

**Virgin Rail Group Limited**

**Directors' report and financial statements**

6 March 1999

Registered number 3282548



## **Directors' report and financial statements**

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## **Directors' report**

The directors present their report and the audited financial statements for the fifty three weeks ended 6 March 1999. Virgin Rail Group Limited (the 'Company') and its two operating subsidiaries, CrossCountry Trains Limited and West Coast Trains Limited (together referred to as the 'Group') changed their accounting reference date to 28 February from 31 March on 19 March 1998.

### **Principal activities**

The Group's principal activity during the period was the operation of passenger rail services in England, Scotland and Wales. The Group operates these services under the terms of two franchise agreements between Virgin Rail Group Limited and the Director of Passenger Rail Franchising. The Franchise Agreements expire on 20 February 2012 and 1 April 2012 for West Coast Trains Limited and CrossCountry Trains Limited respectively.

### **Results for the period and business review**

The profit and loss account in the current period reflects the results of the Group for the fifty three weeks ended 6 March 1999. In the prior period the profit and loss account reflected the results of the Group for the eleven months ended 28 February 1998.

The profit for the fifty three weeks ended 6 March 1999 of £22,057,000 (1998: £12,388,000) has been taken to reserves, which is after an exceptional charge of £5,386,000 (1998: £12,899,000). The exceptional charge related to restructuring and refinancing costs.

The directors are satisfied with the overall financial performance of the Group during the fifty three weeks ended 6 March 1999. CrossCountry Trains Limited suffered losses during the period and, having therefore written down its investment in and loan to CrossCountry Trains Limited, Virgin Rail Group Limited intends to take the opportunity to enhance its future distributable reserves by transferring the deficit on its profit and loss account to the share premium account.

Following the award of the franchises, the Group have introduced a number of new marketing and sales initiatives, and a more focused approach to customer service which the directors believe have already contributed to a growth in passenger volumes and an improvement in operating results before franchise receipts.

### **Future prospects**

The directors believe that there is significant potential to persuade passengers who would otherwise choose to travel by road or air to travel by rail, as the quality and convenience of the Group's services improve. The Group intends to provide this quality and convenience by offering higher standards of passenger comfort and service, shorter journey times, more frequent services and improved punctuality. Central to achieving these objectives will be investment in infrastructure improvements, refurbishment and then the replacement of almost all of the Group's existing rolling stock, and the application of Virgin's customer focus.

In addition, the directors expect that rail's competitiveness will be enhanced as road and air travel face increasing congestion and capacity constraints. HM Government's current policy is not to invest in significant increases in road capacity in Great Britain, but to promote a more integrated public transport network. Indeed, the acquisition of 49% of the Company by Stagecoach Holdings Plc (announced in June 1998 receiving OPRAF approval on 7 October 1998) provides an exciting opportunity to develop integrated transport initiatives, resulting in an improved service to passengers through bus links to key rail stations, integrated timetables and joint bus/rail ticketing.

## **Directors' report** *(continued)*

### **Future prospects** *(continued)*

Other significant developments have already been made by the Group. Committed orders were placed on 9 February 1999 for £593 million of new tilting trains manufactured by ALSTOM Transport Limited and Fiat Rail Limited (a wholly owned subsidiary of Fiat Ferroviaria S.p.A.) for West Coast Trains Limited, and on 9 December 1998 for £407 million of a mixed fleet of both tilting and non-tilting trains manufactured by Bombardier Inc. for CrossCountry Trains Limited. Operating leases were entered into on 9 February 1999 and 9 December 1998 by West Coast Trains Limited and CrossCountry Trains Limited respectively, with rental payments commencing on delivery of each train during 2001 and 2002.

Additionally, an agreement with Railtrack PLC signed on 8 June 1998 will provide improvements in line speeds and significant additional capacity on the West Coast Main Line scheduled for completion in May 2005.

Railtrack PLC in its recent Network Management Statement has reconfirmed its commitment to invest on the West Coast Main Line infrastructure over the next 6 years. The combination of the contracted new rolling stock and infrastructure improvements will lead to a reduction of journey times and an increase in the frequency of services on key routes. These investments effectively create a new rail network with substantial revenue and profits growth potential.

The Group is at the forefront in developing customer services within the rail industry. It has invested heavily in improving customer service with all staff undergoing intensive training, and the development of the Trainline telephone reservation and internet services. West Coast Trains Limited and CrossCountry Trains Limited are the only rail operators to have an on-line booking facility for all destinations and fares. The Group has an ongoing investment programme to improve station facilities, with particular emphasis on lounge facilities (for both First and standard class passengers) and dedicated information points. An inclusive catering service has been introduced on to all First Class journeys, with complimentary food and drink tailored to the route and time of journey now provided. This has been well received by First class customers. In addition new ranges are constantly being developed and introduced for use on both the buffet and at seat trolley service offered on board.

Reliability and punctuality remain a key priority for the directors and progress is being made in identifying and rectifying the causes of delay. On 20 February 1999 West Coast Trains Limited transferred its six depots to West Coast Traincare Limited (a joint venture company between the new train manufacturers), and the Group's maintenance programmes have been contracted out to the train service providers (subsidiary companies of the new train manufacturers) for all existing and new trains, with a contractual commitment to improve existing train reliability from 1999/2000 onwards.

### **Proposed dividend**

The directors do not recommend the payment of a dividend.

