

DIRECTORS' REPORT AND ACCOUNTS

West Anglia Great Northern Railway Limited

COMPANY No. 3007944

31 March 1997

Registered Office

Hertford House
1 Cranwood Street
London, EC1V 9GT



Directors' Report and Accounts

WEST ANGLIA GREAT NORTHERN RAILWAY LIMITED

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West Anglia Great Northern Railway Limited

Directors' Report

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

Principal activity

The principal activity of the Company during the last financial year was the operation of passenger railway services between Kings Cross and Peterborough, and Liverpool Street and Kings Lynn. On 5 January 1997 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

Income from passengers continued to be buoyant throughout the year and at £129.2 million was £9.4 million above the previous year, representing growth in real terms of 4.7% and reflecting the success of the introduction of brand management.

Negotiations on drivers' employment conditions of service with the trade unions were successfully completed just prior to the franchising of the Company, with the result that forty-seven drivers left under voluntary severance. A further milestone was achieved on 5 January 1997 with the introduction into service of the first new 365 electric multiple units from January. These were received enthusiastically by our customers.

Train running performance on West Anglia was well in excess of Charter requirements although the Great Northern route showed results only marginally above the trigger point. It is expected that the new Great Northern timetable introduced in June 1997, will improve train running performance during the course of the year.

Results and dividends

Details of the results are set out on page 6. The loss for the year of £6,264,000 reflects a reduction in revenue received from the British Railways Board prior to the Company's transfer into private ownership and restructuring and reorganisation costs of £4,349,000.

In view of the accumulated loss at the end of the year, 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>
K Bird	10 January 1995	11 April 1996
D Wilcock	28 March 1995	22 April 1996
J Nelson, Chairman	31 January 1995	5 January 1997
G Maynard	13 February 1995	5 January 1997
E Cameron	2 February 1996	5 January 1997
D Burton	11 April 1996	
G Fearnley	5 January 1997	
R Howells, Chairman	5 January 1997	
R Lockett	24 February 1997	
N West	24 February 1997	
N Wood	24 February 1997	

The interests of the Directors in the share capital and contractual arrangements with the Company and other group undertakings are disclosed in note 19.

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 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 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

West Anglia Great Northern Railway 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 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 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 39 days' purchases.

Post balance sheet events

There have been no significant post balance sheet events.

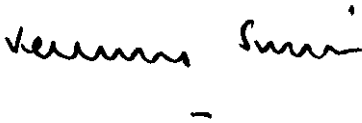
Charitable and political contributions

The Company made no charitable or political donations during the period.

Auditors

Price Waterhouse resigned as auditors of the Company. Solomon Hare were appointed auditors of the Company with effect from 5 January 1997, and they have indicated their willingness to continue in office. A resolution re-appointing them as auditors will be proposed at the next Annual General Meeting.

On behalf of the Board.

A handwritten signature in black ink, appearing to read 'J P Simon', with a horizontal line underneath.

J P Simon
Secretary

Date: 14 July 1997

**Auditors' Report to the Shareholders of
West Anglia Great Northern Railway Limited**

We have audited the accounts 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 accounts. 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 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

14 July 1997

West Anglia Great Northern Railway Limited

PROFIT AND LOSS ACCOUNT

	Notes	Year ended 31 March 1997			4 Months ended 31 March 1996		
		Before exceptional items £'000	Exceptional items £'000	Total £'000	Before exceptional items £'000	Exceptional items £'000	Total £'000
Turnover	2						
Passenger income		129,170	-	129,170	37,606	-	37,606
Revenue grant	6	53,385	-	53,385	21,256	510	21,766
Other income		<u>6,386</u>	<u>-</u>	<u>6,386</u>	<u>2,086</u>	<u>-</u>	<u>2,086</u>
		188,941	-	188,941	60,948	510	61,458
Operating expenditure	6	<u>(192,596)</u>	<u>(4,781)</u>	<u>(197,377)</u>	<u>(56,255)</u>	<u>(484)</u>	<u>(56,739)</u>
Operating profit/(loss)	3	<u>(3,655)</u>	<u>(4,781)</u>	<u>(8,436)</u>	<u>4,693</u>	<u>26</u>	<u>4,719</u>
Interest receivable	7			2,178			530
Interest payable	7			<u>(6)</u>			<u>(1)</u>
Profit/(loss) on ordinary activities before taxation				(6,264)			5,248
Taxation	8			<u>-</u>			<u>-</u>
Retained profit/(loss) for the financial period	17			<u>(6,264)</u>			<u>5,248</u>

All amounts relate to continuing activities.

