

GrantRail Limited

**Directors' report and financial
statements**

Registered in England number 3184313

31 December 2000



Financial statements

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Directors' report

The directors present their report and the financial statements for the year ended 31 December 2000.

Principal activities

The company's principal activities are track laying and track maintenance for railways, tramlines and similar tracks.

Business review

The directors are pleased with the continuing progress of the company. Profits continue to rise and the company's turnover has seen growth during the year. The company has secured several significant long term contracts with major clients such as Railtrack nationally and London Underground. These provide the foundation for continued growth in the renewals enhancement and maintenance sectors.

The directors are confident that ongoing successes on alliancing contracts will continue as the preferred contracting option for the company, and provide significant opportunity for growth in market share. The company's involvement in metro system track engineering continues with further major projects in this sector being pursued. The traditional business sectors of industrial and freight railways further underpin the strength in breadth of the company's activities.

Major capital investment in state of the art railway equipment started to come on stream late in the year. These machines will form the basis of future growth on the mainline railway network through improved productivity. Shareholders confidence in the company continues and further investments in innovative machinery is planned to expand the company's capabilities. Other initiatives to strengthen the company's position include further developments in specialist sectors associated with the company's current activities.

Dividend

The directors do not recommend the payment of a dividend (1999: £nil).

Directors and their interests

The directors who held office during the year were as follows:

AJ de Jong
M Smith
JG Edwards
P Waterhouse
NRK Clarke

None of the directors had any disclosable interest in the share capital of the company during the year.

Employees

Where appropriate, employees are consulted about matters which affect the progress of the company and which are of interest and concern to them as employees. Emphasis is placed on developing greater awareness of the financial and economic factors which affect the performance of the company.

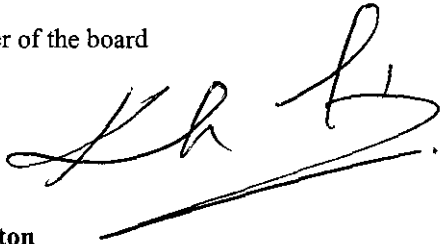
The company recognises its responsibilities towards disabled persons and does not discriminate against them in terms of job offers, training or career development and prospects. If existing staff become disabled during the course of their employment every practical effort is made to retain their services with whatever training is necessary.

Directors' report *(continued)*

Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board

A handwritten signature in black ink, appearing to be 'KA Eaton', written over a horizontal line.

KA Eaton
Secretary

Registered Office:

Scotter Road
Scunthorpe
DN15 8EF

8 March 2001

Statement of directors' responsibilities

UK 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 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 a 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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.



St Nicholas House
Park Row
NOTTINGHAM
NG1 6FQ

Report of the auditors to the members of GrantRail Limited

We have audited the financial statements on pages 5 to 16.

Respective responsibilities of directors and auditor

The directors are responsible for preparing the directors' report and, as described on page 3, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2000 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*Chartered Accountants
Registered Auditors*

8 March 2001

Profit and loss account
for the year ended 31 December 2000

	<i>Notes</i>	2000 £000	1999 £000
Turnover	<i>1</i>	50,798	36,668
Cost of sales		(41,200)	(30,104)
Gross profit		9,598	6,564
Administrative expenses		(7,065)	(4,000)
Administrative expenses - exceptional item	<i>3</i>	-	(167)
Operating profit		2,533	2,397
Net interest receivable/(payable)	<i>4</i>	71	(24)
Profit on ordinary activities before taxation	<i>5</i>	2,604	2,373
Tax on profit on ordinary activities	<i>6</i>	(811)	(728)
Profit retained for the financial year	<i>16</i>	1,793	1,645


There were no recognised gains or losses in either the current or preceding years other than those disclosed in the profit and loss account.

In both the current and preceding years, the company made no material acquisitions and had no discontinued operations.

