

FINANCIAL STATEMENTS

**FOR THE RAIL SAFETY AND
STANDARDS BOARD LIMITED**

YEAR ENDED 31 MARCH 2005

COMPANY NO. 04655675

RAIL SAFETY AND STANDARDS BOARD LIMITED

FINANCIAL STATEMENTS

For the year ended 31 March 2005

Company registration number: 04655675

Registered office: Evergreen House
160 Euston Road
London NW1 2DX

Directors: Lord Tunnicliffe (non-executive chairman)
Len Porter (chief executive)
Robert Andrews (non-executive)
Iain Coucher (non-executive)
Professor Tom Cox (non-executive)
Sir Frank Davies (non-executive)
Tim Gilbert (non-executive)
Anson Jack (executive)
Allen Johnson (non-executive)
Aidan Nelson (executive)
Dr John Penney (non-executive)
Richard Profit (non-executive)
Adrian Shooter (non-executive)

Secretary: John Bradley

Bankers: HSBC
100 Old Broad Street
London EC2N 1BG

Solicitors: Winckworth Sherwood
35 Great Peter Street
London SW1P 3LR

Auditors: Grant Thornton UK LLP
Registered Auditors
Chartered Accountants
Grant Thornton House
Melton Street
Euston Square
London NW1 2EP

RAIL SAFETY AND STANDARDS BOARD LIMITED

FINANCIAL STATEMENTS

For the year ended 31 March 2005

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RAIL SAFETY AND STANDARDS BOARD LIMITED

CHAIRMAN'S STATEMENT

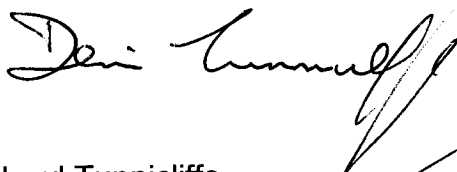
I am delighted to introduce Rail Safety and Standards Board (RSSB)'s Annual Report for the year to 31 March 2005.

It has been an important and transitional year for Britain's rail industry. The government's white paper, *The Future of Rail*, contained a range of measures designed to streamline industry structure and strengthen performance. Amongst other changes, this will see the Office of Rail Regulation (ORR) take on the additional role of safety regulation for the domestic mainline network, for all railways, not just those currently of interest to RSSB. At the same time, developments on the European stage have continued to pave the way towards greater harmonisation of railway systems (including safety requirements) across European Union (EU) member states.

Throughout this period of considerable change, RSSB has maintained its focus on 'business as usual', facilitating safety management at an industry level whilst providing services from which individual Members can draw to support their business activities. As this report will show, we have been involved in a range of diverse activities that underpin the operation of a safe, reliable, and affordable railway.

The importance of this work was recognised in the recent ORR-led review of our activities (published in February 2005), which endorsed RSSB's role at the heart of the industry's safety management process. We will continue to develop this role in line with Members' needs, a clear and close alignment that will be particularly important as we approach the transition to membership funding in April 2006.

We are also moving forward with the recommendations for change made by the ORR within its report, and we look forward to working with both the ORR and the Department for Transport (DfT) in their expanded industry roles. As ever, we could not fulfil our role without the ongoing support of our membership, which continues to grow. The way Members support us and take part in our activities contributes greatly to effective safety management across the industry.



Lord Tunncliffe
15 June 2005

RAIL SAFETY AND STANDARDS BOARD LIMITED

REPORT OF THE DIRECTORS

The directors present their report together with the audited financial statements for the year ended 31 March 2005.

Principal activity

The principal activity of RSSB is to lead and facilitate the railway industry's work to achieve continuous improvement in the health and safety performance of the railways in Great Britain and thus to facilitate the reduction of risk to passengers, employees and the affected public so far as reasonably practicable, so aiding compliance by providers of railway services with their obligations under health and safety law.

It does this through a series of activities authorised by an agreement entered into with each of its Members. The main activities are set out under the business review heading below.

Business review

RSSB was incorporated on 4 February 2003 and became fully operational on 1 April 2003, implementing one of the core sets of recommendations from the second part of Lord Cullen's public inquiry into the Ladbroke Grove train accident.

The key elements of its remit are:

- To manage Railway Group Standards on behalf of the industry
- Lead UK rail industry formal inquiries to ensure safety lessons are learnt
- Lead the development of long-term safety strategy for the industry, and publication of an annual Strategic Safety Plan (SSP)
- Propose change through facilitation of the Research and Development programme (R&D)
- Measure, report and inform on health and safety performance, safety intelligence, trends, data and risk (via Safety Performance Report)
- Support cross-industry groups in national initiatives which address major areas of safety concern
- Facilitate the effective representation of the UK rail industry in the development of European legislation and standards that impact on the rail system
- Facilitate the running of System Interface Committees (SICs)

RSSB is a not-for-profit company and is not authorised to pay dividends. It is limited by guarantee and is governed by its Members, a Board (and committees thereof) and an Advisory Committee. It is independent of any single railway company and of their commercial interests.

RAIL SAFETY AND STANDARDS BOARD LIMITED

REPORT OF THE DIRECTORS

Until 2006 RSSB will be funded by the Strategic Rail Authority (SRA) through a route that involves train operators and Network Rail. From April 2006 RSSB will be funded by a levy on its Members. The budget for 2005/06 was approved by the Office of Rail Regulation (ORR) on 16 March 2005 at £37.7 million. (£24.7m for core operations including irrecoverable VAT and £13m for the R&D programme).

The ORR has approved funding of £32.9 million against this budget (£22.9m for core and £10m for Research) and RSSB will use £4.8m of the underspend for the balance (£3m for R&D and £1.8m for core). An additional £3m of the underspend will be used to set up a reserve for R&D.

White Paper: The Future of Rail

On 19 January 2004, the Secretary of State for Transport announced that his Department was to undertake a fundamental review of the rail industry. The review would consider the structural and organisational changes needed to enable the rail industry to deliver for its customers, as well as looking at the regulation of safety and the progress being made by the industry in improving performance and controlling costs.

