

**DIRECTORS' REPORT AND ACCOUNTS**

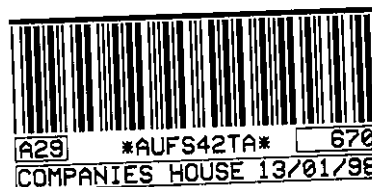
**LTS RAIL LIMITED**

**Company No. 2938993**

**31 March 1997**

Registered Office:

Central House  
Clifftown Road  
Southend on Sea  
Essex SS1 1AB



## **Directors' Report and Accounts**

### **LTS Rail Limited**

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## LTS Rail Limited

### Directors' Report

The Directors submit their report and the accounts for the year ended 31 March 1997.

#### Principal activity

The principal activity of the Company during the year was the operation of passenger railway services between London Fenchurch Street and Shoeburyness. On 26 May 1996 the right to operate the Company's passenger railway services was franchised to Prism Rail PLC and on that date the Company became one of its wholly owned subsidiaries.

#### Business review and prospects

Operating performance during the year as measured by Passenger Charter targets improved significantly over the comparative twelve month period to 31 March 1996, in terms of both punctuality (94.8%, up from 92.2%) and reliability, (99.1%, up from 98%). The financial performance of the Company is set out in the accompanying accounts. Passenger income increased by 6.2% to £54.9 million, largely as a result of initiatives such as the introduction of security guards at stations.

The Directors remain positive about the Company's prospects on the basis of the increasing passenger revenue, the improving operational performance and a range of initiatives being introduced within the business.

#### Results and dividends

Details of the results for the year are set out on page 5. The loss for the year of £415,000 reflects a reduced level of revenue grant received from the British Railways Board prior to the Company's transfer to private ownership, and restructuring costs of £2,354,000.

The Directors do not propose the payment of a dividend.

#### Directors and their interests

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

	<u>Date of Appointment</u>	<u>Date of Resignation</u>
J. Nelson (Chairman until 26 May 1996)	9 June 1994	26 May 1996
R. Howells (Chairman from 26 May 1996)	26 May 1996	
I. Cross	31 January 1995	26 May 1996
D. Burton	1 December 1995	11 April 1996
E. Cameron	13 February 1996	26 May 1996
K. Bird	26 April 1996	
I. Powney	22 April 1996	
G. Fearnley	26 May 1996	
H. Nichol	10 July 1996	
R. McClean	7 June 1996	
D. Wilcock	12 June 1996	28 February 1997

The interests of the Directors in the share capital of the Company and other group undertakings are disclosed in note 20. No Director had a material interest in any contract with the Company. The details of material interests with other group undertakings are disclosed within the accounts of its parent company, Prism Rail PLC.

**LTS Rail Limited**

**Directors' Report (continued)**

**Directors' responsibilities**

Company law requires the Directors to prepare accounts 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 these accounts 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 accounts;
- prepare the accounts 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 accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**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.

The Company's policy is to continue 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.

**Supplier payment policy**

It is the policy of the Company to agree payment terms with suppliers or to make suppliers aware of standard payment terms at the time that orders for goods and services are placed, and to settle accounts with suppliers in accordance with those terms, subject to satisfactory provision of the goods and services.

Trade creditors at 31 March 1997 represented 32 days' purchases.

**Post balance sheet events**

Details of post balance sheet events are set out in note 22 to the accounts.

**Charitable and political contributions**

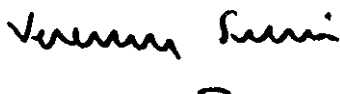
No charitable or political donations were made by the Company during the period.

**LTS Rail Limited**

**Directors' Report (continued)**

**Auditors**

Price Waterhouse resigned as auditors of the Company with effect from 26 May 1996. Solomon Hare were appointed auditors on that date and have indicated their willingness to continue in office. A resolution re-appointing them as auditors will be proposed at the next Annual General Meeting.



J.P. Simon  
Secretary

Date: 14th July 1997

On behalf of the Board

**Auditors' Report to the Shareholders of  
LTS Rail Limited**

We have audited the accounts on pages 5 to 14 which have been prepared under the historical cost convention and the accounting policies set out on 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 accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts 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 accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which were 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 accounts.