Balance sheet
as at 31 December 2000

	Notes	£000	2000 £000	1999 £000
Fixed assets				
Tangible assets	7		5,873	3,462
Investments	8		120	-
			<u>5,993</u>	<u>3,462</u>
Current assets				
Stocks	9	680		470
Debtors - due in less than one year	10	18,819		12,603
- due in more than one year	10	698		410
		<u>19,517</u>		<u>13,013</u>
Cash at bank and in hand		3,202		804
		<u>23,399</u>		<u>14,287</u>
Creditors: amounts falling due within one year	11	<u>(15,793)</u>		<u>(8,984)</u>
Net current assets			<u>7,606</u>	<u>5,303</u>
Total assets less current liabilities			<u>13,599</u>	<u>8,765</u>
Creditors: amounts falling due after more than one year	12		<u>(3,937)</u>	<u>(1,148)</u>
Provisions for liabilities and charges	14		<u>(325)</u>	<u>(73)</u>
Net assets			<u>9,337</u>	<u>7,544</u>
Capital and reserves				
Called up share capital	15		4,000	4,000
Share premium account	16		1,400	1,400
Profit and loss account	16		3,937	2,144
Equity shareholders' funds	17		<u>9,337</u>	<u>7,544</u>

These financial statements were approved by the board of directors on 8 March 2001 and were signed on its behalf by:



JG Edwards
Director

Cash flow statement

for the year ended 31 December 2000

	Notes	2000 £000	1999 £000
Cash inflow from operating activities	18	3,246	523
Returns on investments and servicing of finance			
Interest received	97	15	
Interest paid	(16)	(39)	
Interest element of finance lease and chattel mortgage payments	(10)	-	
		71	(24)
Taxation		(707)	(141)
Capital expenditure and financial investment			
Purchase of tangible fixed assets	(2,227)	(1,690)	
Proceeds of sale of tangible fixed assets	5	134	
		(2,222)	(1,556)
Acquisitions and disposals			
Payments to acquire investments in associates or joint ventures	(127)	-	
		(127)	-
Cash inflow/(outflow) before financing		261	(1,198)
Financing			
Payment of loans	(538)	-	
New loans	2,734	-	
Capital element of finance lease and chattel mortgage payments	(59)	-	
		2,137	-
Increase/(decrease) in cash in the year	19	2,398	(1,198)

Reconciliation of net cash flow to movement in net funds/(debt)

	Notes	2000 £000	1999 £000
Increase/(decrease) in cash in the year		2,398	(1,198)
Cash inflow from increase in debt and lease financing		(2,137)	-
Change in net debt resulting from financing	19	261	(1,198)
New finance lease and chattel mortgage	20	(788)	-
Movement in net debt in the year		(527)	(1,198)
Net (debt)/funds at 1 January		(344)	854
Net debt at 31 December	19	(871)	(344)

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

Turnover

Turnover, which is derived entirely within the United Kingdom, represents the amounts, excluding value added tax, derived from the provision of goods and services to customers.

Turnover and cost of sales, include for one contract the essential cost of materials and services provided directly by part of 'the client company' to service that contract. The exclusion of such costs would have served to distort the substance of the transaction.

Fixed assets and depreciation

No depreciation is provided on freehold land. All other assets are depreciated on a straight line basis so as to write-off their cost by equal instalments over their estimated useful economic lives as follows:

Freehold buildings	2%
Plant and equipment	between 10% and 33%
Motor vehicles	25%
Office furniture	between 25% and 33%

Interest arising on loans used to finance the purchase of assets is capitalised into fixed assets.

Taxation

The charge for taxation is based on the profit for the period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallise.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of transaction or, if hedged forward, at the rate of exchange under the related forward currency contract. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and gains or losses on translation are included in the profit and loss account.

Notes (continued)

1 Accounting policies (continued)

Investments

Investments are carried at cost less provisions made for impairment in the carrying value.

Stocks and long term contracts

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

The amount of profit attributable to the stage of completion of a long term contract is recognised when the outcome of the contract can be foreseen with reasonable certainty. Turnover for such contracts is stated at the cost appropriate to their stage of completion plus attributable profits, less amounts recognised in previous years. Provision is made for any losses as soon as they are foreseen.

Contract work in progress is stated at costs incurred, less those transferred to the profit and loss account, after deducting foreseeable losses and payments on account not matched with turnover.

Amounts recoverable on contracts are included in debtors and represent turnover recognised in excess of payments on account.

Leases

Operating lease rentals are charged to the profit and loss account in the period in which they are incurred.

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors.

2 Directors and employees

The average number of persons (including directors) employed by the company during the year were:

	2000 Number	1999 Number
Administration	91	70
Contract and site staff	389	404
	<u>480</u>	<u>474</u>
	<u>£000</u>	<u>£000</u>
<i>The aggregate payroll costs of these persons were as follows:</i>		
Wages and salaries	12,303	11,830
Social security costs	913	758
Pension costs	86	120
	<u>13,302</u>	<u>12,708</u>

The company makes pension contributions to an investor's pension schemes on behalf of certain employees.