## Directors' report *(continued)*

### Directors and directors' interests

The directors who held office during the period or were appointed subsequent to the period end were as follows:

Chris Green	(appointed 10 March 1999)
Stephen Murphy <sup>1</sup>	
William Whitehorn <sup>1</sup>	(resigned 6 May 1998 and reappointed 14 April 1999)
Richard Bowker <sup>1</sup>	(appointed 14 April 1999)
Brian Cox <sup>1</sup>	(appointed 27 November 1998)
Keith Cochrane <sup>1</sup>	(appointed 14 April 1999)
Alan Tomlin	
Chris Tibbits	
Mark Furlong	(appointed 10 March 1999)
Philip Cox <sup>1</sup>	(resigned 7 October 1998)
Pierre Dupont <sup>1</sup>	(resigned 7 October 1998)
Jeremy Ferris <sup>1</sup>	(resigned 7 October 1998)
Manjit Dale <sup>1</sup>	(resigned 7 October 1998)
Randl Shure <sup>1</sup>	(resigned 7 October 1998)
Geoffrey Thompson <sup>1</sup>	(resigned 7 October 1998)
Alan Jones <sup>1</sup>	(appointed 28 April 1998 and resigned 7 October 1998)
Michael Kinski <sup>1</sup>	(appointed 7 October 1998 and resigned 27 November 1998)
Ivor Warburton	(resigned 8 February 1999)
Brian Barrett	(resigned 10 February 1999)

#### <sup>1</sup> Non-executive director

Richard Branson is president of the Company.

At the end of the period the following directors held interests in options over non-voting ordinary shares of 10p each in the Company:

	6 March 1999	28 February 1998
Stephen Murphy	-	303,945
William Whitehorn	-	303,945
Alan Tomlin	101,315	101,315

All of the above options were granted for nil consideration on 20 March 1997 with an exercise price of £1.20 per share. Each individual has the opportunity to exercise options once in any year from three years since they were granted, or for certain directors on the date of a listing on the London Stock Exchange (see note 20) if earlier, until the options' expiry seven years after they were granted. No specific performance criteria apply to the exercising of options.

Other than as disclosed above none of the directors had any interest in the share capital of the Company or any group undertaking either during the period or at the end of the period.

## **Directors' report** *(continued)*

### **Directors' and officers' insurance**

The Company has purchased liability insurance for its directors and officers.

### **Year 2000**

Information technology systems and their supporting environment are critical to the operations of the Group. Some or all of the systems on which the Group depends are vulnerable to malfunction with the advent of the year 2000. Although the Group has established its own year 2000 compliance programme and expects to benefit from industry-wide initiatives (such as the Rail Millennium Programme Office) to identify and resolve year 2000 issues with respect to third-party systems on which it depends, there can be no absolute assurance that all the information technology systems on which the Group relies will be modified on a timely basis. Any failure of material computer systems of the Group or third party systems on which it depends as a result of year 2000 issues, could have a material adverse effect on the operational and financial performance of the Group. Such system failures could, particularly if they affect the safe running of the network, lead to a shutdown of the Group's operations until those failures can be rectified. However, directors have a high level of confidence in the remediation programme of safety related systems (principally concerning Railtrack PLC) based on the current 90% completion status and the findings of an independent audit of "no risk of material disruption".

The directors believe that substantially all of the Group's internal information technology systems will have been modified or replaced prior to 31 December 1999 and currently estimate that the cost to be borne by the Group for changes to its own and industry-wide systems in connection with year 2000 issues is £1.9 million. These costs and the timetable for resolving year 2000 issues are based on management's best estimates and include assumptions regarding third party modification plans. Fixed price contractual commitments have been made in over 95% of the programme and for this reason directors have a high level of confidence that the actual costs shall not differ materially from those presently anticipated.

### **Employees**

The Group is a non-discriminatory employer operating an Equal Opportunities Policy which aims to eliminate unfair discrimination, harassment, victimisation and bullying. The Group is committed to ensuring that all individuals are treated fairly, with respect and are valued irrespective of disability, race, gender, health, social class, sexual preference, marital status, nationality, religion, employment status, age and membership or non-membership of a trade union.

The Group uses the consultative procedures agreed with its staff and elected representatives with a view to ensuring that its employees are aware of the financial and economic factors which affect the Group's performance and prospects.

The Group's policy, where possible, is to continue to employ those who may become disabled in service, together with some recruitment where circumstances permit. Training is adjusted to cater for an individual disability and the disabled share the same conditions of service as other staff in relation to career development and promotion.

### **Political and charitable contributions**

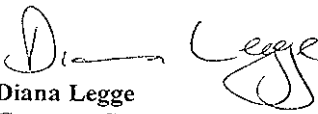
The Group made no donations to charities or to political parties in the current period (1998: *£nil*).

**Directors' report** *(continued)*

**Auditors**

In accordance with Section 385 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

  
**Diana Legge**  
*Company Secretary*

15 June 1999

## **Statement of directors' responsibilities**

Company law requires the directors to prepare financial statements for each financial year or period which give a true and fair view of the state of affairs of the Company and the Group 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 the going concern basis unless it is inappropriate to presume that the Group 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 the Group 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 Group and to prevent and detect fraud and other irregularities.

The directors, having prepared the financial statements, note that the auditors are required by the Companies Act 1985 to take whatever steps and undertake whatever inspections they consider to be appropriate for the purposes of enabling them to give their audit report.





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## Report of the auditors to the members of Virgin Rail Group Limited

We have audited the financial statements on pages 8 to 33.

### Respective responsibilities of directors and auditors

As described on page 6 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 Group'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 affairs of the Company and the Group as at 6 March 1999 and of the profit of the Group for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

A handwritten signature in dark ink, appearing to be 'KMP' or similar, written over the KPMG logo.