**Opinion**

In our opinion the accounts give a true and fair view of the state of affairs of the Company as at 31 March 1997 and of the loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*Solomon Hare*

Solomon Hare  
Registered Auditors  
Chartered Accountants  
Bristol

Dated: 14th July 1997

LTS Rail Limited

PROFIT AND LOSS ACCOUNT

		Year ended 31 March 1997			Year ended 31 March 1996		
	Notes	Before Exceptional Items £000	Exceptional Items £000	Total £000	Before Exceptional Items £000	Exceptional Items £000	Total £000
<b>Turnover</b>	2						
Passenger income		54,930	-	54,930	51,725	-	51,725
Revenue grant	6	24,245	-	24,245	31,271	1,810	33,081
Other income		4,653	-	4,653	2,532	-	2,532
		<u>83,828</u>	<u>-</u>	<u>83,828</u>	<u>85,528</u>	<u>1,810</u>	<u>87,338</u>
Operating expenditure	6	(82,901)	(2,354)	(85,255)	(81,252)	(1,090)	(82,342)
<b>Operating profit/(loss)</b>	3	<u>927</u>	<u>(2,354)</u>	<u>(1,427)</u>	<u>4,276</u>	<u>720</u>	<u>4,996</u>
Interest receivable	7			1,014			442
Interest payable	7			(2)			-
<b>Profit/(loss) on ordinary activities before taxation</b>				<u>(415)</u>			<u>5,438</u>
Taxation	8			-			-
<b>Profit/(loss) on ordinary activities after taxation</b>				<u>(415)</u>			<u>5,438</u>
Dividends	9			-			(2,500)
<b>Retained profit/(loss) for the financial year</b>	18			<u>(415)</u>			<u>2,938</u>

All amounts relate to continuing operations.

There are no recognised gains and losses other than the results for the financial years.

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

LTS Rail Limited

BALANCE SHEET

	Notes	31 March 1997 £000	31 March 1996 £000
<b>Fixed assets</b>			
Tangible assets	10	453	342
Investments	11	-	-
		<u>453</u>	<u>342</u>
<b>Current assets</b>			
Stocks	12	576	466
Debtors and prepayments	13	6,333	16,509
Cash at bank and in hand		26,664	9,408
		<u>33,573</u>	<u>26,383</u>
<b>Creditors: Amounts falling due within one year</b>	14	(26,321)	(22,948)
<b>Net Current Assets</b>		<u>7,252</u>	<u>3,435</u>
<b>Total Assets Less Current Liabilities</b>		<u>7,705</u>	<u>3,777</u>
<b>Creditors: Amounts falling due after more than one year</b>	15	(2)	(95)
<b>Provisions for liabilities and charges</b>	16	(1,236)	-
		<u>6,467</u>	<u>3,682</u>
<b>Capital and Reserves</b>			
Called up share capital	17	800	-
Share premium account	18	2,400	-
Profit and loss account	18	3,267	3,682
<b>Equity Shareholders' Funds</b>	18	<u>6,467</u>	<u>3,682</u>

On behalf of the Board

Managing Director:

K. Bird

*Ken Bird*

Director:

G. Fearnley

*G.R. Fearnley*

Date:

14th July 1997

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



**LTS Rail Limited**

**NOTES TO THE ACCOUNTS  
for the year ended 31 March 1997**

**1. Accounting policies**

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 income allocation systems of Rail Settlement Plan Limited mainly in respect of passenger receipts. Income is attributed based principally on models of certain aspects of passengers' travel patterns and to a lesser extent from allocations agreed for specific revenue 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) Revenue grant income to 25 May 1996 relates to the Company's allocation from the British Railways Board of grants in respect of passenger services operated by the Company. After 26 May 1996, this item relates to amounts receivable from the Office of Passenger Rail Franchising. Income is recognised on an accruals basis.
- (iii) Other income is derived from ticket commissions, station trading income, depot and station access charges and performance regime income and is recognised on an accruals basis.

**(c) Tangible fixed assets and depreciation**

Tangible fixed assets are stated at cost. Depreciation is provided on a straight line basis to write off the cost less estimated residual value of fixed assets over their expected useful economic lives as follows:

Leasehold improvements	Period of lease or franchise period
Plant and equipment	3-20 years
Motor vehicles	4 years

**(d) Leased assets**

Assets held under finance leases are included as tangible fixed assets and depreciated over their expected useful lives. The corresponding obligations relating to finance leases, net of finance charges allocated to future periods, are included in creditors. Finance costs are allocated to the profit and loss account on a straight line basis.

