1 - 6 years.

The Company has signed contracts with Railtrack for access to the railway infrastructure (track, station and depots). These contracts are for a further 6 years.

2(b) Directors' emoluments

	<u>1995/96</u> £'000	<u>1994/95</u> £'000
Directors' fees	102	30
Pension contributions	<u>6</u>	<u>1</u>
	108	31
	<u>£</u>	<u>£</u>
Emoluments, excluding pension contributions, of the Chairman	7,142	654
Emoluments, excluding pension contributions, of the highest paid director	45,432	18,125

LTS RAIL LIMITED

NOTES TO THE ACCOUNTS - 31 MARCH 1996 (CONTINUED)

2(b) Directors' emoluments (Continued)

The emoluments, excluding pension contributions, of the Directors fell into the following scales:

		<u>1995/96</u>	<u>1994/95</u>
£0	- £5,000	4	2
£5,001	- £10,000	1	1
£15,001	- £20,000	-	1
£40,000	- £45,000	1	-
£45,001	- £50,000	1	-

2(c) Employee costs

	<u>1995/96</u> £'000	<u>1994/95</u> £'000
Wages and salaries	13,673	3,998
Social security costs	1,025	315
Other pension costs	<u>270</u>	<u>69</u>
	<u>14,968</u>	<u>4,382</u>

The average number of persons employed by the Company during the period was 709.

3 EXCEPTIONAL ITEMS

The following exceptional items have been included in arriving at operating profit

	<u>1995/96</u> £'000	<u>1994/95</u> £'000
Costs of voluntary severance schemes	771	286
Privatisation costs	<u>319</u>	<u>304</u>
	1,090	590
Grant for voluntary severance schemes and privatisation	<u>1,810</u>	<u>590</u>
Net exceptional gain	<u>720</u>	-

The grant exceeds actual expenditure since the grant claim is based on budgeted expenditure.

LTS RAIL LIMITED

NOTES TO THE ACCOUNTS - 31 MARCH 1996 (CONTINUED)

4 INTEREST RECEIVABLE

	1995/96 £'000	1994/95 £'000
Bank deposits and short term loans	399	227
Group and fellow subsidiary undertakings	<u>43</u>	<u>85</u>
	442	312
Loans and bank overdrafts wholly repayable within five years	-	(45)
Group and fellow subsidiary undertakings	<u>-</u>	<u>(74)</u>
Net interest receivable	442	193
	<u><u>442</u></u>	<u><u>193</u></u>

5 TAXATION

There is no charge for taxation, based on indications from the Department of Transport about the level of unutilised tax losses and the amounts of the tax written down value of assets to be allocated to the company, for no consideration, by the Secretary of State for Transport.

6 DIVIDENDS

A dividend of £2,500,000 per share (1994/95: Nil) was paid on 8 December 1995.

7 OPERATING LEASE COMMITMENTS

The company has signed contracts which commit it to lease rolling stock from Angel Train Contracts Limited and Eversholt Leasing Limited over the next one to six years.

The Company has the following annual commitments due under operating leases which expire as follows:

	1995/96 <u>Rolling stock</u> £'000	1994/95 <u>Rolling stock</u> £'000
Under one year	-	-
Between one and five years	2,863	4,872
Five years and over	<u>16,934</u>	<u>12,236</u>
	19,797	17,108
	<u><u>19,797</u></u>	<u><u>17,108</u></u>

The Company has also signed contracts with Railtrack for access to the railway infrastructure (track, station and depots). These contracts are for a period of a further 6 years and consist of fixed and variable charges. The Company is committed to pay a fixed charge of £31.2m for the year ended 31 March 1996 and thereafter it is indexed annually by a percentage equal to RPI minus 2%. The variable charges cover track usage and traction current and are primarily dependent on train miles run. The estimated variable charge for the year ending 31 March 1997 is £4.4m.