KPMG  
*Chartered Accountants*  
*Registered Auditors*

15 June 1999

**Consolidated profit and loss account**  
*for the 53 weeks ended 6 March 1999*

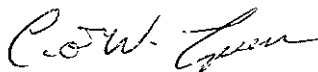
	<i>Note</i>	53 weeks ended 6 March 1999			11 months ended 28 February 1998		
		Before exceptional items £000	Exceptional items (note 7) £000	Total £000	Before exceptional items £000	Exceptional items (note 7) £000	Total £000
Turnover	2	488,320	-	488,320	397,198	-	397,198
Franchise receipts	22	176,257	-	176,257	176,316	-	176,316
Other operating income		1,611	-	1,611	1,484	-	1,484
Train operating expenditure	3	(500,559)	-	(500,559)	(435,873)	(972)	(436,845)
Staff costs	4	(96,915)	-	(96,915)	(79,363)	(6,636)	(85,999)
Depreciation	5	(404)	-	(404)	(128)	-	(128)
Other operating charges		(37,164)	(5,386)	(42,550)	(34,167)	(5,291)	(39,458)
<b>Operating profit/(loss)</b>		<b>31,146</b>	<b>(5,386)</b>	<b>25,760</b>	<b>25,467</b>	<b>(12,899)</b>	<b>12,568</b>
Loss on disposal of operation	7			(31)			-
<b>Profit before interest and tax</b>				<b>25,729</b>			<b>12,568</b>
Other interest receivable and similar income	8			5,939			4,407
Interest payable and similar charges	9			(3,361)			(3,434)
<b>Profit on ordinary activities before taxation</b>	5			<b>28,307</b>			<b>13,541</b>
Tax on profit on ordinary activities	10			(6,250)			(1,153)
<b>Retained profit on ordinary activities after taxation for the period</b>	21			<b>22,057</b>			<b>12,388</b>

There were no gains or losses other than the retained profit for the period. The whole of the results presented above relate to continuing operations.

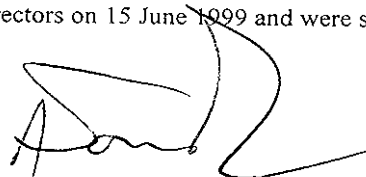
**Consolidated balance sheet**  
*at 6 March 1999*

	<i>Note</i>	6 March 1999 £000	28 February 1998 £000
<b>Fixed assets</b>			
Tangible assets	11	4,935	997
Intangible assets - negative goodwill	12	(3,438)	(12,079)
		<hr/> 1,497	<hr/> (11,082)
<b>Current assets</b>			
Stocks	14	966	3,070
Debtors	15	101,751	78,912
Cash at bank and in hand	16	82,293	79,866
		<hr/> 185,010	<hr/> 161,848
Creditors: amounts falling due within one year	17	(94,342)	(77,675)
		<hr/>	<hr/>
<b>Net current assets</b>			
Due within one year		40,297	49,304
Debtors due after more than one year	15	50,371	34,869
		<hr/>	<hr/>
<b>Total net current assets</b>		90,668	84,173
		<hr/>	<hr/>
<b>Total assets less current liabilities</b>		92,165	73,091
		<hr/>	<hr/>
Creditors: amounts falling due after more than one year	18	(25,604)	(25,022)
		<hr/>	<hr/>
Provisions for liabilities and charges	19	(7,225)	(10,790)
		<hr/>	<hr/>
<b>Net assets</b>		59,336	37,279
		<hr/> <hr/>	<hr/> <hr/>
<b>Capital and reserves</b>			
Called up share capital	20	3,500	3,500
Share premium account	21	31,550	31,550
Profit and loss account	21	24,286	2,229
		<hr/>	<hr/>
<b>Equity shareholders' funds</b>		59,336	37,279
		<hr/> <hr/>	<hr/> <hr/>

These financial statements were approved by the board of directors on 15 June 1999 and were signed on its behalf by:

  
**CEW Green**  
*Director*

**A Tomlin**  
*Director*



## Company balance sheet

at 6 March 1999

	Note	6 March 1999 £000	28 February 1998 £000
<b>Fixed assets</b>			
Tangible assets	11	118	103
Investments	13	4,116	5,261
		<hr/>	<hr/>
		4,234	5,364
<b>Current assets</b>			
Debtors	15	22,740	32,604
Cash at bank and in hand	16	30,176	30,585
		<hr/>	<hr/>
		52,916	63,189
<b>Creditors: amounts falling due within one year</b>	17	(10,987)	(8,094)
		<hr/>	<hr/>
<b>Net current assets</b>			
Due within one year		20,929	25,095
Debtors due after more than one year	15	21,000	30,000
		<hr/>	<hr/>
<b>Total net current assets</b>		41,929	55,095
		<hr/>	<hr/>
<b>Total assets less current liabilities</b>		46,163	60,459
		<hr/>	<hr/>
<b>Creditors: amounts falling due after more than one year</b>	18	(25,000)	(25,000)
		<hr/>	<hr/>
<b>Net assets</b>		21,163	35,459
		<hr/>	<hr/>
<b>Capital and reserves</b>			
Called up share capital	20	3,500	3,500
Share premium reserve	21	31,550	31,550
Profit and loss account	21	(13,887)	409
		<hr/>	<hr/>
<b>Equity shareholders' funds</b>		21,163	35,459
		<hr/>	<hr/>

These financial statements were approved by the board of directors on 15 June 1999 and were signed on its behalf by:

  
**CEW Green**  
Director

  
**A Tomlin**  
Director

**Reconciliations of movements in shareholders' funds**  
*for the 53 weeks ended 6 March 1999*

	53 weeks ended 6 March 1999		11 months ended 28 February 1998	
	Group £000	Company £000	Group £000	Company £000
Profit/(loss) for the financial period	22,057	(14,296)	12,388	1,018
Opening shareholders' funds	37,279	35,459	24,891	34,441
Closing shareholders' funds	<u>59,336</u>	<u>21,163</u>	<u>37,279</u>	<u>35,459</u>

**Consolidated cash flow statement**  
*for the 53 weeks ended 6 March 1999*

	<i>Note</i>	53 weeks ended 6 March 1999 £000	11 months ended 28 February 1998 £000
Net cash inflow/(outflow) from operating activities	25	1,340	(708)
Return on investments and servicing of finance	26	2,548	1,205
Taxation	26	(669)	-
Capital expenditure and financial investment	26	(3,533)	(797)
Acquisitions and disposals	26	2,799	(4,197)
Net cash inflow/(outflow) before financing		2,485	(4,497)
Financing	26	(58)	(32)
Increase/(decrease) in cash	27	2,427	(4,529)

## 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 Group'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.

#### *Basis of consolidation*

The Group financial statements consolidate the financial statements of Virgin Rail Group Limited and all of its subsidiary undertakings, all of which are coterminous with those of the parent company.