Operating lease rentals are charged to the profit and loss account on a straight line basis over the lease term.

**(e) Taxation**

Corporation tax is provided on taxable profits at the current rate. Deferred tax is calculated using the liability method in respect of timing differences arising from the difference between the accounting and tax treatment of various items. Provision is made where the timing differences are expected to reverse in the foreseeable future.

**(f) Stocks**

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

LTS Rail Limited

NOTES TO THE ACCOUNTS (continued)

(g) Investments

Fixed asset investments are stated at cost less provision for any permanent diminution in value.

(h) Pensions

The charge to the profit and loss account in respect of employees of the Company reflects the cost of pension obligations, spread evenly over the working lives of the employees, as recommended by the pension scheme's actuaries.

2. Turnover

All turnover was generated in the United Kingdom from the Company's principal activity, the operation of passenger rail services.

3. Operating profit/(loss)

1996/97	1995/96
£000	£000

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

Depreciation	108	34
Loss on disposal of fixed assets	-	8
Auditors' remuneration		
Audit services	57	39
Non-audit services	48	-
Operating lease rentals		
Rolling stock charges	16,122	17,285
Other plant and equipment	57	117
Other assets	255	-
Track access charges payable to Railtrack	38,591	36,462
Rents receivable	( 793)	(768)
	<hr/>	<hr/>

4. Directors' emoluments

1996/97	1995/96
£000	£000

Aggregate emoluments	294	108
Compensation for loss of office	60	-
	<hr/>	<hr/>
Emoluments, excluding pension contributions, of the highest paid director	78	45
	<hr/>	<hr/>

In addition to the emoluments disclosed above, the emoluments payable to the Chairman and one other Director, together with all performance-related payments for the period to 25 May 1996 were paid by the British Railways Board for services performed in connection with the Company and were not charged in the profit and loss account of the Company.

Retirement benefits accrued during the year to six Directors under a deferred benefit scheme in respect of services provided to the Company. The accrued pension of the highest paid Director at the year end was £39,667 (1995/96 - £29,580). The accrued lump sum of the highest paid Director at the year end was £71,750 (1995/96 - £53,445).

LTS Rail Limited

NOTES TO THE ACCOUNTS (continued)

5.	<b>Employees</b>	1996/97	1995/96
		£000	£000
	Employee costs:		
	Wages and salaries	13,126	13,673
	Social security costs	1,001	1,025
	Other pension costs	359	270
		<u>14,486</u>	<u>14,968</u>

The average number of persons employed by the Company during the year was as follows:

	1996/97	1995/96
	Number	Number
Operations	608	627
Management and administration	49	59
	<u>657</u>	<u>686</u>

6. **Exceptional items**

The following exceptional items have been included in arriving at operating profit/(loss):

	1996/97	1995/96
	£000	£000
Privatisation costs	-	319
Restructuring and reorganisation costs	2,354	771
	<u>2,354</u>	<u>1,090</u>
Revenue grant receivable for privatisation costs	-	(1,810)
Net exceptional costs/(income)	<u>2,354</u>	<u>(720)</u>

Restructuring and reorganisation costs represent expenses incurred in relation to the changes in organisational structure made and currently being implemented to facilitate the transition of the business to private ownership.

7.	<b>Interest receivable and payable</b>	1996/97	1995/96
		£000	£000
	(a) Interest receivable		
	Bank deposits	1,014	399
	Group and fellow subsidiary undertakings	-	43
		<u>1,014</u>	<u>442</u>
	(b) Interest payable		
	Finance charges - finance leases	2	-
		<u>2</u>	<u>-</u>

LTS Rail Limited

NOTES TO THE ACCOUNTS (continued)

8. **Taxation**

There is no charge for corporation tax on the results for the year. Tax losses will be available to the Company, subject to agreement with the Inland Revenue, for offset against future taxable profits. At 31 March 1997 deferred tax assets not recognised in the accounts amounted to £435,000.

9. **Dividends**

No dividends have been paid or proposed during the year. In 1995/96 an interim dividend of £2,500,000 per share was paid.