LTS RAIL LIMITED

NOTES TO THE ACCOUNTS - 31 MARCH 1996 (CONTINUED)

8 TANGIBLE FIXED ASSETS

	Land and buildings £'000	Owned Plant and equipment £'000	Total £'000
Cost			
At 1 April 1995	70	191	261
Additions	140	97	237
Disposals	(8)	(46)	(54)
At 31 March 1996	<u>202</u>	<u>242</u>	<u>444</u>
Accumulated depreciation			
At 1 April 1995	4	109	113
Charge for period	2	32	34
Disposals	-	(45)	(45)
At 31 March 1996	<u>6</u>	<u>96</u>	<u>102</u>
Net book amount			
At 31 March 1996	<u>196</u>	<u>146</u>	<u>342</u>
At 31 March 1995	<u>66</u>	<u>82</u>	<u>148</u>

9 STOCKS

	<u>31 March</u> 1996 £'000	<u>31 March</u> 1995 £'000
Raw materials and consumables	466	380
	<u> </u>	<u> </u>

10 DEBTORS AND PREPAYMENTS

	<u>31 March</u> 1996 £'000	<u>31 March</u> 1995 £'000
Trade debtors	903	2,276
Amounts owed by parent undertaking	12,681	13,498
Amounts owed by fellow subsidiary undertakings	533	772
Other debtors	2,073	41
Prepayments and accrued income	<u>319</u>	<u>246</u>
	<u>16,509</u>	<u>16,833</u>
	<u> </u>	<u> </u>

LTS RAIL LIMITED

NOTES TO THE ACCOUNTS - 31 MARCH 1996 (CONTINUED)

11 CREDITORS

11(a) Falling due within one year

	<u>31 March</u> 1996 £'000	<u>31 March</u> 1995 £'000
Trade creditors	5,611	2,268
Amounts owed to fellow subsidiary undertakings	1,858	166
Other creditors	1,408	814
Other taxation and social security	-	785
Deferred season ticket income	14,071	14,549
Accruals and other deferred income	-	18
	<u>22,948</u>	<u>18,600</u>

11(b) Creditors falling due after more than one year

	<u>31 March</u> 1996 £'000	<u>31 March</u> 1995 £'000
Leasing liabilities	1	1
Passenger claims provision	<u>94</u>	<u>22</u>
	<u>95</u>	<u>23</u>

12 CALLED UP SHARE CAPITAL

	<u>31 March 1996</u>		<u>31 March 1995</u>	
	Number of <u>shares</u>	31 March <u>1996</u> £	Number of <u>shares</u>	31 March <u>1995</u> £
Ordinary shares of £1.00 each:				
Authorised	10,000	10,000	10,000	10,000
	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>
Allotted, issued and fully paid				

LTS RAIL LIMITED

NOTES TO THE ACCOUNTS - 31 MARCH 1996 (CONTINUED)

13 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	Share capital £'000	Profit and loss account £'000	Other reserves £'000	Total £'000
At 1 April 1995	-	744	1,974	2,718
Retained profit for the year	-	2,938	-	2,938
Conversion to debenture	-	-	(1,974)	(1,974)
At 31 March 1996	-	3,682	-	3,682

Under Section 98 of the Railways Act, the other reserve was cleared by the issue and payment of a debenture to the British Railways Board.

14 CAPITAL COMMITMENTS

There were no capital commitments at the balance sheet date.

15 PENSION SCHEMES

The majority of the Company's employees are members of the Railways Pension Scheme (RPS), a funded defined benefit scheme. The RPS was established with effect from 1 October 1994 when the British Rail Pension Scheme (BRPS) was portioned. The BRPS was last valued for the purposes of assessing the appropriate pension cost for the British Railways Board as a whole as at 1 April 1995 by R Watson and Sons, independent qualified actuaries. Further details of this valuation are given in the financial statements of the British Railways Board.

The charge to the profit and loss account was £270,000 for the year ended 31 March 1996 (£69,000 for the period ended 31 March 1995).

16 ULTIMATE PARENT UNDERTAKING

The Company's ultimate parent undertaking is the British Railways Board, a statutory corporation incorporated under the terms of the Transport Act 1962 in Great Britain. This is the only group of which this Company is a member for which group accounts are prepared. Copies of the above group accounts are available from: The Secretary, British Railways Board, PO Box 100, 24 Eversholt Street, London NW1 1DZ.

17 CASH FLOW STATEMENT

The British Railways Board's financial statement for the years ended 31 March 1996 contain a consolidated statement of cash flows. The Company has taken advantage of the exemption granted by Financial Reporting Standard 1 whereby it is not required to publish its own statement of cash flows.