The acquisition method of accounting has been adopted. Under this method, the results of subsidiaries acquired are included in the consolidated profit and loss account from the date of acquisition. Goodwill has been determined by subtracting the fair value of net assets acquired from the cash consideration and associated costs of acquisition in respect of each acquisition. The resulting negative goodwill is released to the profit and loss account in the periods in which the fair values of the non-monetary assets are recovered, whether through depreciation or sale.

Amortisation of negative goodwill is credited to the profit and loss account over the franchise period.

The amount of the profit for the financial period dealt with in the financial statements of Virgin Rail Group Limited is disclosed in note 21 to these financial statements. The Company has taken advantage of Section 230 of the Companies Act 1985 and has not presented its own profit and loss account.

#### *Turnover*

Turnover represents amounts receivable, excluding VAT, for services and goods supplied to external customers, primarily in respect of passenger transportation.

Passenger transportation revenue represents principally amounts attributed to the Group by the Railway Settlement Plan. Income is attributed based on models of certain aspects of passenger behaviour and to a lesser extent from allocations agreed for specific revenue flows. The attributed share of season ticket income is deferred within creditors and released to the profit and loss account over the life of the relevant season ticket.

Other trading income consists principally of the provision of station facilities to other train operators and the hire of train crew and rolling stock.

#### *Franchise agreements*

Revenue grants receivable or amounts payable in respect of the operation of the rail franchises are taken to the profit and loss account in the year to which they relate.

## Notes (continued)

### 1 Accounting policies (continued)

#### *Fixed assets and depreciation*

Depreciation is provided to write off the cost less estimated residual value on a straight line basis over the estimated useful economic lives of the assets and commences from the date on which the assets are brought into use. The lives used for the major categories of assets are:

Plant and equipment	-	3-20 years
Fixture and fittings	-	3-10 years

#### *Stocks*

Stocks are stated at the lower of cost and net realisable value. Raw materials include amounts incurred in respect of the rights to utilise stocks of replaceable spares.

#### *New train service arrangement costs*

Under the franchise agreement, from 2001 the company is required to operate faster and more frequent services on the West Coast Main Line and on many of the CrossCountry Trains Limited routes. In order to achieve this, contracts have been entered into to lease new trains. Direct costs associated with developing the contracted new train service arrangements are being carried forward within prepayments and are to be written off to the profit and loss account from the date the new services come into commercial operation up to the end of the franchise.

Costs incurred prior to developing the contracted new train service arrangements were written off as incurred (note 7).

The unamortised expenditure has not been treated as a realised loss for the purposes of calculating distributable profits as the directors consider that it will be recoverable from future revenue flows.

#### *Track access costs*

Track access costs are charged to the profit and loss account in the period to which they relate.

Railtrack PLC is undertaking a programme of infrastructure works to upgrade the West Coast Main Line to enable trains to run at speeds of up to 200 kph and at higher frequencies. This is referred to as Phase I of the Upgrade. These works are due to be completed by May 2002. As part of these arrangements West Coast Trains Limited is incurring additional track access charges. To the extent that these charges relate solely to Phase I of the Upgrade, these are being carried forward within prepayments and are to be written off to the profit and loss account from May 2002, the date from which West Coast Trains Limited will benefit from these infrastructure improvements.

#### *Leases*

Where the Group enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a 'finance lease'. The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated over its estimated useful life or the term of the lease, whichever is shorter. Future instalments under such leases, net of finance charges, are included within creditors. Rentals payable are apportioned between the finance element, which is charged to the profit and loss account, and the capital element which reduces the outstanding obligation for future instalments.

All other leases are accounted for as 'operating leases' and the rental charges are charged to the profit and loss account on a straight line basis over the life of the lease.



## Notes (continued)

### 1 Accounting policies (continued)

Initial direct costs of arranging operating lease finance for new rolling stock are charged to the profit and loss account in equal annual instalments from the date that the new rolling stock comes into service to the end of the operating lease, or the end of the franchise period, if earlier.

#### *Maintenance*

Charges for major maintenance expenditure in respect of rolling stock is typically included within operating lease charges and are accounted for accordingly over the period of the operating lease. Other rolling stock maintenance costs are written off as incurred.

#### *Pensions and other post-retirement benefits*

West Coast Trains Limited and CrossCountry Trains Limited participate in a separate section of the Railways Pension Scheme which provides benefits on a defined benefit basis. The assets of the scheme are held separately from those of the Group in an independently administered fund.

Contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives within the Group.

Certain directors and senior employees of the Company are members of money purchase pension schemes.

Details of the pension schemes are provided in note 24.

#### *Deferred taxation*

Deferred tax is accounted for, using the liability method, on all material timing differences to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

### 2 Turnover

The directors consider that the whole of the activities of the Group constitute a single class of business, that of operating passenger rail services.

Turnover originates wholly in the United Kingdom.

Turnover comprises:

	53 weeks ended 6 March 1999 £000	11 months ended 28 February 1998 £000
Passenger revenue	428,714	356,090
Catering income	20,681	16,748
Maintenance revenue	22,301	10,483
Other trading income	16,624	13,877
	<hr/> 488,320 <hr/>	<hr/> 397,198 <hr/>

Other trading income consists primarily of retail commissions, the provision of station facilities to other train operators, the hire of train crew and rolling stock. On 20 February 1999 West Coast Trains Limited transferred its maintenance operations to West Coast Traincare Limited.

**Notes (continued)**

**3 Train operating expenditure**

Train operating expenditure comprises:

	53 weeks ended 6 March 1999 £000	11 months ended 28 February 1998 £000
Rolling stock costs	149,720	123,908
Track access costs	230,846	206,111
Station and depot access costs	35,224	33,054
Power costs	19,167	17,160
Other operating expenditure	65,602	56,612
	<u>500,559</u>	<u>436,845</u>

Other operating expenditure consists primarily of commissions payable, catering supplies and the National Rail Enquiry Scheme charges.