10. <b>Tangible fixed assets</b>	Leasehold Improvements £000	Plant & Equipment £000	Total £000
<b>Cost</b>			
At 1 April 1996	202	242	444
Additions	62	157	219
Disposals	-	(8)	(8)
At 31 March 1997	<u>264</u>	<u>391</u>	<u>655</u>
<b>Accumulated depreciation</b>			
At 1 April 1996	6	96	102
Charge for the year	71	37	108
Disposals	-	(8)	(8)
At 31 March 1997	<u>77</u>	<u>125</u>	<u>202</u>
<b>Net book value</b>			
At 31 March 1997	<u>187</u>	<u>266</u>	<u>453</u>
At 31 March 1996	<u>196</u>	<u>146</u>	<u>342</u>

The net book value of assets under finance leases was £ nil (1995/96 - £ nil).

11. **Investments**

The Company held the following unlisted investments at 31 March 1997 and 31 March 1996 which were transferred from the British Railways Board to the Company for nil consideration.

	Country of registration	Number of shares held	Class of share	Proportion held
ATOC Limited	UK	1	Ordinary (4p)	4%
Rail Settlement Plan Limited	UK	1	Ordinary (4p)	4%
Rail Staff Travel Limited	UK	1	Ordinary (4p)	4%

12. **Stocks**

	31 March 1997 £000	31 March 1996 £000
Engineering spares and consumable supplies	<u>576</u>	<u>466</u>

LTS Rail Limited

NOTES TO THE ACCOUNTS (continued)

	31 March 1997 £000	31 March 1996 £000
<b>13. Debtors and prepayments</b>		
Trade debtors	3,729	903
Amounts owed by parent undertaking	-	12,681
Amounts owed by fellow subsidiary undertakings	-	533
Other debtors	1,816	2,073
Prepayments and accrued income	788	319
	<u>6,333</u>	<u>16,509</u>
<b>14. Creditors: amounts falling due within one year</b>		
Obligations under hire purchase and lease finance	1	-
Amounts owed to fellow subsidiary undertakings	258	1,858
Trade creditors	7,788	5,611
Other creditors	1,200	1,408
Other taxation and social security	555	-
Deferred season ticket income	14,608	14,071
Accruals and other deferred income	1,911	-
	<u>26,321</u>	<u>22,948</u>
<b>15. Creditors: amounts falling due after more than one year:</b>		
Obligations under hire purchase and lease finance	2	1
Passenger claims provision	-	94
	<u>2</u>	<u>95</u>
Obligations under hire purchase and lease finance are due as follows:		
Within one year	1	-
Between two and five years	1	1
Over five years	1	-
	<u>3</u>	<u>1</u>
Passenger claims provision is due as follows:		
Between one and two years	-	94
	<u>-</u>	<u>94</u>
<b>16. Provisions for liabilities and charges</b>		
Restructuring provision	1,236	-
The movement during the year was as follows:		
At beginning of year	-	-
Transfer from profit and loss account	1,236	-
At end of year	<u>1,236</u>	<u>-</u>

**LTS Rail Limited**

**NOTES TO THE ACCOUNTS (continued)**

17. Called up share capital	Authorised		Issued	
	Number of Shares	£	Number of Shares	£
Ordinary shares				
At 31 March 1996	10,000	10,000	1	1
Sub-division into 25p ordinary shares	30,000	-	3	-
	40,000	10,000	4	1
Increase in authorised capital	3,960,000	990,000	-	-
Issue of share capital	-	-	3,199,996	799,999
At 31 March 1997 (25p each)	4,000,000	1,000,000	3,200,000	800,000

Pursuant to an ordinary resolution passed at an Extraordinary General Meeting on 24 May 1996 the following changes in the authorised and issued share capital of the Company were made:

- each of the £1 shares comprised in the authorised share capital was sub-divided into four shares of 25p each;
- the authorised share capital of the Company was increased by £990,000 to £1,000,000 by the creation of an additional 3,960,000 ordinary shares of 25p each ranking pari passu in all respects with the existing shares in the capital of the Company; and
- 3,199,996 ordinary shares were issued to Prism Rail PLC at a price of £1 per share.

