MTL London Northern Limited

Annual report
for the year ended 29 March 1997

Directors' report for the year ended 29 March 1997

The directors present their report and the audited financial statements for the year ended 29 March 1997.

Principal activities

The principal activity of the company during the year was the provision of public passenger transport by road.

Dividends

The directors do not recommend the payment of a dividend.

Review of business and future developments

Total turnover for the year increased by 16.6% on the previous year. This reflects the full year effect of tender gains and losses in the year ended 31 March 1996, the integration of other fellow MTL Trust Holdings Limited subsidiary routes into the company and increased bus ridership in London.

In January 1997, following an unsuccessful tender submission, the company failed to retain route 91. During the year the company retained route 139 and commenced operating routes 95 and 79 following successful tender submissions. There were no other material route changes during the year.

Certain freehold land and buildings were transferred to MTL Trust Holdings Limited during the year. No material gains or losses were suffered on the disposal of fixed assets during the year.

The tendering of London Transport routes continues to be competitive and the Directors believe that these pressures will continue to be felt in the current financial year. This will inevitably constrain turnover growth and reduce margins.

Operating profit at 4.7% showed a decrease on the previous year at 8.2% due to the reclassification of bus operating charges. Profit before tax fell from 6% to 4.7% and reflects the effect of the loss of the major route 91 in the current year and the full year effect of the loss of route 263 in the prior year.

The company is fully committed to responding to the downward pressure on tender prices by continually examining its cost base and by seeking to achieve maximum asset utilisation.

MTL London Northern Limited

Directors

The directors of the company at 29 March 1997, all of whom have been directors for the whole of the year ended on that date, unless otherwise stated, are listed below:

D C Brady	
I F Campbell	(resigned 15 June 1997)
P G Coombes	Chairman
M A Franklin	
C E Fuller	(appointed 4 November 1996)
D P Groves	(appointed 13 July 1996)
R G Millington	(resigned 20 June 1996)

Directors' interests

None of the directors had an interest in the shares of the company, either at the beginning or end of the financial year.

D P Groves held 2,540 ordinary shares in MTL Trust Holdings Limited at 29 March 1997 (nil at date of appointment). M A Franklin held 21,500 ordinary shares in MTL Trust Holdings Limited (31 March 1996: nil).

The directors' interests in the shares of the holding company, MTL Trust Holdings Limited, are disclosed in MTL Trust Holdings Limited financial statements.

Charitable and political donations

No charitable or political donations were made during the year.

Taxation status

The Company was not a close company within the provisions of the Income and Corporation Taxes Act 1988 and this position has not changed since the end of the financial period.

Employee involvement

The company has established joint consultative and negotiating procedures as a means of ensuring that the views of the employees are taken into account in making decisions that are likely to affect their interests. A profit related pay scheme is in operation to encourage the involvement of employees in the company's performance.

The company gives full and fair consideration to applications for employment from disabled persons whenever practicable, continues to employ disabled persons whenever suitable vacancies occur and provides training, career development and promotion opportunities for such employees.

Directors' responsibilities

The directors are required by UK company law to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for that year.

The directors confirm that suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 29 March 1997. The directors also confirm that applicable accounting standards have been followed and the financial statements have been prepared on the going concern basis.

The directors are responsible for keeping proper accounting records, for taking reasonable steps to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

By order of the Board

D.A. Woodward

D A Woodward
Company Secretary
7 July 1997

Report of the auditors to the members of MTL London Northern Limited

We have audited the financial statements on pages 5 to 18.

Respective responsibilities of directors and auditors

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

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the 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 at 29 March 1997 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Coopers & Lybrand

Coopers & Lybrand

Chartered Accountants and Registered Auditors
Liverpool
7 July 1997

MTL London Northern Limited

Profit and loss account
for the year ended 29 March 1997

	Notes	1997 £'000	1996 £'000
Turnover			
Continuing operations		36,256	29,738
Acquisitions		-	1,347
Total turnover	2	36,256	31,085
Operating expenses			
Continuing operations		(34,555)	(27,170)
Acquisitions		-	(1,347)
Total operating expenses		(34,555)	(28,517)
Operating profit			
Continuing operations		1,701	2,568
Acquisitions		-	-
Total operating profit		1,701	2,568
Interest receivable and similar income		13	100
Interest payable and similar charges	5	(7)	(806)
Profit on ordinary activities before taxation	6	1,707	1,862
Tax on ordinary activities	7	177	316
Retained profit for the financial year	17	1,884	2,178

The company has no recognised gains and losses other than the profits above and therefore no separate statement of total recognised gains and losses has been presented.

