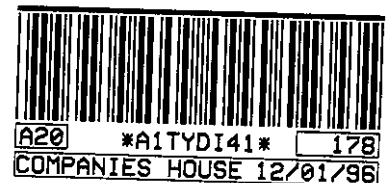


DIRECTORS' REPORT AND ACCOUNTS

LTS RAIL LIMITED
Registered in England No:
2938993

31 March 1995

Registered Office
Euston House
24 Eversholt Street
London NW1 1D2



LTS RAIL LIMITED

Directors' Report

The Directors submit their report and the accounts for the period from incorporation on 9th June 1994 and ended on 31 March 1995.

Principal activity

The Company was incorporated on 9th 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, Southend division of the Board in the Company on 18th December 1994. The company commenced trading on that date.

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

Results

	£000
Profit for the period	744
Dividends paid/proposed	<u>Nil</u>
Transfer to reserves	<u>744</u>

The directors do not propose the payment of a dividend

Business review and prospects

During the period turnover was £26.5m and operating profit was £0.6m. The net profit after tax was £0.7m which has been carried to reserves.

It is the intention of the Director of Passenger Rail Franchising (OPRAF) to privatise the Company.

Directors and their interests

The directors of the Company during the period were as follows:

	<u>Date of Appointment</u>
John Nelson (Chairman)	18th December 1994
Ian Cross	31st January 1995
Chris Kinchin-Smith	18th December 1994
Roger Turner	31st January 1995

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.

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 a 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 1995 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.

Charitable contributions

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

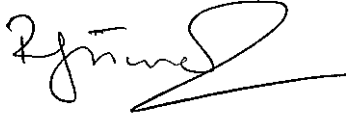
Directors' and Officers' Liability Insurance

The directors and other officers of the company have insurance which, subject to the terms of the policy, indemnifies 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

Price Waterhouse were appointed auditors of the Company on 18th December 1994 and have indicated their willingness to continue in office. A resolution reappointing them as auditors will be proposed at the next Annual General Meeting.

On behalf of the Directors.

A handwritten signature in black ink, appearing to read 'R Turner', with a long horizontal flourish extending to the right.

R Turner
DIRECTOR

24th July 1995

AUDITORS' REPORT TO THE SHAREHOLDERS OF
LTS RAIL LIMITED

We have audited the financial statements on pages 6 to 16 which have been prepared under the historical cost convention and the accounting policies set out on pages 8 and 9.

Respective Responsibilities of Directors and Auditors

As described on page 3 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 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 were 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 affairs of the Company as at 31 March 1995 and of the profit for the period then ended and have been properly prepared in accordance with the Companies Act 1995.

Price Waterhouse

PRICE WATERHOUSE
Chartered Accountants
and Registered Auditors

Southwark Towers
32 London Bridge Street
LONDON
SE1 9SY

24 July 1995

LTS RAIL LIMITED

PROFIT AND LOSS ACCOUNT

Notes	Period to 31 March 1995		
	Before Exceptional Items £'000	Exceptional Items (see note 3) £'000	Total £'000
1	Turnover		
	Passenger income	16,328	16,328
	Revenue grant	8,426	9,016
	Other income	<u>1,205</u>	<u>1,205</u>
		25,959	26,549
	Operating expenditure	<u>(25,408)</u>	<u>(25,998)</u>
2 (a)	Operating profit	<u>551</u>	551
4	Interest receivable		<u>193</u>
	Profit on ordinary activities before taxation		<u>744</u>
5	Taxation on profit on ordinary activities		<u>-</u>
13	Profit for the period transferred to reserves		<u><u>744</u></u>

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

The notes on Pages 8 to 16 form part of these accounts.