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

Notes on pages 8 to 16 form part of these accounts.

West Anglia Great Northern Railway Limited

BALANCE SHEET
as at 31 March 1997

		31 March 1997 £'000	31 March 1996 £'000
Fixed Assets	Notes		
Tangible assets	9	796	779
Investments	10	<u>-</u>	<u>-</u>
		<u>796</u>	<u>779</u>
Current Assets			
Stocks	11	1,502	1,491
Debtors and prepayments	12	10,771	11,672
Cash at bank and in hand		<u>38,901</u>	<u>31,954</u>
		51,174	45,117
Creditors: Amounts falling due within one year	13	<u>(43,918)</u>	<u>(39,342)</u>
Net current assets		<u>7,256</u>	<u>5,775</u>
Total assets less current liabilities		8,052	6,554
Creditors: Amounts falling due after more than one year	14	(152)	(200)
Provisions for liabilities and charges	15	<u>(1,316)</u>	<u>(584)</u>
		<u>6,584</u>	<u>5,770</u>
Capital and reserves			
Called up share capital	16	1,900	-
Share premium account	17	5,700	-
Profit and loss account	17	(1,016)	5,248
Other reserves	17	<u>-</u>	<u>522</u>
Equity shareholders' funds	17	<u>6,584</u>	<u>5,770</u>

On behalf of the Board

Chairman:



R Howells

Managing Director:



D Burton

Date: 14th July 1997

Notes on pages 8 to 16 form part of these accounts.

West Anglia Great Northern Railway Limited

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

Notes

1 ACCOUNTING POLICIES

The accounting policies of the Company are set out below:-

a) Basis of accounting

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

b) Turnover

- (i) Passenger income represents amounts agreed as attributed to the company by the income allocation systems of the 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 to 5 January 1997 relates to the Company's allocation from the British Railways Board of grants in respect of passenger services operated by the Company. After 5 January 1997 this item relates to amounts receivable from the Office of Passenger Rail Franchising (OPRAF). Income is recognised on an accruals basis.
- (iii) Other income is derived from ticket commissions, station trading income, depot and station access payments, performance regime payments, and the provision of goods or services to other train operating companies 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

Capital grants are credited to deferred grant income on the balance sheet, and released to the profit and loss account over the estimated useful lives of the related assets.

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.

West Anglia Great Northern Railway Limited

NOTES TO THE ACCOUNTS (continued)

(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.

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 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)

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

	1996/7 £'000	1995/6 £'000
Auditors' remuneration		
Audit Fees	85	35
Non-Audit Fees	15	5
Track access charges payable to Railtrack	93,855	27,171
Operating lease rentals:		
Rolling stock charges	36,864	10,621
Other plant and equipment	189	56
Depreciation:		
Owned assets	63	18
Assets held under finance leases	61	9
Rents receivable	(659)	(166)

WEST ANGLIA GREAT NORTHERN RAILWAY LIMITED

NOTES TO THE ACCOUNTS (continued)

4	Directors' emoluments	1996/7	1995/6
		£'000	£'000
	Aggregate emoluments	111	41

In addition to the emoluments disclosed above, the emoluments payable to the Chairman and 3 other directors together with all performance related payments for the period to 5 January 1997 were paid by the British Railways Board for services performed in connection with the Company and were not charged to the Profit and Loss account of the Company.

Retirement benefits accrued during the year to the 3 directors under a defined benefit scheme in respect of services provided to the Company.

5	Employees	1996/7	1995/6
		£'000	£'000
	Employee costs:		
	Wages and salaries	31,311	9,501
	Social security costs	2,445	734
	Other pension costs	881	190
		<u>34,637</u>	<u>10,425</u>
		1996/7	1995/6
	The average number of persons employed by the Company during the period was:	Number	Number
	Operations	1,434	1,480
	Management and administration	<u>101</u>	<u>116</u>
		<u>1,535</u>	<u>1,596</u>

6 **Exceptional items**

The following exceptional items have been included in arriving at the operating profit/(loss):	1996/7	1995/6
	£'000	£'000
Privatisation costs	432	66
Restructuring and reorganisation costs	<u>4,349</u>	<u>418</u>
	4,781	484
Revenue grant receivable for privatisation costs	<u>-</u>	<u>(510)</u>
Net exceptional cost/(income)	<u>4,781</u>	<u>(26)</u>

Privatisation costs represent legal and other costs incurred by the Company in preparing it for privatisation. 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.