MTL London Northern Limited

Note of historical cost profits and losses

	1997 £'000	1996 £'000
Reported profit on ordinary activities before taxation	**1,707**	1,862
Realisation of vehicle revaluation gains of previous years	**-**	1,078
Difference between historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	**-**	218
Historical cost profit on ordinary activities before taxation	**1,707**	3,158
Historical cost profit for the year retained after taxation	**1,884**	3,474

MTL London Northern Limited

Balance sheet
as at 29 March 1997

	Notes	1997 £'000	1996 £'000
Fixed assets			
Tangible assets	8	**996**	3,429
Investments	9	-	-
		996	3,429
Current assets			
Stocks	10	**238**	88
Debtors	11	**10,903**	7,689
Cash at bank and in hand		**455**	388
		11,596	8,165
Creditors: amounts falling due within one year	12	**5,569**	5,929
Net current assets		**6,027**	2,236
Total assets less current liabilities		**7,023**	5,665
Creditors: amounts falling due after more than one year	13	**(31)**	(30)
Provisions for liabilities and charges	14	**(295)**	(822)
Net assets		**6,697**	4,813
Capital and reserves			
Called-up share capital	16	**1,413**	1,413
Share premium account		**1,412**	1,412
Profit and loss account	17	**3,872**	1,988
Equity shareholders' funds	18	**6,697**	4,813

The financial statements on pages 5 to 18 were approved by the Board of Directors on 7 July 1997 and signed on its behalf by:

C E Fuller

C E Fuller
Director

Notes to the financial statements for the year ended 29 March 1997

1 Principal accounting policies

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important accounting policies, which have been applied consistently, is set out below.

Basis of accounting

The financial statements are prepared in accordance with the historical cost convention, modified by the revaluation of certain fixed assets.

Turnover

Turnover represents the income derived from the provision of services falling within the company's ordinary activities, exclusive of VAT.

Tangible fixed assets

Tangible fixed assets are stated at cost or valuation less accumulated depreciation. Depreciation is provided on a straight-line basis and is calculated so as to write off the cost of tangible fixed assets over their expected useful economic lives as follows:

Leasehold improvements	- over the term of the lease
Freehold and leasehold buildings	- range from 10 to 50 years
Plant, machinery and other equipment	- range from 1 to 10 years

Freehold land is not depreciated.

Goodwill

Goodwill arising on the acquisition of a business is written off immediately against reserves.

Stocks

Stocks consist primarily of materials and fuels required for the operation and maintenance of buses. These materials and fuels are valued at the lower of cost and net realisable value to the company. Where necessary provision is made for obsolete and slow moving stocks.

Operating leases

Costs in respect of operating leases are charged to the profit and loss account on a straightline basis over the lease term.

Finance leases

Where assets are financed by leasing agreements that give rights approximating to ownership ("finance leases"), the assets are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable during the lease term. The corresponding leasing commitments are shown as obligations to the lessor. Depreciation on the relevant assets is charged to the profit and loss account over the shorter of the lease term and the expected useful life of the asset. Lease payments are treated as consisting of capital and interest elements and the interest is charged to the profit and loss account using the "sum of the digits" method.

Deferred taxation

Provision is made for deferred taxation, using the liability method, on all material timing differences to the extent that it is probable that a liability or asset will crystallise.

Pension costs

The company operates both defined benefit and defined contribution pension schemes. For both schemes the assets are held separately from those of the company.

The defined benefit funds are valued by professionally qualified independent actuaries and the rates of contributions are determined by the actuaries. The costs of defined benefit schemes are accounted for on the basis of charging the expected cost of providing pensions over the period during which the company benefits from the employees' service. The effects of variations from regular cost are spread over the expected average remaining service lives of members of the scheme.

The costs of defined contribution schemes are accounted for on the basis of contributions payable during the year.

MTL London Northern Limited

2 Turnover

Turnover consists entirely of sales made in the United Kingdom.

3 Directors and employees

	1997 £'000	1996 £'000
The remuneration paid to the directors of MTL London Northern Limited was:		
Management emoluments	47	7
Other emoluments (including pension contributions)	3	-
	50	7

In addition, £71,000 (1996: £110,000) was paid during the year to the holding company in respect of the services of two directors.

	1997 £'000	1996 £'000
Fees and other emoluments disclosed (excluding pension contributions) include amounts paid to:		
The Chairman	-	-
The highest paid director	47	57

The number of directors (including the chairman and the highest paid director) who received fees and other emoluments (excluding pension contributions) in the following ranges was:

	1997 Number	1996 Number
£Nil - £5,000	4	2
£5,001 - £10,000	-	1
£20,001 - £25,000	-	-
£25,001 - £30,000	1	-
£40,001 - £45,000	1	-
£45,001 - £50,000	1	-
£50,001 - £55,000	-	1
£55,001 - £60,000	-	1

The emoluments shown under the bandings £25,001 to £30,000 and £40,001 to £45,000 relate to amounts paid to the holding company.