Notes (continued)

3 Administrative expenses - exceptional item

A review of the estimated lives of plant and equipment, and of the ability of the company to recover the book values of certain items of plant and equipment was performed during the prior year. As a consequence of this review, the book values of certain fixed assets were reduced.

4 Net interest (receivable)/payable

	2000 £000	1999 £000
Bank interest payable	16	39
Hire purchase interest	10	-
Bank interest receivable	(97)	(15)
	<u>(71)</u>	<u>24</u>

5 Profit on ordinary activities before taxation

	2000 £000	1999 £000
<i>Profit on ordinary activities before taxation is stated after charging:</i>		
Depreciation - owned assets	577	804
- leased assets	8	-
- provision for diminution in value	7	-
Loss on disposal of fixed assets	14	-
Auditors' remuneration - audit	19	19
- non-audit services	73	74
Amounts paid under operating leases	398	279
Directors' emoluments and fees	86	78
	<u> </u>	<u> </u>

6 Tax on profit on ordinary activities

	2000 £000	1999 £000
UK corporation tax at 30% (1999: 31%) - current year	559	719
Deferred tax	252	9
	<u>811</u>	<u>728</u>

Notes (continued)

7 Tangible fixed assets

	Freehold land and buildings £000	Plant and equipment £000	Motor vehicles £000	Office furniture £000	Total £000
<i>Cost:</i>					
At 1 January 2000	480	4,622	162	290	5,554
Additions	-	2,529	-	486	3,015
Disposals	-	(196)	(85)	-	(281)
Transfers	-	(243)	-	243	-
At 31 December 2000	480	6,712	77	1,019	8,288
<i>Accumulated depreciation:</i>					
At 1 January 2000	27	1,673	138	254	2,092
Charge for the year	8	422	20	135	585
On disposals	-	(179)	(83)	-	(262)
At 31 December 2000	35	1,916	75	389	2,415
<i>Net book value:</i>					
At 31 December 2000	445	4,796	2	630	5,873
At 31 December 1999	453	2,949	24	36	3,462

The gross book value of freehold land and buildings includes £400,000 (1999: £400,000) of depreciable assets. Included in plant and equipment is £125,000 (1999: £33,000) of capitalised interest.

Included in the total net book value of plant and equipment is £779,000 (1999: £nil) in respect of assets held under finance leases and chattel mortgages. Depreciation for the year on these assets was £8,000 (1999: £nil).

8 Fixed asset investments

	Participating interests £000
<i>Cost:</i>	
At 1 January 2000	-
Addition	127
At 31 December 2000	127
<i>Provision:</i>	
At 1 January 2000	-
Provided in the year	7
At 31 December 2000	7
<i>Net book value:</i>	
At 31 December 2000	120
At 31 December 1999	-

Notes (continued)

8 Fixed asset investments (continued)

The companies in which the company's interest at the year end is 20% or more are as follows:

Participating interests	Country of incorporation	Principal activity	Class and percentage of shares held
ALH (Rail Coatings) Limited (joint venture)	UK	Rail coatings technology	100% of 'A' ordinary shares
28 Kempsford Gardens Management Company Limited	UK	Flat management	20% of ordinary share capital

9 Stocks

	2000 £000	1999 £000
Raw materials and consumables	680	470

10 Debtors

	2000 £000	1999 £000
<i>Amounts falling due within one year:</i>		
Trade debtors	3,109	4,401
Amounts recoverable on contracts	15,406	7,769
Other debtors	62	238
Prepayments and accrued income	242	195
	<u>18,819</u>	<u>12,603</u>
<i>Amounts falling due after more than one year:</i>		
Trade debtors	698	410
	<u>19,517</u>	<u>13,013</u>

11 Creditors: amounts falling due within one year

	2000 £000	1999 £000
Obligations under finance leases and similar agreements	136	-
Trade creditors	2,538	2,517
Corporation tax	584	732
Taxation and social security	1,222	797
Other creditors	751	39
Accruals and deferred income	10,562	4,899
	<u>15,793</u>	<u>8,984</u>

Notes (continued)

12 Creditors: amounts falling due after more than one year

	2000 £000	1999 £000
Bank overdraft	3,344	1,148
Obligations under finance leases and similar agreements	593	-
	<u>3,937</u>	<u>1,148</u>

This is a specific bank overdraft set up, in conjunction with an agreed long-term chattel mortgage facility, to fund the stage payments, on certain ordered new items of plant, ahead of delivery and the then full implementation of the chattel mortgage.