**4 Staff numbers and costs**

Staff numbers and costs comprise:

	53 weeks ended 6 March 1999 £000	11 months ended 28 February 1998 £000
Wages and salaries	81,256	68,306
Social security costs	6,972	5,343
Other pension costs	2,855	2,421
Other staff costs	5,832	9,929
	<u>96,915</u>	<u>85,999</u>

The average number of persons employed by the Group during the period were:

	53 weeks ended 6 March 1999	11 months ended 28 February 1998
Management	383	381
Other staff	3,220	3,286
	<u>3,603</u>	<u>3,667</u>

### Notes (continued)

## 5 Profit on ordinary activities before taxation

	53 weeks ended 6 March 1999 £000	11 months ended 28 February 1998 £000
<i>Profit on ordinary activities before taxation is stated after charging/(crediting)</i>		
Auditors' remuneration:		
Audit - group	125	120
- parent	35	20
Other services	1,899	654
Depreciation	404	128
Operating lease rentals:		
- hire of plant and machinery	94,100	85,467
- other operating leases	10,794	12,082
Rental income received on properties	(1,611)	(1,484)
Amortisation of negative goodwill	(1,066)	(946)

## 6 Remuneration of directors

	53 weeks ended 6 March 1999 £000	11 months ended 28 February 1998 £000
Aggregate emoluments of directors	1,939	500
Company contributions to money purchase pension scheme	19	21
Amount paid to third parties in respect of non-executive directors' services	30	57
	<u>1,988</u>	<u>578</u>

	Number of directors	
	6 March 1999	28 February 1998
The number of directors eligible for shares under a long term incentive scheme	2	4
Retirements benefits are accruing to the following number of directors under:		
Money purchase schemes	3	2
Defined benefit schemes	2	2

The aggregate emoluments of the highest paid director were £969,000 (1998: £158,000) and company pension contributions of £11,000 (1998: £15,000) were made to a money purchase scheme on his behalf.

Directors' interests in the ordinary share capital of the Company are disclosed in the directors' report.

## Notes (continued)

### 7 Exceptional items

The following exceptional items have been included in arriving at operating profit:

	53 weeks ended 6 March 1999 £000	11 months ended 28 February 1998 £000
Train operating expenditure:		
Property and occupancy costs	-	972
	<hr/>	<hr/>
Staff costs:		
Costs of voluntary severance schemes and staff restructuring	-	6,636
	<hr/>	<hr/>
Other operating charges:		
New rolling stock costs	-	2,264
Property repair and occupancy costs	-	3,027
Restructuring and refinancing	5,386	-
	<hr/>	<hr/>
	5,386	5,291
	<hr/>	<hr/>

There was also an exceptional loss of £31,000 on the disposal of the West Coast Trains Limited maintenance depot operation. The exceptional loss included the write off of the pension prepayment attributable to the employees transferred of £5,606,000 and the release of negative goodwill attributable to that part of the West Coast Trains Limited business of £7,575,000 (note 12). Deferred tax relating to the pension prepayment has been released.

### 8 Other interest receivable and similar income

	53 weeks ended 6 March 1999 £000	11 months ended 28 February 1998 £000
Bank interest	5,939	4,357
Other interest	-	50
	<hr/>	<hr/>
	5,939	4,407
	<hr/>	<hr/>

**Notes (continued)**

**9 Interest payable and similar charges**

	53 weeks ended 6 March 1999 £000	11 months ended 28 February 1998 £000
Amounts payable on other loans	3,357	3,432
Finance charges on finance leases	4	2
	<hr/> 3,361 <hr/>	<hr/> 3,434 <hr/>

**10 Taxation**

The taxation charge comprises:

	53 weeks ended 6 March 1999 £000	11 months ended 28 February 1998 £000
Corporation tax based on the profit for the period at 31%	8,306	968
Corporation tax under provided in previous periods	144	-
Deferred tax (see note 19)	(2,200)	185
	<hr/> 6,250 <hr/>	<hr/> 1,153 <hr/>

The effective rate of tax differs to the standard rate primarily as a result of the adjustment to negative goodwill of £7,575,000 (note 7).

## Notes (continued)

### 11 Fixed assets - tangible

Group	Plant and equipment £000	Fixtures and fittings £000	Total £000
<i>Cost</i>			
At the beginning of the period	1,093	40	1,133
Additions	4,438	-	4,438
Disposals	(299)	-	(299)
At 6 March 1999	5,232	40	5,272
<i>Depreciation</i>			
At the beginning of the period	133	3	136
Charge for period	394	10	404
Disposals	(203)	-	(203)
At 6 March 1999	324	13	337
<i>Net book value</i>			
At 6 March 1999	4,908	27	4,935
At 28 February 1998	960	37	997

Included in the net book value of plant and equipment is £907,000 (1998: £2,000) in respect of assets held under hire purchase and finance leases. Depreciation charged in the period on these assets amounted to £2,000 (1998: £2,000).

Company	Plant and equipment £000	Fixtures and fittings £000	Total £000
<i>Cost</i>			
At the beginning of the period	72	40	112
Additions	52	-	52
At 6 March 1999	124	40	164
<i>Depreciation</i>			
At the beginning of the period	6	3	9
Charge for period	27	10	37
At 6 March 1999	33	13	46
<i>Net book value</i>			
At 6 March 1999	91	27	118
At 28 February 1998	66	37	103

**Notes (continued)**

<b>12</b>	<b>Fixed assets - intangible</b>	£000
	<b>Negative goodwill</b>	
	Gross negative goodwill at	
	28 February 1998	13,123
	Adjustment to negative goodwill	
	during the period	(7,575)
		<hr/>
	Gross negative goodwill at	
	6 March 1999	5,548
		<hr/>
	Released at 28 February 1998	1,044
	Released during the period	1,066
		<hr/>
	Released at 6 March 1999	2,110
		<hr/>
	<b>Net book value of negative goodwill at</b>	
	<b>6 March 1999</b>	<b>3,438</b>
		<hr/> <hr/>
	Net book value of negative goodwill at	
	28 February 1998	12,079
		<hr/> <hr/>

The adjustment to negative goodwill in the 53 weeks ended 6 March 1999 arose as a result of the disposal of the West Coast Trains Limited maintenance depots (note 7).