MTL London Northern Limited

4 Employee information

	1997 Number	1996 Number
The average monthly number of persons (including directors) employed by the company during the year was:		
Platform staff	1,011	925
Engineering and maintenance staff	124	112
Administration	99	45
	1,234	1,082

	1997 £'000	1996 £'000
Staff costs (for the above persons)		
Wages and salaries	19,358	16,444
Social security costs	1,697	1,365
Pension costs (see note 15)	810	729
	21,865	18,538

5 Interest payable and similar charges

	1997 £'000	1996 £'000
Charges payable under finance leases	7	806

6 Profit on ordinary activities before taxation

	1997 £'000	1996 £'000
Profit on ordinary activities before taxation is stated after charging/(crediting):		
Loss on disposal of fixed assets	18	-
Depreciation		
Tangible owned fixed assets	316	306
Tangible fixed assets held under finance leases	16	1,370
Auditors' remuneration		
Audit fees	35	24
Other services	3	-
Hire of plant and equipment - operating leases	294	103
Other operating leases	86	43
Exceptional items		
Restructuring costs	-	(86)
Provision against fixed asset investment	-	100

The above exceptional items are reflected in operating expenses in the profit and loss account.

7 Taxation

	1997 £'000	1996 £'000
UK corporation tax at 33% (1996: 33%)		
Deferred	**177**	316

8 Tangible fixed assets

	Freehold land and buildings £'000	Plant and Equipment £'000	Total £'000
Cost or valuation			
At 1 April 1996	2,405	2,083	4,488
Additions	-	218	218
Disposals	-	(56)	(56)
Intra group transfers	(2,405)	78	(2,327)
At 29 March 1997	-	**2,323**	**2,323**
Depreciation			
At 1 April 1996	58	1,001	1,059
Charge for the year	-	332	332
Disposals	-	(4)	(4)
Intra group transfers	(58)	(2)	(60)
At 29 March 1997	-	**1,327**	**1,327**
Net book value:			
At 29 March 1997	-	**996**	**996**
At 31 March 1996	2,347	1,082	3,429

The net book value of tangible fixed assets includes the following amounts:

	1997 £'000	1996 £'000
Assets held under finance leases	**69**	44
Leasehold improvements	**110**	123
Land	-	2,087

9 Fixed asset investment

The investment represents the cost of 10% of the ordinary share capital of Routemaster Reinsurance Limited, a reinsurance company registered in the Republic of Ireland. Full provision has been made in the financial statements against the cost of this investment.

10 Stocks

	1997 £'000	1996 £'000
Finished goods and goods for resale	151	-
Raw materials and consumables	87	88
	238	88

There is no significant difference between the replacement cost of stocks and the value shown in the accounts.

11 Debtors

	1997 £'000	1996 £'000
Amounts falling due within one year:		
Trade debtors	2,590	2,622
Amounts owed by holding company	2,619	145
Amounts owed by fellow subsidiary undertakings	4,655	4,141
Other debtors	302	348
Prepayments and accrued income	737	433
	10,903	7,689

12 Creditors: amounts falling due within one year

	1997 £'000	1996 £'000
Bank overdraft (secured)	275	125
Obligations under finance leases	26	16
Trade creditors	1,418	1,442
Amounts owed to fellow subsidiary undertakings	495	485
Corporation tax	166	166
Other taxes and social security	413	637
Other creditors	578	613
Accruals and deferred income	2,198	2,445
	5,569	5,929

Bank overdrafts are secured by fixed and floating charges over the assets of the company.

13 Creditors: amounts falling due after more than one year

	1997 £'000	1996 £'000
Obligations under finance leases (see note 20)	**31**	30

14 Provisions for liabilities and charges

	Other provisions £'000	Deferred taxation £'000	Total £'000
At 1 April 1996	550	272	822
Profit and loss account	(350)	(177)	(527)
At 29 March 1997	200	95	295

Deferred taxation provided in the financial statements, and the amount unprovided of the total potential liability are as follows:

	Amount provided		Amount unprovided	
	1997 £'000	1996 £'000	1997 £'000	1996 £'000
Tax effect of timing differences because of:				
Excess of capital allowances over depreciation	**95**	272	-	-

Other provisions relate to acquisition provisions for future losses on contracts and rents payable on vacant properties.