The White Paper was published on 15 July 2004 and as a result RSSB and its industry members requested that the ORR should lead a review of the role and functions of RSSB.

The review involved a high level steering group chaired by the chairman of ORR, and a working group also chaired by ORR. Its aim was to address the concerns raised by the Government in "The Future of Rail" about industry safety leadership, and to ensure the arrangements were fit for purpose in the light of the changes in the rail industry environment.

It also reflected the other changes to the industry structure and working arrangements including: establishment of the Rail Accident Investigation Branch (RAIB); Network Rail replacing Railtrack and taking infrastructure maintenance activity "in-house"; the White Paper ("The Future of Rail") and subsequent legislative proposals; and implementation of the second EU railway package including the Railway Safety Directive (RSD).

RAIL SAFETY AND STANDARDS BOARD LIMITED

REPORT OF THE DIRECTORS

The review was published by the ORR in February 2005. The main conclusions were:

- 1 There remains a need for an industry body to carry out certain safety and standards related functions;
- 2 This body should be independent of any individual industry company or grouping;
- 3 The body's functions should include those activities
 - Which can only sensibly be done at the industry level;
 - Where there are significant benefits in having an industry body; and
 - Where industry or public credibility require a body independent of individual industry interests;
- 4 Whilst individual industry organisations must provide safety leadership within their own organisations, RSSB, through its role as an integral part of the industry's safety management processes, has a role in encouraging and facilitating effective safety leadership. Similarly, whilst most of the risks arising from railway activities, along with appropriate precautions, are generally well understood by duty holders, RSSB can assist them in continually reviewing risk, especially that arising at interfaces between duty holders, to ensure effective control and mitigation measures are in place;
- 5 It is now for the RSSB Board to review its activities against the principles set out in this report and produce a business plan to deliver them in an efficient way. This can build on the work already being done by RSSB but requires some further refocusing of RSSB's activities; and
- 6 The governance arrangements for RSSB should be reviewed by the RSSB Board, to ensure they are fit for the purpose of securing that RSSB is an organisation of the industry, but independent of any part of it, and credible with wider stakeholders and the public.

The Board has begun the process of reviewing the activities of the company and the governance arrangements and once this work is completed a three-year business plan will be produced and recommendations for changes to the governance arrangements will be consulted with the ORR and the company membership.

RAIL SAFETY AND STANDARDS BOARD LIMITED

REPORT OF THE DIRECTORS

The future of the R&D function

RSSB manages, on behalf of industry and government, a programme of industry-wide R&D. This programme was originally established for five years from 2001 to 2006.

Purpose and content of R&D

In addition to delivering, over the last few years, substantial value-adding research for use by industry and government, RSSB has recently conducted a review of the likely requirements for R&D in future. They are focused on the key deliverables that Government expects of the railway such as:

- Improving safety performance, reliability and punctuality
- Increasing the availability and capacity of the system
- Reducing costs
- Integrating all of these to compete effectively with other transport modes and deliver a sustainable future for the railway.

R&D will continue to make an essential contribution, by:

- Identifying problems and creating solutions
- Challenging current ways of doing things
- Identifying and spreading good practice
- Developing better processes and technology (modernisation)
- Prioritising initiatives by assessing costs and benefits
- Reducing the risks to delivery.

On the basis of this analysis, RSSB is working to broaden and deepen the content of the R&D programme in line with the needs of both industry and government.

Funding and governance of R&D

The R&D programme is funded by the Government for research into industry-wide and strategic issues.

The constitution of RSSB assumes that funding for most of its functions will be provided after 31 March 2006 through its Members. However it assumes that the R&D programme will continue to be funded centrally by government. The 'Review of RSSB' report published recently by ORR confirmed the need for R&D to be carried out by RSSB, with Government funding, and with Government and regulator as well as industry having a strong role in the client and governance arrangements.

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REPORT OF THE DIRECTORS

Securing the future of R&D

RSSB is in discussion with Government regarding the future content of the R&D programme, governance arrangements, and funding. It is particularly important, in terms of both efficiency and effectiveness of delivering R&D, that arrangements for continued funding of the programme beyond 31 March 2006 are put in place before the summer of 2005. The Board of RSSB is working with DfT and ORR, as well as SRA and HSE, to ensure that this happens.

The company has received assurance from the Department for Transport that it will fund the R&D programme through to March 2007.

Railway Group Standards

Leading standards for the industry

During 2004/05, RSSB continued to manage the Railway Group Standards (RGSs) that underpin safe working between Railway Group Members (RGMs) across the domestic rail network. In parallel, however, it worked with the industry to confirm and revise the future range and scope of those RGSs, to enable Members to take on more direct responsibility for standards and to facilitate convergence with the Technical Specifications for Interoperability (TSIs) emerging from Europe.

Developing the industry strategy for standards

The industry strategy for standards, published in November 2004, forms the blueprint for the future of standards across the domestic network. It followed a major review, which was led and project-managed by RSSB but driven at all stages by cross-industry steering and working groups.

The strategy represents a significant shift in the way that standards are to be managed, as it outlines plans to give Members much more direct control over their own activities. Mandatory standards will only apply to activities in which two or more duty holders are involved, and that other safety measures (those that fall within the day-to-day responsibility of individual duty holders) should be addressed within company safety plans. This new approach is expected broadly to reduce the number of RGSs by up to 50%, with other measures transferring to the responsibility of duty holders, becoming voluntary standards or being withdrawn altogether.

The remaining RGSs will focus only on the interfaces between duty holders. They will also be grouped together in single documents aligned with TSI categories: Operations, Rolling Stock, Infrastructure, Energy, Command Control and Signalling and Telematics. These common European standards will eventually govern the main railway interfaces in all EU member states. However, there will always be a number of interface standards

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that remain, such as those interfaces associated with DC Electrification, and the foreseeable future standards for these will continue to be produced on a national basis.