**Notes (continued)**

**13 Fixed asset investments**

Company	Investment in subsidiaries £000
<i>Cost</i>	
At 28 February 1998 and 6 March 1999	5,261
<i>Provision</i>	
At 28 February 1998	-
Provided during the period	(1,145)
At 6 March 1999	(1,145)
<i>Net book value</i>	
At 6 March 1999	4,116
At 28 February 1998	5,261

The Company owns all of the £1 Ordinary Shares of CrossCountry Trains Limited and West Coast Trains Limited, both of which are registered in England and Wales and operate passenger rail services. The Company owns all of the £1 ordinary shares of Millennium Drivers Limited, which is registered in England and Wales and is yet to commence trading.

The Company has provided against the cost of its investment in CrossCountry Trains Limited due to that company's financial position.

**Group**

West Coast Trains Limited and CrossCountry Trains Limited each own one of 25 four pence ordinary shares in each of the following companies:

- ATOC Limited
- Rail Settlement Plan Limited
- Rail Staff Travel Limited

**14 Stocks**

	Group 6 March 1999 £000	Group 28 February 1998 £000
Raw materials and consumables	966	3,070



## Notes (continued)

### 15 Debtors

	Group 6 March 1999 £000	Company 6 March 1999 £000	Group 28 February 1998 £000	Company 28 February 1998 £000
<b>Amounts falling due within one year</b>				
Trade debtors	28,537	256	22,660	-
Amounts owed by subsidiary undertakings	-	667	-	1,736
Other debtors	9,185	817	17,637	375
Prepayments and accrued income	13,658	-	3,746	493
	<hr/>	<hr/>	<hr/>	<hr/>
	51,380	1,740	44,043	2,604
<b>Amounts falling due after more than one year</b>				
Prepayments and accrued income	50,330	-	34,869	-
Amounts owed by subsidiary undertakings	-	21,000	-	30,000
Other debtors	41	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	101,751	22,740	78,912	32,604
	<hr/>	<hr/>	<hr/>	<hr/>

Prepayments falling due after more than one year represent the pension surpluses recognised as fair value adjustments on the acquisition of West Coast Trains Limited and CrossCountry Trains Limited of £23.4 million (1998: £30.3 million) (note 24) and £26.9 million (1998: £4.6million) of deferred costs in respect of new train service arrangement and track access costs (note 1).

Amounts due after more than one year by subsidiary undertakings to Virgin Rail Group Limited represent subordinated loans of £21 million to West Coast Trains Limited and in the prior year a further £9 million to CrossCountry Trains Limited made according to the terms of the Franchise Agreements for the period of the franchises. In the current year, amounts due from CrossCountry Trains Limited have been provided against in full due to that company's financial position.

### 16 Cash at bank and in hand

At 6 March 1999 and at 28 February 1998, the balance of cash at bank and in hand, for the Group and Company, included £30 million held on deposit, as security for performance bonds (see note 23).

The balance of cash at bank and in hand for the Group also included £1,750,000 (1998: £1,600,000) held on deposit as security for the season ticket bond (see note 23).

**Notes (continued)**

**17 Creditors: amounts falling due within one year**

	Group 6 March 1999 £000	Company 6 March 1999 £000	Group 28 February 1998 £000	Company 28 February 1998 £000
Trade creditors	59,781	327	52,535	839
Amounts owed to subsidiary undertakings	-	9,900	-	5,000
Corporation tax	8,780	-	968	168
Other taxes and social security costs	2,229	-	3,226	25
Other creditors	9,136	509	8,584	97
Finance lease obligations	303	-	38	-
Accruals and other deferred income	11,894	251	10,509	1,965
Deferred season ticket income	2,219	-	1,815	-
	<u>94,342</u>	<u>10,987</u>	<u>77,675</u>	<u>8,094</u>

**18 Creditors: amounts falling due after more than one year**

	Group 6 March 1999 £000	Company 6 March 1999 £000	Group 28 February 1998 £000	Company 28 February 1998 £000
Other loans	25,000	25,000	25,000	25,000
Obligations under finance leases	604	-	22	-
	<u>25,604</u>	<u>25,000</u>	<u>25,022</u>	<u>25,000</u>

Under the terms of a loan instrument dated 7 March 1997 and amended on 22 June 1998 the Company issued £25,000,000 of unsecured loan stock. Interest of 10% per annum is payable quarterly in arrears. The Company may redeem all or any part of the stock at par at any time up to 7 March 2003, at which date all outstanding loan stock shall be redeemed.

## Notes (continued)

### 18 Creditors: amounts falling due after more than one year (continued)

The maturity of obligations under finance leases and hire purchase contracts, net of finance charges, is as follows:

	Group 6 March 1999 £000	Group 28 February 1998 £000
Within one year	303	38
In the second to fifth years inclusive	604	22
	<u>907</u>	<u>60</u>

### 19 Provisions for liabilities and charges

	Group deferred tax £000	Group other provisions £000	Group total £000
At the beginning of the period	9,425	1,365	10,790
Utilised in the period	-	(601)	(601)
Released in the period	(2,200)	(764)	(2,964)
At 6 March 1999	<u>7,225</u>	<u>-</u>	<u>7,225</u>

Other provisions utilised and released during the period relate to restructuring costs.