15 Pensions and similar obligations

Defined Benefit Schemes

The company operates its own funded defined benefit scheme, which provides benefits based on final salary. The assets of the scheme are held separately from those of the company. The total pension cost for the company for this scheme during the year was £711,000 (1996: £721,000). The pension cost has been assessed in accordance with the advice of an independent qualified actuary. Given that the scheme was first established part way through the 1994/95 financial year pension costs have been based on preliminary actuarial calculations. The assumptions that have the most significant effect on the valuation are those relating to the rate of return on investments and the rates of increase in wages and pensions. It was assumed that the investment return would be 9% per annum, wage increases would average 7% per annum and that pensions would average 4% per annum. The actuary confirmed there were no scheme assets as at the inception of the scheme. The contributions of the company and employees have been set at 9% and 5% respectively. A formal actuarial valuation is due to be carried out in the next accounting period. At the balance sheet date contributions of £63,000 (1996: £32,000) were outstanding.

Between 1 April 1994 and 26 October 1994, the company participated in the LRT Pension Fund, which is operated on behalf of London Regional Transport ("LRT") and its subsidiary companies. The assets of the scheme are held separately from those of LRT and its subsidiary companies. The total pension costs for this scheme were assessed in accordance with the advice of an independent qualified actuary on the basis of final pensionable earnings. A proportion of the costs incurred by LRT in respect of the funding of the scheme were charged to the company in accordance with the actuary's advice. The total pension cost for the company for this scheme during the year was £Nil (1994: £1,069,000). The last actuarial valuation of this scheme was conducted as at 31 March 1994. Full details are contained in the financial statements of the former ultimate holding company, LRT.

Defined Contribution Scheme

The company participates in two defined contribution schemes, one of which is operated by its ultimate holding company, MTL Trust Holdings Limited and the other is operated by MTL London Northern Limited. This second scheme is operated as a result of the transfer of a number of employees from a fellow group company to MTL London Northern Limited from 1 April 1996. The pension cost charge for the period represents contributions payable by the company to the funds and amounted to £92,000 (1996:£8,000) for the group scheme and £7,000 (1996; £Nil) for the company scheme. At the balance sheet date contributions of £39,000 (1996: £1,100) and £1,000 (1996: £Nil) were outstanding for the respective schemes.

16 Called up share capital

	1997 £'000	1996 £'000
Authorised		
14,000,000 ordinary shares of £1 each	**14,000**	14,000
Allotted, called up and fully paid		
1,413,000 ordinary shares of £1 each	**1,413**	1,413

17 Reserves

	Profit and loss account £'000
At 1 April 1996	1,988
Retained profit for year	1,884
At 29 March 1997	**3,872**

18 Reconciliation of movements in equity shareholders' funds

	1997 £'000	1996 £'000
Equity shareholders' funds	**4,813**	3,887
Profit for the financial year	**1,884**	2,178
Goodwill written off	-	(1,252)
Equity shareholders' funds	**6,697**	4,813

19 Capital commitments

At 29 March 1997 the company had the following capital commitments; authorised and contracted for £Nil (1996: £ 2,544,000).

20 Finance lease obligations

The net finance lease obligations to which the company is committed are:

	1997 £'000	1996 £'000
In one year or less	26	16
Between one and two years	30	17
Between two and five years	1	13
	57	46

21 Financial commitments

At 29 March 1997 the company had annual commitments under non-cancellable operating leases as follows:

	1997		1996	
	Land and buildings £'000	Plant and machinery £'000	Land and buildings £'000	Plant and machinery £'000
Expiring within one year	-	-	42	2
Expiring between two and five years inclusive	71	2	111	6
Expiring after five years	45	-	-	-
	116	2	153	8

22 Contingent liabilities

The company has entered into an agreement with London Regional Transport ("LRT") whereby a liability to make payments to LRT can arise in respect of certain development gains. This potential liability, the amount of which is related to the development gain, can only arise where the company has disposed of property and any liability will be offset by a gain on disposal. No provision has therefore been made in the accounts in respect of any such liability. The company has provided fixed charges over the relevant freehold properties in respect of this potential liability.

The company has entered into an agreement with its bankers whereby it guarantees the bank loans and overdrafts of certain other group member companies which at 29 March 1997 amounted to £1,788,000 (1996: £643,000).

23 Cash flow statement

In accordance with paragraph 8c of Financial Reporting Standard No. 1, the company is not required to publish a cashflow statement.

24 Ultimate parent company

The company is a wholly owned subsidiary of MTL Trust Holdings Limited, a company registered in England and Wales. The directors regard MTL Trust Holdings Limited as the ultimate parent company. Copies of the parent company's consolidated financial statements may be obtained from The Secretary, MTL Trust Holdings Limited, Rail House, Lord Nelson Street, Liverpool, L1 1JF.