These changes in the strategy are designed to simplify the domestic standards regime. They also mean that, over time, the role that RGSs play in the management of safety across the domestic network will be reduced, which much of their scope being passed to individual duty holders or replaced by TSIs.

RSSB is currently managing the implementation of the strategy in line with Members' needs.

Aligning Subject Committees with TSIs

Subject Committees, the groups of industry representatives that make decisions on RGSs, have also been reviewed and aligned with the core categories of TSI. With effect from 1 February 2005, they have been renamed as follows:

- Infrastructure (INS) (previously the 'Track and Structures' committee) – addressing all measures within the scope of Infrastructure, Safety in Rail Tunnels and Reduced Mobility TSIs
- Traffic Operations and Management (TOM) (previously the 'Operations Standards' committee) – addressing all measures within the scope of Traffic Operations and Management TSIs
- Control Command and Signalling (CCS) (previously the 'Train Control and Communications' committee) – addressing all measures within the scope of Control Command and Signalling, and Telematics, TSIs
- Energy (ENE) (previously the 'Electrification' committee) – addressing all measures within the scope of Energy TSIs
- Rolling Stock (RST) (previously the 'Traction and Rolling Stock' committee) – addressing all measures within the scope of Rolling Stock TSIs
- Plant (PLT) (name retained and scope unchanged)

Subject Committees are currently involved in assessing the changes outlined in the industry strategy for standards, considering which measures should be retained as RGSs, transferred to duty holder responsibility or withdrawn altogether. The Standards Co-ordination Committee (SCC) is overseeing this process.

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Re-structuring RSSB's Standards Directorate

To help support the delivery of the industry strategy for standards, and to facilitate further integration between the domestic and European standards regimes, RSSB also reviewed the structure of its Standard Directorate during the year.

It has subsequently reorganised and aligned its activities with the core categories of TSI. The directorate's new structure, which came into effect on 4 April 2005, will also facilitate closer working relationships between Subject Committees, System Interface Committees (SICs) and Mirror Groups for TSIs, as the same RSSB personnel will provide support for each of these groups.

Challenges to current domestic standards

Industry stakeholders can propose changes to standards in a number of ways, and appeals against decisions taken by RSSB can be made through the procedure laid out in the Railway Group Standards Code (RGSC).

For the year 2004/05, there were 92 proposals for standards change, of which 67 came from outside RSSB.

Other items arising during the year

Charitable donations made by RSSB during the period totalled £2,360 through the matched fundraising scheme, which allows money raised by staff for a registered charity through sponsored or fundraising events and activities to be matched by the company. This scheme aims to support staff in their charitable work and is subject to funds being available from a designated budget.

Result for the year

The directors consider both the result for the year and the year-end financial position to be satisfactory.

RAIL SAFETY AND STANDARDS BOARD LIMITED

REPORT OF THE DIRECTORS

Directors

The membership of the Board is set out below.

Lord Tunncliffe is RSSB's non-executive chairman.

The executive directors are:

- Len Porter, chief executive
- Aidan Nelson, director, Policy & Strategic Initiatives
- Anson Jack, director, Standards (appointed 14 July 2004)

RSSB's industry nominated non-executive directors are:

- Tim Gilbert, engineering director of Porterbrook Leasing Company Limited *
- Allen Johnson, chief operating officer of English, Welsh and Scottish Railway Limited *
- Iain Coucher, deputy chief executive of Network Rail (appointed 30 November 2004)
- Dr John Penney, independent railway consultant *
- Adrian Shooter, chairman of Chiltern Railways Company Limited *
- Robert Andrews, director of safety development, Strategic Rail Authority (appointed 4 April 2005)

RSSB's independent non-executive directors are:

- Professor Tom Cox, professor of organisational psychology at the University of Nottingham (current appointment expires 31 March 2007)
- Sir Frank Davies, former chairman, Health and Safety Commission (appointment expired 31 March 2005, reappointed until 31 March 2006)
- Richard Profit, former group director of Safety Regulation for the Civil Aviation Authority (current appointment expires 31 March 2007)

* First industry directors whose current term of appointment will expire under the articles of association after three years, on 31 March 2006.

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REPORT OF THE DIRECTORS

Other directors who served during the year are:

- Dr Matt Walter, executive director, Standards (resigned effective 29 June 2004)
- David Waboso, executive director (technical) of the Strategic Rail Authority (resigned effective 4 April 2005)
- Hans Ring, director of safety for the Swedish National Rail Administration (appointment expired 31 March 2005)
- Chris Leah, former director of safety and compliance, Network Rail (resigned effective 30 November 2004)
- Andrew Rose, chief operating officer of Balfour Beatty Rail Limited (resigned effective 5 May 2005)

Risk Management

The process of corporate risk management is that the executive directors of RSSB meet annually in a workshop facilitated by the Risk & Safety Intelligence department to review the existing corporate risk log and to incorporate appropriate changes.

All areas of corporate risk are considered, including reputation, technical competence, financial, staff retention, leadership, the influence of emerging legislation, the validity of RGSs, IT and corporate memory, data accuracy, effectiveness of Research & Development, funding and insurance. Each area of risk is recorded in a risk log.

Existing and new controls that mitigate each risk area are considered to ensure that the residual risk is minimized, and assessed in terms of likelihood and consequence. Both likelihood and consequence are scored on a scale of one to five for each risk area, and the scores are added so that the risk areas can be ranked in terms of their significance. The most significant risk areas are identified for special consideration.

The results of this review are summarised in papers that are submitted to the Audit Committee and to the RSSB Board. Any changes deemed necessary following discussions at these meetings are introduced into the risk log. Should any new or enlarged risk arise during the intervening period the director level workshop is re-convened. The controls are reviewed frequently to ensure they are operating effectively to keep levels of risk as low as possible.