The deferred tax provision, which has been provided for at 30% and amounts unprovided are set out below:

	Provided Group 6 March 1999 £000	Provided Group 28 February 1998 £000	Unprovided Group 6 March 1999 £000	Unprovided Group 28 February 1998 £000
Prepayment in respect of pension surplus	7,225	9,075	-	-
Accelerated capital allowances	-	-	567	-
Short term timing differences	-	350	(51)	-
	<u>7,225</u>	<u>9,425</u>	<u>516</u>	<u>-</u>

## Notes (continued)

### 20 Called up share capital

		6 March 1999 £000	28 February 1998 £000
	Number		
<i>Authorised</i>			
'A' ordinary shares of 10p	14,500,000	1,450	1,450
'B' ordinary shares of 10p	10,000,000	1,000	1,000
Non-voting ordinary shares of 10p	37,526,300	3,753	3,753
	<hr/>	<hr/>	<hr/>
	62,026,300	6,203	6,203
	<hr/>	<hr/>	<hr/>
<i>Allotted, called up and fully paid</i>			
'A' ordinary shares of 10p	14,500,000	1,450	1,450
'B' ordinary shares of 10p	10,000,000	1,000	1,000
Non-voting ordinary shares of 10p	10,500,000	1,050	1,050
	<hr/>	<hr/>	<hr/>
	35,000,000	3,500	3,500
	<hr/>	<hr/>	<hr/>

The 'A', 'B' and non-voting ordinary shares rank *pari passu* as regards dividends and other distributions. No dividend or distribution may be declared whilst any amounts are outstanding in respect of the loan stock (see note 18). The 'A' and 'B' shares have equal voting rights per share.

Under the terms of the Virgin Rail Group Share Option Scheme dated 20 March 1997, options are held by certain directors and senior employees of Virgin Rail Group Limited over 405,260 (1998: 1,114,465) non-voting ordinary shares with an exercise price of £1.20.

#### *Warrants*

Under the terms of a warrant instrument dated 7 March 1997 and amended on 6 March 1998, warrants have been issued in respect of non-voting ordinary shares. The warrants had an aggregate 'subscription value' of £3,500,000, which is the aggregate amount required to be subscribed for additional shares in the Company on exercise of the warrants in full. On 7 October 1998 warrants worth £2,800,000 were repurchased for 1 pence and cancelled.

The warrant holders may exercise their right to subscribe for shares immediately prior to a public listing or under certain circumstances at any time before a public listing of the ordinary shares. Exercise rights lapse immediately after a such a listing.

The number of shares to which a warrant holder may subscribe is determined by the date on which subscription rights are exercised. The subscription value of the warrants they hold is as follows: if subscription rights are exercised before 7 September 1999, each £1 of subscription value entitles the warrant holder to two and a half new shares; if subscription rights are exercised after 8 September 1999, each £1 of subscription value entitles the warrant holder to between two and one half and four and one half new shares, depending on the amount of unsecured loan stock outstanding. In certain specified circumstances, each £1 of subscription value may entitle the warrant holder to seven and one seventh new shares.

**Notes (continued)**

**21 Reserves**

Group	Share premium account 6 March 1999 £000	Profit and loss account 6 March 1999 £000	Share premium account 28 February 1998 £000	Profit and loss account 28 February 1998 £000
At the beginning of the period	31,550	2,229	31,550	(10,159)
Retained profit for period	-	22,057	-	12,388
At end of the period	31,550	24,286	31,550	2,229
Company	Share premium account 6 March 1999 £000	Profit and loss account 6 March 1999 £000	Share premium account 28 February 1998 £000	Profit and loss account 28 February 1998 £000
At the beginning of the period	31,550	409	31,550	(609)
Retained (loss)/profit for period	-	(14,296)	-	1,018
At end of the period	31,550	(13,887)	31,550	409

## Notes (continued)

### 22 Commitments

- (a) Annual commitments under non-cancellable operating leases are as follows:

	Land and buildings 6 March 1999 £000	Other 6 March 1999 £000	Land and buildings 28 February 1998 £000	Other 28 February 1998 £000
Group				
Operating leases which expire:				
Within one year	-	-	-	439
In the second to fifth years inclusive	-	74,614	594	56,193
After five years	8,313	13,899	10,344	29,949
	<u>8,313</u>	<u>88,513</u>	<u>10,938</u>	<u>86,581</u>

The Company did not have any commitments under non-cancellable operating leases.

- (b) As at the 6 March 1999 the Group had capital commitments of £496,000 (1998: £321,000).
- (c) The Group has, in the normal course of business, entered into a number of long term supply contracts. The most significant of these relate to track, station and depot access facilities, together with new train lease and maintenance arrangements to commence from delivery of the first new train from 2001.
- (d) Under the Franchise Agreements, the Company has agreed with the Office of Passenger Rail Franchising ("OPRAF") annual amounts receivable or payable in respect of the operation of the franchises for future periods. For CrossCountry Trains Limited, the franchise receipt progressively changes from an amount of £80.5 million receivable for the year ending 4 March 2000 to an amount of £9.6 million payable for the year ending 3 March 2012. For West Coast Trains Limited the franchise receipt decreases progressively from £56.9 million receivable for the year ending 4 March 2000, and from 2004 the amount payable increases progressively up to £217.4 million payable for the year ending 3 March 2012. All amounts are subject to indexation.

The contracted franchise receipts or payments are subject to a number of adjustments under the Franchise Agreements. Both West Coast Trains Limited and CrossCountry Trains Limited can apply to have the receipts raised in certain circumstances including adverse changes by the Regulator to the access charging regime or, so far as West Coast Trains Limited is concerned adverse changes to the Moderation of Competition policy. Changes can also be made if the Franchising Director amends the fares regulation formula in a way which adversely affects either one of West Coast Trains Limited or CrossCountry Trains Limited.

The Franchise Agreement contains provisions whereby, should West Coast Trains Limited fail to meet its contracted milestone for the introduction of new rolling stock in any period in which these milestones should be met, it will be liable to pay an 'upgrade default refund' in addition to any franchise payment which it would otherwise have to make to OPRAF.

Under the Franchise Agreement, there is a requirement on the company to comply with a number of obligations. Failure to comply with these obligations, including failure to bring new upgrade rolling stock into operation by certain specified dates, would be a breach of the franchise.

## Notes (continued)

### 23 Contingent liabilities

#### *Guarantees*

In accordance with the Franchise Agreements the Company procured performance bonds in favour of the Office of Passenger Rail Franchising ('OPRAF') for both West Coast Trains Limited and CrossCountry Trains Limited. The bonds have been issued by Lloyds Bank up to £21 million for West Coast Trains Limited and up to £9 million for CrossCountry Trains Limited.