WEST ANGLIA GREAT NORTHERN RAILWAY LIMITED

NOTES TO THE ACCOUNTS (continued)

7 Interest receivable and payable	1996/7 £'000	1995/6 £'000
a) Interest receivable:		
Bank deposits	<u>2,178</u>	<u>530</u>
b) Interest payable:		
Finance charges - finance leases	<u>(6)</u>	<u>(1)</u>

8 Taxation

There is no charge for corporation tax on the result 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 deferred tax assets not recognised in the accounts amounted to £196,000.

9 Tangible fixed assets

	Leasehold improvements £'000	Plant and equipment £'000	Motor vehicles £'000	Total £'000
Cost				
At 31 March 1996	591	495	223	1,309
Additions	<u>25</u>	<u>116</u>	<u>-</u>	<u>141</u>
At 31 March 1997	<u>616</u>	<u>611</u>	<u>223</u>	<u>1,450</u>
Depreciation				
At 31 March 1996	97	221	212	530
Charge for period	<u>55</u>	<u>64</u>	<u>5</u>	<u>124</u>
At 31 March 1997	<u>152</u>	<u>285</u>	<u>217</u>	<u>654</u>
Net book value				
At 31 March 1997	<u>464</u>	<u>326</u>	<u>6</u>	<u>796</u>
At 31 March 1996	<u>494</u>	<u>274</u>	<u>11</u>	<u>779</u>

The net book value of assets held under finance leases and hire purchase agreements was nil (1995/6 - £6,000).

10 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 Ltd	UK	1	Ordinary (4p)	4%
Rail Settlement Plan Ltd	UK	1	Ordinary (4p)	4%
Rail Staff Travel Ltd	UK	1	Ordinary (4p)	4%

These investments are shown at cost.

WEST ANGLIA GREAT NORTHERN RAILWAY LIMITED

NOTES TO THE ACCOUNTS (continued)

11 Stocks	31 March 1997 £'000	31 March 1996 £'000
Engineering spares and consumable supplies	<u>1,502</u>	<u>1,491</u>
12 Debtors and prepayments	31 March 1997 £'000	31 March 1996 £'000
Trade debtors	5,749	3,058
Amounts owed by group undertakings:		
by parent undertaking	-	470
by fellow subsidiary undertaking	240	3,222
Other debtors	3,798	4,592
Prepayments and accrued income	<u>984</u>	<u>330</u>
	<u>10,771</u>	<u>11,672</u>
13 Creditors: amounts falling due within one year	31 March 1997 £'000	31 March 1996 £'000
Obligations under hire purchase and finance leases	13	10
Amounts owed to group undertakings:		
to parent undertaking	2	469
to fellow subsidiary undertaking	-	4,374
Trade creditors	17,304	13,969
Other creditors	3,807	1,539
Other taxation and social security	1,409	838
Deferred season ticket income	18,348	17,228
Accruals and other deferred income	<u>3,035</u>	<u>915</u>
	<u>43,918</u>	<u>39,342</u>
14 Creditors: amounts falling due after more than one year	31 March 1997 £'000	31 March 1996 £'000
Obligations under hire purchase and finance leases	38	51
Other creditors	-	38
Deferred grants	<u>114</u>	<u>111</u>
	<u>152</u>	<u>200</u>
Obligations under hire purchase and lease finance are due as follows:	31 March 1997 £'000	31 March 1996 £'000
Within 1 year	13	10
Within 1 - 2 years	12	13
Within 2 - 5 years	<u>26</u>	<u>38</u>
	<u>51</u>	<u>61</u>

WEST ANGLIA GREAT NORTHERN RAILWAY LIMITED

NOTES TO THE ACCOUNTS (continued)

15 Provisions for liabilities and charges	31 March 1997 £'000	31 March 1996 £'000
Restructuring provision	1316	-
Other creditors	-	584
	<u>1,316</u>	<u>584</u>
Movements during the period were as follows:		
	Year ended 31 March 1997	Period ended 31 March 1996
	Restructuring provision £'000	Restructuring provision £'000
	Other creditors £'000	Other creditors £'000
At the beginning of the period	-	584
Transferred to current liabilities	-	(584)
Transfer from profit and loss account	1,316	-
	<u>1,316</u>	<u>(62)</u>
At the end of the period	<u>1,316</u>	<u>584</u>