Health and safety

In recognition of RSSB's role in providing safety leadership to the railway industry, it is the directors' intention that the company will adopt best practice health and safety standards for its own staff, contractors and visitors to its premises.

RAIL SAFETY AND STANDARDS BOARD LIMITED

REPORT OF THE DIRECTORS

RSSB complies with legislation by conducting business in a manner that demonstrates proper consideration for safety and health, hygiene and fire prevention. RSSB has a clearly stated policy that sets out the objectives, organisation structure and arrangements for safety.

RSSB identifies potential hazards and puts in place systems to control risks to as low a level as is reasonably practicable.

RSSB is committed to achieving continuous improvement in the prevention of personal injury, ill health and fatalities to staff, contractors and visitors. This is achieved by providing safe and hygienic accommodation and by implementing systems to ensure that the safety of staff, when working away from RSSB premises, is as low as is reasonably practicable.

RSSB regularly monitors managers' performance against their safety objectives and annually reviews the RSSB health and safety policy statement.

It is essential that staff have the necessary safety competency to perform their jobs; to this end we ensure that appropriate safety training is provided.

All employees have a responsibility to take care of their own safety, and, by setting a good example by their own approach, to encourage good practice throughout the industry. RSSB encourages and welcomes suggestions from staff and contractors that will assist the company in improving its management of health and safety.

Corporate governance

The Board considers that good corporate governance is central to achieving the company's objectives and safeguarding stakeholder interests. The company is also committed to the highest standards of business behaviour.

The Constitution Agreement requires the Board to appoint and maintain an Audit Committee, a Remuneration Committee and an Appointments Committee having the membership and duties as set out below.

RAIL SAFETY AND STANDARDS BOARD LIMITED

REPORT OF THE DIRECTORS

Audit Committee

The membership of the Audit Committee consists of five non-executive directors of the company. The Audit Committee reviews the accounting policies and procedures of the company, its internal financial control systems and its compliance with statutory requirements and may also consider any matter raised by the company's external auditors.

Membership of the Audit Committee is as follows:

- Dr John Penney (chairman)
- Professor Tom Cox
- Sir Frank Davies
- Chris Leah (resigned effective 30 November 2004)
- Iain Coucher (appointed 12 January 2005)
- Richard Profit

Remuneration Committee

The membership of the Remuneration Committee consists of five non-executive directors of the company (a majority of whom are non-industry directors). The Remuneration Committee considers and makes recommendations to the Board on the remuneration of all executive directors of the company and all senior employees of the company who are not directors and whose annual base salary (excluding employer pension contributions, bonuses, travel expenses, car allowances and other benefits in kind) is in excess of £100,000 per annum.

Membership of the Remuneration Committee is as follows:

- Richard Profit (chairman)
- Professor Tom Cox
- Allen Johnson
- Adrian Shooter
- Lord Tunnicliffe

Appointments Committee

The membership of the Appointments Committee consists of five non-executive directors of the company. The Appointments Committee considers and makes recommendations to the Board on the appointment of all directors of the company (other than industry directors) and all senior employees of the company who will not be directors and whose annual base salary (excluding employer pension

RAIL SAFETY AND STANDARDS BOARD LIMITED

REPORT OF THE DIRECTORS

contributions, bonuses, travel expenses, car allowances and other benefits in kind) will be in excess of £100,000 per annum.

Membership of the Appointments Committee is as follows:

- Lord Tunnicliffe (chairman)
- Sir Frank Davies
- Tim Gilbert
- Andrew Rose (resigned effective 5 May 2005)
- Hans Ring (appointment expired 31 March 2005)
- Iain Coucher (appointed 4 May 2005)
- Richard Profit (appointed 4 May 2005)

The Audit Committee meets regularly and the Remuneration and Appointments Committees meet as required. All Committees report to the Board.

RAIL SAFETY AND STANDARDS BOARD LIMITED

REPORT OF THE DIRECTORS

Directors' responsibilities for the financial statements

United Kingdom company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

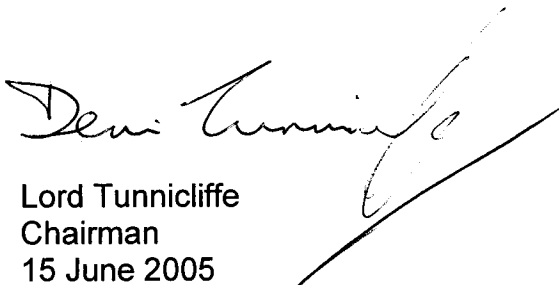
- Select suitable accounting policies and then apply them consistently
- Make judgements and estimates that are reasonable and prudent
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records, for safeguarding the assets of the company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

Grant Thornton UK LLP were reappointed auditors at the Annual General Meeting held on 14 July 2004. Special notice pursuant to Section 388(3) having been given, a resolution to reappoint Grant Thornton UK LLP as auditors will be proposed at the Annual General Meeting to be held on 13 October 2005.

BY ORDER OF THE BOARD


Lord Tunnicliffe
Chairman
15 June 2005

RAIL SAFETY AND STANDARDS BOARD LIMITED

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF

RAIL SAFETY AND STANDARDS BOARD LIMITED

We have audited the financial statements of the Rail Safety and Standards Board Limited for the year ended 31 March 2005, which comprise the principal accounting policies, the income and expenditure account, the balance sheet, the cash flow statement, the statement of recognised gains and losses and notes 1 to 20. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's Members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the directors and auditors

The directors' responsibilities for preparing the directors' report and the financial statements in accordance with United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom auditing standards.

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 1985. 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.