13 Analysis of finance leases and chattel mortgages

	2000 £000	1999 £000
<i>This can be analysed as falling due:</i>		
In one year	136	-
Between one and two years	150	-
Between two and five years	388	-
In more than five years	55	-
	<u>729</u>	<u>-</u>

14 Provisions for liabilities and charges

	Provided 2000 £000	1999 £000	Unprovided 2000 £000	1999 £000
<i>Tax effect of timing differences because of:</i>				
Difference between accumulated depreciation and capital allowances	325	73	-	-
	<u>325</u>	<u>73</u>	<u>-</u>	<u>-</u>
			2000 £000	1999 £000
Opening balance			73	64
Charged to the profit and loss account			252	9
Closing balance			<u>325</u>	<u>73</u>

Notes (continued)

15 Called up share capital

	2000 £000	1999 £000
<i>Authorised:</i>		
4,000,000 ordinary shares of £1 each	4,000	4,000
<i>Issued and fully paid:</i>		
2,000,000 'A' ordinary shares of £1 each	2,000	2,000
2,000,000 'B' ordinary shares of £1 each	2,000	2,000
	4,000	4,000

The 'A' and 'B' ordinary shares rank pari passu but must be issued in equal numbers.

16 Reserves

	Share premium £000	Profit and loss account £000
Balance as at 1 January 2000	1,400	2,144
Profit for the year	-	1,793
Balance as at 31 December 2000	1,400	3,937

17 Reconciliation of movements in equity shareholders' funds

	2000 £000	1999 £000
Profit for the year	1,793	1,645
Net additions to equity shareholders' funds	1,793	1,645
Opening equity shareholders' funds	7,544	5,899
Closing equity shareholders' funds	9,337	7,544

18 Reconciliation of operating profit to net cash inflow from operating activities

	2000 £000	1999 £000
Operating profit	2,533	2,397
Depreciation on tangible fixed assets	585	804
Provision for diminution in value	7	-
Loss on sale of fixed assets	14	9
Increase in stock	(210)	(176)
Increase in debtors	(6,504)	(2,430)
Increase/(decrease) in creditors	6,821	(81)
Net cash inflow from operating activities	3,246	523

Notes (continued)

19 Reconciliation of net debt

	At 1 Jan 00 £000	Cash flow £000	Other non cash changes £000	At 31 Dec 00 £000
Cash at bank and in hand	804	2,398	-	3,202
	<u>804</u>	<u>2,398</u>	<u>-</u>	<u>3,202</u>
Debt due within one year	-	-	-	-
Debt due after one year	(1,148)	(2,196)	-	(3,344)
Hire purchase	-	59	(788)	(729)
	<u>(1,148)</u>	<u>(2,137)</u>	<u>(788)</u>	<u>(4,073)</u>
Total	<u>(344)</u>	<u>261</u>	<u>(788)</u>	<u>(871)</u>

20 Major non cash transactions

During the year the company entered into finance lease and chattel mortgage arrangements in respect of assets with a total capital value at the inception of the leases of £788,000.

21 Capital commitments

Annual commitments under non-cancellable operating leases, relating to plant and equipment, are as follows:

	2000 £000	1999 £000
<i>Operating leases which expire:</i>		
Within one year	118	52
In the second to fifth years inclusive	781	397
	<u>899</u>	<u>449</u>

22 Joint arrangement

The company participates in a joint arrangement with John Laing plc. The results of the arrangement are included in these financial statements according to the contractual agreement.

Notes *(continued)*

23 Controlling parties and related party transactions

The company is controlled equally by Corus plc and Koninklijke Volker Wessels Stevin NV. The company entered into the following aggregated transactions with the controlling parties. All transactions were undertaken on normal trading terms:

	Income £000	Expenditure £000	Net debtor/ (creditor) balance at 31 Dec 00 £000
Corus plc	1,993	1,501	490
Koninklijke Volker Wessels Stevin NV	8	84	(50)
	<hr/>	<hr/>	<hr/>
	Income £000	Expenditure £000	Net creditor balance at 31 Dec 99 £000
Corus plc	1,969	1,665	(174)
Koninklijke Volker Wessels Stevin NV	5	112	(316)
	<hr/>	<hr/>	<hr/>