LTS RAIL LIMITED

**BALANCE SHEET
as at 31 March 1995**

Notes		31 March 1995 £'000
	TANGIBLE FIXED ASSETS	
8	Plant and Equipment	148
		<hr/>
	CURRENT ASSETS	
9	Stocks	380
10	Debtors and Prepayments	16,833
	Cash at bank and in hand	<u>3,980</u>
11(a)	CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	<u>(18,600)</u>
	NET CURRENT ASSETS	2,593
	TOTAL ASSETS LESS CURRENT LIABILITIES	2,741
11(b)	CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	(23)
		<hr/>
		2,718
		<hr/>
	CAPITAL AND RESERVES	
12	Called up share capital	-
13	Profit and loss account	744
13	Other reserves	1,974
13	SHAREHOLDER'S FUNDS	<u><u>2,718</u></u>

On behalf of the Directors

Director:

Rye 2

Date:

24 July 1995

The notes on pages 8 to 16 form part of these accounts

LTS RAIL LIMITED

for the period ended 31 March 1995

NOTES TO THE ACCOUNTS

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 AND 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 depreciated 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.

(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.

LTS RAIL LIMITED
NOTES TO THE ACCOUNTS (continued)

(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 stocks 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 (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.

2(a) **OPERATING PROFIT**

1994/95
£'000

The following amounts have been charged/(credited) in arriving at the operating profit:

Depreciation	13
Auditors' remuneration	
Audit fees	11
Operating lease rentals	
Access charges payable to Railtrack	11,560
Rolling Stock charge	4,893
Other plant and equipment	6
Research and development expenditure	49
Rents receivable	(13)

The Company has signed contracts which commit it to lease rolling stock from Angel Train Contracts Ltd and Eversholt Leasing Ltd over the next 1 - 7 years.

The Company has signed contracts with Railtrack for access to the railway infrastructure (track, station and depots). These contracts are for a period of 7 years.

LTS RAIL LIMITED
NOTES TO THE ACCOUNTS (continued)

	1994/95 £'000
2(b) Directors' emoluments	
Directors' fees	30
Pension contributions	1
	<u>31</u>
	1994/95 £
Emoluments, including pension contributions, of the Chairman	654
Emoluments, including pension contributions, of the highest paid Director	18.125

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

	1994/95
£0 - £5,000	2
£5,001 - £10,000	1
£15,001 - £20,000	1
	1994/95 £'000
2(c) Employee costs	
Wages and salaries	3.998
Social security costs	315
Other pension costs	69
	<u>4.382</u>

The average number of persons employed by the Company during the period was 756

3 EXCEPTIONAL ITEMS

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

	1994/95 £'000
Costs of voluntary severance schemes	286
Privatisation costs	304
	<u>590</u>
Grant for voluntary severance schemes and privatisation.	590
Net exceptional gain	<u>-</u>

LTS RAIL LIMITED
NOTES TO THE ACCOUNTS (continued)

	1994/95 £'000
4 INTEREST RECEIVABLE	
Bank deposits and short term loans	227
Group and fellow subsidiary undertakings	<u>85</u>
	312
INTEREST PAYABLE	
Loans and bank overdrafts wholly repayable within five years	(45)
Group and fellow subsidiary undertakings	<u>(74)</u>
Net interest receivable	193

- 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 values of assets to be allocated to the company by the Secretary of State for Transport (see also note 18).

7 OPERATING LEASE COMMITMENTS

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

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

	Rolling Stock £000
Under one year	-
Between one and five years	4,872
Five years and over	<u>12,236</u>
	<u>17,108</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 7 years and consist of fixed and variable charges. The Company is committed to pay a fixed charge of £31.2m for the year ending 31 March 1996 and thereafter it will be 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 1996 is £4.9m.