We read other information contained in the directors' report, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

RAIL SAFETY AND STANDARDS BOARD LIMITED

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF

RAIL SAFETY AND STANDARDS BOARD LIMITED

Basis of opinion

We conducted our audit in accordance with United Kingdom 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 March 2005 and of its surplus for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Grant Thornton UK LLP

**GRANT THORNTON UK LLP
REGISTERED AUDITORS
CHARTERED ACCOUNTANTS**

LONDON

16 June 2005

Note: The maintenance and integrity of the Rail Safety & Standards Board Ltd website is the responsibility of the directors: the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

RAIL SAFETY AND STANDARDS BOARD LIMITED

PRINCIPAL ACCOUNTING POLICIES

BASIS OF PREPARATION

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

As an undertaking trading not-for-profit the company has prepared an income and expenditure account in accordance with S262 (2) of the Companies Act 1985.

The Constitution Agreement of the company sets out the funding arrangements. Until April 2006 the company will be directly funded by the SRA through a route involving train operators and Network Rail for annual budgets approved by the Rail Regulator and the Members of RSSB. From April 2006 the company will be funded by a levy on its Members against a budget approved by those Members.

The principal accounting policies are set out below.

INCOME

Income from third parties is the total amount receivable by the company for goods supplied and services provided, excluding VAT and trade discounts.

Funding is amounts receivable from the SRA via Network Rail and this is shown separately.

In addition to the core funding and R&D funding additional work has been undertaken for Network Rail on New Systems and GSM-R. This income is recognised in line with the costs incurred.

EXPENDITURE

In accordance with the VAT agreement with HM Customs & Excise, expenditure is shown including the irrecoverable element of VAT.

The Constitution Agreement mandates RSSB, in consultation with its Members, representatives of other stakeholders, the Health & Safety Executive and the SRA and within the constraints imposed by funding available from the SRA or other sources for this purpose, to develop and implement a programme of health and safety related research and development.

This research and development expenditure is charged to the income and expenditure account in the period in which it is incurred.

RAIL SAFETY AND STANDARDS BOARD LIMITED

PRINCIPAL ACCOUNTING POLICIES

TANGIBLE FIXED ASSETS AND DEPRECIATION

Expenditure on fixed assets in excess of £5,000 is capitalised and then depreciated over their expected future economic life. Items under £5,000 are charged through the income and expenditure account in the period in which the expenditure is incurred.

Depreciation is calculated to write down the cost less estimated residual value of all tangible fixed assets other than freehold land by equal annual instalments over their expected useful lives. The rates generally applicable are:

Information technology	Five years on a straight-line basis
Desktop and laptop computers	Three years on a straight line basis
Plant and machinery	Five years on a straight-line basis
Fixtures and fittings	Five years on a straight-line basis
Motor vehicles	Four years on a straight-line basis

LEASED ASSETS

Assets held under finance leases and hire purchase contracts are capitalised in the balance sheet and depreciated over their expected useful lives. The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to the profit and loss account over the period of the lease.

All other leases are regarded as operating leases and the payments made under them are charged to the profit and loss account on a straight-line basis over the lease term.

DEFERRED TAXATION

Deferred tax is recognised on all timing differences where the transactions or events that give the group an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax on defined benefit pension scheme surpluses or deficits is adjusted against these surpluses. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured using rates of tax that have been enacted or substantively enacted by the balance sheet date.

RETIREMENT BENEFIT SCHEMES

Defined contribution scheme

The pension costs charged against operating profits are the contributions payable to the scheme in respect of the accounting period.

RAIL SAFETY AND STANDARDS BOARD LIMITED

PRINCIPAL ACCOUNTING POLICIES

Defined Benefit Scheme

During the year the company has adopted the full provisions of FRS 17 Retirement Benefits. The impact of the change in accounting policy is shown below:

	March 2005	March 2004
	£'000's	£'000's
Pension contributions paid *	1,090	3,260
Current service cost	(960)	(830)
Increase in operating surplus	130	2,430
Increase in finance income	160	(40)
Net impact on surplus before tax	290	2,390
Gain/(loss) on pension assets	580	(730)
Experience loss on pension liabilities	(240)	(1,620)
Loss on change in pension assumptions	(250)	(1,110)
	380	(1,070)

* including contributions from third parties

Scheme assets are measured at 'fair values'. Scheme liabilities are measured on an actuarial basis using the 'projected unit' method and are discounted at appropriate high quality corporate bond rates. The net surplus or deficit, is presented separately from other net assets on the balance sheet. A net surplus is recognised only to the extent that it is recoverable by the company.

The current service cost and costs from settlements and curtailments are charged against operating profit. Past service costs are spread over the period until the benefit increases vest. Interest on the scheme liabilities and the expected return on scheme assets are included in other finance costs. Actuarial gains and losses are reported in the statement of total recognised gains and losses.

RAIL SAFETY AND STANDARDS BOARD LIMITED

PRINCIPAL ACCOUNTING POLICIES

RESERVES

Insurance

The directors of RSSB set up an insurance reserve of £1.83 million in 2003/04 to cover the self-insured element of the company's activities. Recent movements in the insurance market together with the establishment of a good claims record for the company mean that this level of reserve is no longer considered to be needed and therefore the directors have reduced this reserve to £1m at the balance sheet date.

Deferred expenditure

The budget for 2003/04 as approved by the Rail Regulator funded a number of activities, which have not been completed. The directors believe that these activities are still required and so reserves will be designated to fund these activities. No funding application was made for them in the 2004/05 budget.

Items totalling £1,052k were charged against this reserve in the year ended 31 March 2005. The remaining amount will be spent in 2005-2006.

A similar exercise this year has identified £800k of items which were budgeted and funded in the year ended 31 March 2005 and these have been reserved in the same way. Again they were neither budgeted nor funded in 2005/06.

R&D reserves

The letter from the ORR approving the RSSB 2005-2006 budget requested that the company should create a £3m reserve from the underspend in the R&D function in 2004/05.

The letter also asked that £3m of the company underspend should be used to fund part of the £13m of approved expenditure in 2005/06.