**18. Reconciliation of movement in shareholders' funds**

	Year ended 31 March 1997			Year ended 31 March 1996	
	Share capital £000	Share premium £000	Profit & loss account £000	Total £000	Total £000
At beginning of year	-	-	3,682	3,682	2,718
Shares issued in the year	800	2,400	-	3,200	-
Conversion of other reserve to debenture	-	-	-	-	(1,974)
Retained profit /(loss) for the year	-	-	(415)	(415)	2,938
At end of year	800	2,400	3,267	6,467	3,682

LTS Rail Limited

NOTES TO THE ACCOUNTS (continued)

19. Financial commitments and restricted cash balances

(a) Operating lease and similar commitments

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

	31 March 1997 £000	31 March 1996 £000
Under one year	284	-
Between one and five years	11,674	2,863
Over five years	7,298	16,934
	<u>19,256</u>	<u>19,797</u>

None of these commitments relate to land and buildings.

The Company also has contracts with Railtrack PLC for access to the railway infrastructure (track, stations and depots) which are due to expire on 31st March 2001.

(b) Pension schemes

The majority of the Company's employees are members of the relevant section of the Railways Pension Scheme (RPS), a defined benefit scheme which was established with effect from 1 October 1994 when the British Rail Pension Scheme was partitioned. The latest actuarial valuation of the section for the Company was as follows:

<u>Valuation date</u>	<u>Accrued liabilities &amp; reserves (£m)</u>	<u>Assets (£m)</u>	<u>Funding level</u>
26 May 1996	19.0	21.8	114%

Contribution rates are determined based on independent actuarial valuations using the projected unit method. The principal assumptions underlying the latest valuation were that the long term average return on investments would exceed price inflation by 4% per annum, that future pensionable pay awards would exceed price inflation by 2% per annum and that dividend growth on UK equities would be 0.5% per annum less than the rate of price inflation.

(c) Restricted cash balances

Cash at bank and in hand includes an amount of £15,140,000 (1996 - nil) held in a designated account to support a season ticket bond provided by the Company's bankers to the Director of Passenger Rail Franchising.

LTS Rail Limited

NOTES TO THE ACCOUNTS (continued)

20. **Directors' interests**

Mr. R. Howells and Mr. G. Fearnley have a beneficial interest in the shares of the ultimate parent company, Prism Rail PLC, and are also Directors of that company. Their interests in the shares of Prism Rail PLC are disclosed in the accounts of that company.

Messrs. K. Bird, I. Powney, H.B. Nichol, R. McClean and D. Wilcock, together with other senior management of the company were allocated share options as part of the Prism Rail PLC 1996 Unapproved Employee Share Option Scheme. The options over the shares held by these Directors at 31 March 1997, all of which were granted during the year, were as follows:

	Date of Grant	No. of Shares	Exercise Price	Exercise Date
K Bird	5 June 1996	50,000	£2.05	5 June 1999 to 4 June 2003
I Powney	5 June 1996	30,000	£2.05	5 June 1999 to 4 June 2003
H Nichol	5 June 1996	10,000	£2.05	5 June 1999 to 4 June 2003
	18 July 1996	10,000	£2.65	18 July 1999 to 17 July 2003
D Wilcock	5 June 1996	30,000	£2.05	5 June 1999 to 4 June 2003
R McClean	5 June 1996	10,000	£2.05	5 June 1999 to 4 June 2003
	13 June 1996	20,000	£2.68	13 June 1999 to 12 June 2003

The options granted to Mr. D. Wilcock lapsed on the date of resignation as a Director.

21. **Related party transactions**

The Company has taken advantage of the exemption from providing details of related party transactions with group related parties as they are incorporated within the accounts of its parent company, Prism Rail PLC. Copies of that company's accounts can be obtained from its registered office at 32 Ludgate Hill, London EC4M 7DR.

22. **Post balance sheet events**

In June 1997 the Company contracted to lease a fleet of 44 new air-conditioned electric trains for operation on the London Tilbury and Southend line for delivery by November 1999. Lease and maintenance payments will be fixed over the lease period and are estimated to amount to £18.5 million per annum.

23. **Ultimate parent undertaking**

The Company's ultimate parent undertaking is Prism Rail PLC.

24. **Cash flow statement**

The Company has used the exemption granted under Financial Reporting Standard 1 (FRS1) not to prepare a cash flow statement, as a consolidated cash flow statement is included in the accounts of its ultimate parent company.