LTS RAIL LIMITED
NOTES TO THE ACCOUNTS (continued)

8 TANGIBLE FIXED ASSETS

	<u>Land & Buildings</u>	<u>Owned Plant & Equipment</u>	<u>Total</u>
	£'000	£'000	£'000
COST OR VESTED AMOUNT			
Assets vested as at 18.12.94 and at 31 March 1995	70	191	261
ACCUMULATED DEPRECIATION	<u> </u>	<u> </u>	<u> </u>
Depreciation vested as at 18.12.94	3	97	100
Charge for period	1	12	13
	<u> </u>	<u> </u>	<u> </u>
At 31 March 1995	4	109	113
	<u> </u>	<u> </u>	<u> </u>
NET BOOK AMOUNT			
At 31 March 1995	66	82	148
	<u> </u>	<u> </u>	<u> </u>

The vested amount represented the original cost and accumulated depreciation of assets transferred to the Company by the British Railways Board (note 18).

9 STOCKS

Raw materials and consumables

31 March
1995
£'000

380

LTS RAIL LIMITED
NOTES TO THE ACCOUNTS (continued)

	31 March 1995 £'000
10 DEBTORS AND PREPAYMENTS	
Trade debtors	2,276
Amounts owed by parent undertaking	14,270
Other debtors	41
Prepayments and accrued income	246
	<u>16,833</u>
	<u><u>16,833</u></u>
11 CREDITORS	
11(a) <u>Falling due within one year</u>	
Trade creditors	2,268
Amounts owed to fellow subsidiary undertakings	166
Other creditors	814
Other taxation and social security	785
Deferred season ticket income	14,549
Accruals and other deferred income	18
	<u>18,600</u>
	<u><u>18,600</u></u>
11(b) <u>Creditors falling due after more than one year</u>	
Leasing liabilities	1
Passenger Claims Provision	<u>22</u>
	<u><u>23</u></u>

LTS RAIL LIMITED
NOTES TO THE ACCOUNTS (continued)

	Number of Shares	31 March 1995 £	9 June 1994 £
12 CALLED UP SHARE CAPITAL			
Ordinary shares of £1.00 each:			
Authorised	<u>10,000</u>	<u>10,000</u>	<u>10,000</u>
Allotted, issued and fully paid	<u>1</u>	<u>1</u>	<u>1</u>

One ordinary share of £1 was issued for cash at par on incorporation.

13 RECONCILIATION OF MOVEMENT IN
SHAREHOLDERS' FUNDS

	Period to 31 March 1995			
	Share Capital £'000	Profit and Loss Account £'000	Other Reserves £'000	Total £'000
At Incorporation	-	-	-	-
Amounts transferred at vesting (note 18)	-	-	1,974	1,974
Profit for the period	-	744	-	744
Shares issued in the period (note 12)	-	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 March 1995	<u> </u>	<u>744</u>	<u>1,974</u>	<u>2,718</u>

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 partitioned. 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 1994 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 in the period was £69,000

LTS RAIL LIMITED
NOTES TO THE ACCOUNTS (Continued)

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 statements for the year ended 31 March 1995 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.

18

VESTED ASSETS AND LIABILITIES

Under a direction issued in accordance with Section 85 of the Railways Act 1993, the British Railways Board entered into a transfer scheme to vest the following assets and liabilities to the Company with effect from 18th December 1994.

	<u>£'000</u>
Fixed assets	161
Current assets: Amounts due from British Railways Board & Subsidiaries	22,765
Other Current Assets	6,705
Current Liabilities	<u>(27,657)</u>
	<u>1,974</u>
Reserve arising on vesting	<u>1,974</u>

The value at which the assets and liabilities were vested are those at which the assets and liabilities were included in the accounting records of the British Railways Board at 18th December 1994.

The Department of Transport has indicated that it is the intention of the Secretary of State for Transport to allocate to the Company an amount of the unutilised tax losses of the British Railways Board equivalent to the taxable trading profit of the Company for the period ended 31 March 1995. The allocation of these unutilised tax losses is yet to occur. (see also note 5)

In accordance with the Finance Act 1994, the Secretary of State for Transport has the power to allocate further unutilised tax losses to the Company up until the date that the Company ceases to be publicly owned. Any unutilised tax losses so allocated can only be set off against trading profits made while the Company remains in public ownership.