RAIL SAFETY AND STANDARDS BOARD LIMITED

INCOME AND EXPENDITURE ACCOUNT

For the year ended 31 March 2005

	Note	Year ended 31 March 2005 £'000	Period from 4 Feb 2003 to 31 March 2004 £'000
Income	1	43,547	54,040
Operating expenses	2	33,974	46,369
Operating surplus		9,573	7,671
Interest payable	3	-	(1)
Interest receivable		524	261
Other finance income/(cost)	4	160	(40)
Surplus on ordinary activities before taxation	1	10,257	7,891
Tax on surplus on ordinary activities	6	(135)	(50)
Surplus on ordinary activities after taxation retained and transferred to reserves	11	10,122	7,841

All transactions arise from continuing operations.

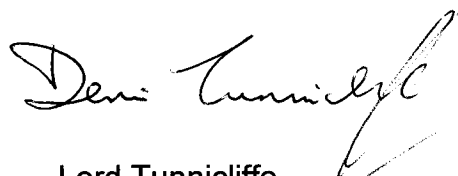
The accompanying accounting policies and notes form an integral part of these financial statements.


RAIL SAFETY AND STANDARDS BOARD LIMITED

BALANCE SHEET AS AT 31 MARCH 2005

	Note	31 March 2005 £'000	31 March 2004 £'000
Fixed Assets			
Tangible fixed assets	7	-	-
Current assets			
Debtors	8	903	7,744
Cash at bank and in hand	9	20,123	3,346
		<u>21,026</u>	<u>11,090</u>
Creditors: amounts falling due within one year	9	<u>(5,403)</u>	<u>(5,639)</u>
Net current assets		<u>15,623</u>	<u>5,451</u>
Provisions for liabilities and charges	10	(340)	-
Net assets excluding pension liability		<u>15,283</u>	<u>5,451</u>
Pension liability	17	(690)	(1,070)
Net Assets		<u>14,593</u>	<u>4,381</u>
Reserves	11		
Income and expenditure account		11,510	213
Insurance reserve		1,000	1,833
Deferred expenditure		2,083	2,335
		<u>14,593</u>	<u>4,381</u>

The financial statements were approved by the Board of Directors on 1 June 2005


Lord Tunnicliffe


Len Porter

The accompanying accounting policies and notes form an integral part of these financial statements.

RAIL SAFETY AND STANDARDS BOARD LIMITED

CASH FLOW STATEMENT

For the year ended 31 March 2005

	Year ended 31 March 2005	Period from 4 Feb 2003 to 31 March 2004
Note	£'000	£'000
Net cash inflow from operating activities	12 16,303	3,086
Taxation		
UK Corporation tax paid	(50)	-
Returns on investments and servicing of finance		
Interest received	524	261
Interest paid	-	(1)
Net cash inflow from returns on investments and servicing of finance	<u>524</u>	<u>260</u>
Increase in cash	<u><u>16,777</u></u>	<u><u>3,346</u></u>

The accompanying accounting policies and notes form an integral part of these financial statements.

RAIL SAFETY AND STANDARDS BOARD LIMITED

STATEMENT OF RECOGNISED GAINS AND LOSSES

For the year ended 31 March 2005

	Year ended 31 March 2005 £'000	Period from 4 Feb 2003 to 31 March 2004 £'000
Surplus for the year (2004: period)	10,122	7,841
Gain/(loss) on pension assets	580	(730)
Experience loss on pension liabilities	(240)	(1,620)
Loss on change in pension assumptions	(250)	(1,110)
Total gain recognised before adjustment for tax	10,212	4,381
Prior year adjustment	(1,070)	
	<u>9,142</u>	

The accompanying accounting policies and notes form an integral part of these financial statements.

RAIL SAFETY AND STANDARDS BOARD LIMITED

NOTES TO THE ACCOUNTS

For the year ended 31 March 2005

1 INCOME AND SURPLUS ON ORDINARY ACTIVITIES BEFORE TAXATION

The income and surplus on ordinary activities before taxation is attributable to:

	Year ended 31 March 2005	Period from 4 Feb 2003 to 31 March 2004
	£'000	£'000
Funding	40,400	44,850
Income from SRA and Network Rail for ERTMS	2,699	7,192
Books and publications	166	463
Funding for irrecoverable VAT	-	1,209
Conferences	107	326
Other income	175	-
	<u>43,547</u>	<u>54,040</u>

All income arose from UK operations.

The surplus on ordinary activities before taxation is stated after:

	Year ended 31 March 2005	Period from 4 Feb 2003 to 31 March 2004
	£'000	£'000
Auditors' remuneration:		
Audit services	27	18
Non-audit services	19	75
Research and development	10,126	13,240
Depreciation:		
Hire of plant and machinery under operating leases	2	2
Property	795	771
Other operating lease rentals	18	21

RAIL SAFETY AND STANDARDS BOARD LIMITED

NOTES TO THE ACCOUNTS

For the year ended 31 March 2005

2 OPERATING EXPENSES

The operational expenditure of the company can be classified by activity as follows.

	Year ended 31 March 2005 £'000	Period 4 Feb 2003 to 31 Mar 2004 £' 000
Policy & Strategy	687	475
National Initiatives	2,125	1,498
Safety, Strategy & Risk	1,481	619
Risk Team	1,452	2,016
Formal Inquiries	852	842
	6,597	5,450
Director, Standards	371	219
Audit & Evaluations	-	1,348
Standards	1,776	3,121
SIC's	254	-
Technical Services	3,275	1,430
Europe	736	933
	6,412	7,051
System Authorities/CIRAS	312	346
Transition (1)	-	2,494
ERTMS (2)	2,774	12,192
Research & Development	10,126	13,240
Corporate Office	3,607	2,953
Support services	1,432	1,764
Property, IT and Facilities	2,844	3,309
	21,095	36,298
Pension adjustment	(130)	(2,430)
	33,974	46,369

The above numbers are stated including irrecoverable VAT where applicable.

- 1) Funding for transition activities to cover the start up of RSSB
- 2) Responsibility for the ERTMS core team passed from RSSB to SRA on 1/4/2004. The sums shown here are for RSSB work on ERTMS and GSM-R.