16 Called up share capital

	Authorised		Issued	
	Number of shares	£	Number of shares	£
Ordinary shares				
At 31 March 1996	10,000	10,000	1	1
Subdivision to 25p ordinary shares	<u>30,000</u>	<u>-</u>	<u>3</u>	<u>-</u>
	40,000	10,000	4	1
Increase in authorised capital	9,460,000	2,365,000	-	-
Issue of shares	<u>-</u>	<u>-</u>	<u>7,599,996</u>	<u>1,899,999</u>
	<u>9,500,000</u>	<u>2,375,000</u>	<u>7,600,000</u>	<u>1,900,000</u>

Pursuant to an Ordinary Resolution passed at an Extraordinary General Meeting held on 3 January 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 subdivided into four shares of 25p each;
- the authorised share capital of the Company was increased by £2,365,000 by the creation of an additional 9,460,000 Ordinary shares of 25p each ranking pari passu in all respects with the existing shares held in the Company; and
- 7,599,996 Ordinary shares were issued to Prism Rail PLC at a price of £1 per share.

WEST ANGLIA GREAT NORTHERN RAILWAY LIMITED

NOTES TO THE ACCOUNTS (continued)

17 Reconciliation of movement in shareholders' funds

	Year ended 31 March 1997					Period ended 31 March 1996
	Share capital	Share premium	Profit and loss account	Other reserves	Total	Total
	£'000	£'000	£'000	£'000	£'000	£'000
At the beginning of the period	-	-	5,248	522	5,770	-
Share issue	1,900	5,700	-	-	7,600	-
Other reserve arising on vesting	-	-	-	-	-	522
Transfer of reserve to debenture	-	-	-	(522)	(522)	-
Retained profit/(loss) for the period	-	-	(6,264)	-	(6,264)	5,248
At end of the period	<u>1,900</u>	<u>5,700</u>	<u>(1,016)</u>	<u>-</u>	<u>6,584</u>	<u>5,770</u>

The Other reserves balance represents the difference between the assets and liabilities vested in the Company when it commenced trading on 28 May 1995 (the "Vesting Reserve"). The Other reserve was realised during the year ended 31 March 1997 by the conversion to a debenture.

18 Financial commitments and restricted cash balances

(a) Operating lease and similar commitments

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

	31 March 1997		31 March 1996	
	Land & buildings	Other	Land & buildings	Other
	£'000	£'000	£'000	£'000
Under one year	-	104	-	19
Between one and five years	-	1,706	-	1,130
Over five years	<u>272</u>	<u>39,718</u>	<u>200</u>	<u>34,671</u>
	<u>272</u>	<u>41,528</u>	<u>200</u>	<u>35,820</u>

The Company has contracts with Railtrack PLC for access to the railway infrastructure (track, stations and depots), which are due to expire on 31 March 2004.

(b) Capital commitments

	31 March 1997 £'000	31 March 1996 £'000
Contracted but not provided for	<u>42</u>	<u>61</u>

WEST ANGLIA GREAT NORTHERN RAILWAY LIMITED

NOTES TO THE ACCOUNTS (continued)

18 (c) Pension schemes

The majority of the Company's employees are members of the relevant section of the Railways Pension Scheme, a defined benefit scheme, which was established with effect from 1 October 1994 when the British Rail Pension Scheme was partitioned.

An actuarial valuation of the West Anglia Great Northern Railway Limited section as at 5 January 1997 is awaited. This section was last valued as part of a valuation of the British Rail Pension Scheme as a whole as at 1 April 1996 when the scheme was found to be fully funded.

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.

d) Restricted cash balances

Cash at bank and in hand includes an amount of £22,110,000 (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.

19 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.

During the period the Company entered into a number of transactions in which Directors had an interest by nature of their management responsibilities and shareholdings. The costs charged to the Company related to the provision of bus and coach hire on a contractual basis, and were as follows:

Companies connected with Mr G Fearnley	£22,000
Companies connected with Mr R Howells	£5,000

The above Directors also had an interest in certain transactions with the Company's holding company, Prism Rail PLC, details of which are shown in the accounts of that company. Save as aforesaid, no Director had a material interest in any contract with the Company or with any other group undertaking.

Mr R Lockett, 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 option over the shares held by Mr R Lockett, which was granted during the year, was as follows:

Date of grant	Number of shares	Exercise Price	Exercise date
27 January 1997	14,286	392p	27 January 2000 to 26 January 2004

WEST ANGLIA GREAT NORTHERN RAILWAY LIMITED

NOTES TO THE ACCOUNTS (continued)

20 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.

21 Ultimate parent undertaking

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

22 Cash flow statement

The Company has used the exemption 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.