RAIL SAFETY AND STANDARDS BOARD LIMITED

NOTES TO THE ACCOUNTS

For the year ended 31 March 2005

3 INTEREST PAYABLE AND SIMILAR CHARGES

	Year ended 31 March 2005 £'000	Period from 4 Feb 2003 to 31 March 2004 £'000
On bank overdrafts	-	1
	<u>-</u>	<u>1</u>

4 OTHER FINANCE INCOME

Analysis of the amount charged to other finance income

	Year ended 31 March 2005 £000's	Period from 4 Feb 2003 to 31 March 2004
Interest on section liabilities	(730)	(40)
Expected return on section assets	890	-
Net credit/(charge) to other finance income	<u>160</u>	<u>(40)</u>

5 DIRECTORS AND EMPLOYEES

Staff costs during the year were as follows:

	Year ended 31 March 2005 £'000	Period from 4 Feb 2003 to 31 March 2004 £'000
Wages and salaries	9,579	8,341
Social security costs	887	795
Other pension costs	890	947
	<u>11,356</u>	<u>10,083</u>

The average number of employees of the company during the year (2004: period from 4 Feb 2003 to 31 March 2004) was:

	2005 Number	2004 Number
Staff employed	<u>164</u>	<u>167</u>

RAIL SAFETY AND STANDARDS BOARD LIMITED

NOTES TO THE ACCOUNTS

For the year ended 31 March 2005

Remuneration in respect of directors was as follows:

	Year ended 31 March 2005 £'000	Period from 4 Feb 2003 to 31 March 2004 £'000
Emoluments	1,076	740
Pension contributions to money purchase pension schemes	10	17
Pension contributions to defined benefit pension schemes	49	48
	<u>1,135</u>	<u>805</u>

During the period four directors participated in defined benefit pension schemes and two directors participated in money purchase pension schemes.

The amounts set out above include remuneration in respect of the highest paid director as follows:

	Year ended 31 March 2005 £'000	Period from 4 Feb 2003 to 31 March 2004 £'000
Emoluments	248	232
Pension contributions to defined benefit pension schemes	13	12
	<u>261</u>	<u>244</u>

The prior period figure has been adjusted to include bonus accrued over the period but not paid until after the previous accounts were signed.

RAIL SAFETY AND STANDARDS BOARD LIMITED

NOTES TO THE ACCOUNTS

For the year ended 31 March 2005

6 TAX ON PROFIT ON ORDINARY ACTIVITIES

The tax charge is based on the surplus for the period and represents

	Year ended 31 March 2005	Period from 4 Feb 2003 to 31 March 2004
	£'000	£'000
UK Corporation tax at 30% (2004; 19% *)	135	50
The tax assessed for the year is lower than the standard rate of corporation tax in the UK of 30% (2004: 19%). The differences are explained as follows;		
Effect of:		
Surplus on ordinary activities before tax	10,257	7,891
Surplus on ordinary activities multiplied by standard rate of corporation tax in the United Kingdom of 30% (2004: 19%)	3,077	1,499
Adjustment for income from not-for-profit activities	(2,920)	(1,449)
Adjustment for differences in tax rates	(22)	-
Current tax charge for period	135	50

* small company rate

7 TANGIBLE FIXED ASSETS

There were no additions to fixed assets in the year ended 31 March 2005 (period ended 31 March 2004; nil)

8 DEBTORS

	31 March 2005	31 March 2004
	£'000	£'000
Trade debtors	500	4,445
VAT debtor	77	2,867
Other debtors	94	-
Prepayments and accrued income	232	432
	903	7,744

Trade debtors is amounts receivable in funding from Network Rail and the SRA for additional activities undertaken in the period. All these amounts were received in period 1 2005/06.

RAIL SAFETY AND STANDARDS BOARD LIMITED

NOTES TO THE ACCOUNTS

For the year ended 31 March 2005

9 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	31 March 2005 £'000	31 March 2004 £'000
Trade creditors	445	1,328
Corporation tax	135	50
Other taxation and social security	216	203
Other creditors and third party balances	953	-
Accruals	3,654	4,058
	<u>5,403</u>	<u>5,639</u>

Included in the other creditors and cash at bank are amounts totalling £858k held by RSSB on behalf of third parties (2004: nil). These amounts are as follows:

Name	Amount £'000
CIRAS funding 2005-2006	304
Vehicle Track SIC	433
Yellow book	55
World Congress on Railways Research	66
	<u>858</u>

10 PROVISIONS FOR LIABILITIES AND CHARGES

The provision is for restructuring costs as a result of the Standards Review.

11 RESERVES

The surplus on ordinary activities retained in reserves is to be allocated as follows:

	Income account £'000	Insurance £'000	Deferred expenditure £'000	Total £'000
At 1 April 2004	1,283	1,833	2,335	5,451
Prior year adjustment	(1,070)	-	-	(1,070)
As restated	213	1,833	2,335	4,381
Surplus on ordinary activities after tax	10,122	-	-	10,122
Reserve transfer	1,085	(833)	(252)	-
Gain on pension assets	580	-	-	580
Experience loss on pension liabilities	(240)	-	-	(240)
Loss on change in pension assumptions	(250)	-	-	(250)
Retained reserves carried forward	<u>11,510</u>	<u>1,000</u>	<u>2,083</u>	<u>14,593</u>

RAIL SAFETY AND STANDARDS BOARD LIMITED

NOTES TO THE ACCOUNTS

For the year ended 31 March 2005

The insurance reserve is to recognise the self-insured element of the company's public liability cover. The amount was originally identified in the 2003/04 budget and funding was received for it.

The deferred expenditure is made up of items for which budget application and funding were given in 2003/04 or 2004/2005 but which will not start until 2005/06. No repeat application for funding was made in the 2005/06 budget that was approved by the Office of the Rail Regulator.

12 NET CASH INFLOW FROM OPERATING ACTIVITIES

	31 March 2005 £'000	31 March 2004 £'000
Operating surplus	9,573	7,671
Decrease/(increase) in debtors	6,841	(7,744)
(Decrease)/Increase in creditors	(321)	5,589
Difference between pension charge and cash contributions	(130)	(2,430)
Increase in provisions	340	-
Net cash inflow from operating activities	<u>16,303</u>	<u>3,086</u>

13 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET CASH

	31 March 2005 £'000	31 March 2004 £'000
Increase in cash in the year/period	16,777	3,346
Net funds at 1 April	3,346	-
Net funds at 31 March	<u>20,123</u>	<u>3,346</u>

14 ANALYSIS OF CHANGES IN NET FUNDS

	31 March 2004 £'000	Cash flow £'000	31 March 2005 £'000
Cash in hand	3,346	16,777	20,123
	<u>3,346</u>	<u>16,777</u>	<u>20,123</u>

15 CAPITAL COMMITMENTS

The company had no capital commitments at 31 March 2005 (31 March 2004; nil).

RAIL SAFETY AND STANDARDS BOARD LIMITED

NOTES TO THE ACCOUNTS

For the year ended 31 March 2005

16 CONTINGENT ASSETS/LIABILITIES

There were no contingent liabilities at 31 March 2005 (31 March 2004; nil).

17 RETIREMENT BENEFIT SCHEMES

Information about the Scheme

- Defined Benefit. The Rail Safety and Standards Board Section is part of the Railways Pension Scheme, but its assets and liabilities are identified separately from the remainder of the Scheme.
- The last full actuarial valuation upon which the FRS17 figures have been based was 31 December 2003.
- Employer contributions for the period ending 31 March 2005 are 14.25% of Section Pay. This rate is expected to continue until 31 December 2008 when the employer contribution rate will revert to 60% of the long-term joint contribution rate of 22.1% of Section Pay (13.26%).
- The Section is open to new members

Financial assumptions

These are set out in the table below.

	31/3/2005	31/3/2004
	% pa	% pa
Inflation	2.7	2.7
Rate of increase in salaries *	4.2	4.2
Rate of increase in pensions in payment	2.7	2.7
Rate of increase in deferred pensioners	2.7	2.7
Discount rate	5.4	5.5

* plus 0.75% pa promotional salary scale

Fair value of assets and expected rate of return

	31 March 2005		31 March 2004	
	Fair value £000's	Expected rate of return % p.a.	Fair value £000's	Expected rate of return % p.a.
Equities	18,880	8.0	14,510	8.2
Bonds	2,310	5.1	1,720	5.0
Property	1,680	6.6	1,100	6.6
Other	280	3.7	2,430	3.7
Total	23,150	7.6	19,760	7.3

RAIL SAFETY AND STANDARDS BOARD LIMITED

NOTES TO THE ACCOUNTS

For the year ended 31 March 2005

Components of defined benefit cost of the year ended 31 March 2005 (2004: period from 4 February 2003 to 31 March 2004)

	Year ended 31 March 2005 £000's	Period ended 31 March 2004 £000's
Current service cost	960	830
Total charged to operating profit	960	830

Experience gains and losses

	Year ended 31 March 2005 £000's	Period ended 31 March 2004 £000's
Gain/(loss) on Section assets		
Amount	580	(730)
% of Section assets at the end of the period	3%	4%
Experience loss on Section liabilities		
Amount	(240)	(1,620)
% of Section liabilities at the end of the period	1%	8%
Total actuarial gain/(loss) recognised in Statement of recognised gains and losses		
Amount	90	(3,460)
% of Section liabilities at the end of period	-	17%

Reconciliation to the balance sheet

	Year ended 31 March 2005 £000's	Period ended 31 March 2004 £000's
Actuarial valuation of section liabilities	24,300	21,550
Members' share of surplus/(deficit)	(460)	(720)
Adjusted value of section liabilities	23,840	20,830
Fair value of section assets	23,150	19,760
Pension scheme (liability) to be recognised in the balance sheet	(690)	(1,070)

RAIL SAFETY AND STANDARDS BOARD LIMITED

NOTES TO THE ACCOUNTS

For the year ended 31 March 2005

Analysis of the movement in the surplus/(deficit) in the Section during the period

	Year ended 31 March 2005 £000's	Period ended 31 March 2004 £000's
Deficit in the Section at the beginning of the year (2004: period)	(1,070)	* -
Own contributions paid	1,090	910
Third party contributions paid	-	2,350
Current service cost	(960)	(830)
Past service cost	-	-
Settlement cost	-	-
Curtailment cost	-	-
Other finance income/(charge)	160	(40)
Actuarial gain/(loss)	90	(3,460)
Deficit in the Section at the end of the year (2004: period)	(690)	(1,070)

* the section commenced on 1 April 2003 with no assets and no liabilities

18 LEASING COMMITMENTS

Operating lease payments amounting to £802k are due within one year (31 March 2004; £776k). The leases to which these amounts relate expire as follows:

	Other £'000	Land and buildings £'000	Other £'000	Land and buildings £'000
In one year or less	-	-	6	771
Between one and five years	7	795	12	-
	7	795	18	771

19 TRANSACTIONS WITH DIRECTORS AND OTHER RELATED PARTIES

The funding for RSSB is agreed by the Office of Rail Regulation and is paid by the SRA via train operators and Network Rail Infrastructure Ltd. However the Constitution Agreement of RSSB requires it to be independent of any one Member. In the directors' opinion there are no related parties for this purpose.

RAIL SAFETY AND STANDARDS BOARD LIMITED

NOTES TO THE ACCOUNTS

For the year ended 31 March 2005

20 ULTIMATE PARENT UNDERTAKING

RSSB is a not-for-profit company. The company is limited by guarantee and is governed by its Members, a Board and an Advisory Committee. It is independent of any single railway company and of their commercial interests.