Under a separate agreement, the Company has lodged £30 million with Lloyds Bank as security.

#### *Season ticket bond*

The season ticket bond issued by West Coast Trains Limited in favour of the OPRAF secures the refund of current season tickets in the event of:

- the termination of the Franchise Agreement;
- the making of a railway administration order;
- or the occurrence of an event of default.

The value of the season ticket bond for 1999 is up to £1.75 million (1998: £1.6million).

### 24 Pension scheme

Prior to their acquisition by Virgin Rail Group Limited, West Coast Trains Limited and CrossCountry Trains Limited were participating employers in the British Rail shared cost section of the Railways Pension Scheme ('RPS'). Since their acquisition the subsidiaries have participated in their own separate shared costs sections of the RPS. The RPS is a funded scheme and provides benefits based on final pensionable pay. The assets of the RPS are held separately from those of the Company and its subsidiaries.

The first actuarial valuation of the subsidiaries' sections of the RPS was undertaken at the date of establishment of the sections. The next formal valuation will be undertaken with an effective date no later than 1 April 1999. In advance of this the Company requested independent actuarial reviews to be undertaken as at 31 December 1997 using the method and assumptions used by the RPS Scheme Actuary for the initial valuations of the sections as at the dates of acquisition. The method used was the projected unit method. It was assumed that the investment return would be 8.5% per annum, future salary increases (excluding promotional increases) would be 3.5% in April 1998 increasing to 6.5% per annum thereafter. Present and future pensions were assumed to increase at 4.5% per annum. The assets of the sections were valued by discounting the projected income and capital payments from the investments allowing for dividends to grow at 4.0% per annum in respect of UK equities and 5.6% in respect of overseas equities (excluding Japan, for which a 7.7% per annum growth assumption was made). The market value of the assets attributable to both sections as at 31 December 1997 was £159,700,000 for West Coast Trains Limited and £47,700,000 for CrossCountry Trains Limited. The actuarial value of the assets as a percentage of accrued benefits (allowing for projected salaries) was 143% and 128% for each section respectively. Part of the surplus is being used to finance a reduced joint contribution rate of 12.5% of Section Pay (in general terms, basic salary less 1.5 times the basic state pension) until September 2003. This will be reviewed at the next valuation.

The pension charge for the fifty three period ended 6 March 1999, calculated in accordance with SSAP 24 was £2,836,000 (1998: £2,400,000).

## Notes (continued)

### 24 Pension scheme (continued)

The same method and assumptions were used for the SSAP24 calculations except that the investment return was assumed to be 9% per annum in the period prior to 2 July 1997 and 8.5% per annum for the accounting period thereafter. This reduction recognises the effect of the abolition of tax credits on UK equity dividends announced in the July 1997 Budget.

The employer's actual combined contributions in the period were £2,111,000 (1998: £1,900,000) to the defined benefit schemes, and £19,000 (1998: £21,000) to the money purchase schemes. The balance sheet prepayment as at 6 March 1999 was £24.1 million (1998: £30.3 million).

### 25 Reconciliation of operating profit to net cash inflow/(outflow) from operating activities

	53 weeks ended 6 March £000	11 months ended 28 February 1998 £000
Operating profit	25,760	12,568
Depreciation charge	404	128
Amortisation of negative goodwill	(1,066)	(946)
Increase in stocks	(1,055)	(452)
Increase in debtors	(30,099)	(3,780)
Increase in creditors	8,761	4,109
Decrease in provisions	(1,365)	(12,335)
	<hr/>	<hr/>
Net cash inflow/(outflow) from operating activities	1,340	(708)
	<hr/>	<hr/>



## Notes (continued)

### 26 Analysis of cash flows

	53 weeks ended 6 March 1999		11 months ended 28 February 1998	
	£000	£000	£000	£000
<b>Returns on investment and servicing of finance</b>				
Interest received	6,080		4,023	
Interest paid	(3,532)		(2,818)	
<b>Net cash inflow for returns on investments and servicing of finance</b>		<b>2,548</b>		<b>1,205</b>
<b>Taxation</b>		<b>(669)</b>		<b>-</b>
<b>Capital expenditure and financial investment</b>				
Purchase of tangible fixed assets	(3,533)		(801)	
Sale of tangible fixed assets	-		4	
<b>Net cash outflow for capital expenditure and financial investments</b>		<b>(3,533)</b>		<b>(797)</b>
<b>Acquisitions and disposals</b>				
Acquisition of subsidiaries	-		(4,197)	
Disposal of operation net of cash disposed	2,799		-	
<b>Net cash inflow/(outflow) for acquisitions and disposals</b>		<b>2,799</b>		<b>(4,197)</b>
<b>Financing</b>				
Finance lease repayments	(58)		(32)	
<b>Net cash outflow from financing</b>		<b>(58)</b>		<b>(32)</b>
<b>Disposal of operation</b>		<b>£000</b>		
<b>Net assets disposed of</b>				
Intangible assets - negative goodwill		(7,575)		
Tangible fixed assets		96		
Stocks and work in progress		3,159		
Debtors		8,645		
Cash		1		
		<b>4,326</b>		
Loss on disposal		(31)		
		<b>4,295</b>		
<b>Satisfied by</b>				
Cash		2,800		
Deferred consideration		1,495		
		<b>4,295</b>		

## Notes (continued)

### 27 Analysis of net funds

	At 28 February 1998 £000	Cash flow £000	Non-cash changes £000	At 6 March 1999 £000
Cash at bank	49,866	2,427	-	52,293
Deposits placed as security for performance bonds	30,000	-	-	30,000
	<hr/>	<hr/>	<hr/>	<hr/>
	79,866	2,427	-	82,293
Debt due after one year	(25,000)	-	-	(25,000)
Finance leases	(60)	58	(905)	(907)
	<hr/>	<hr/>	<hr/>	<hr/>
	54,806	2,485	(905)	56,386
	<hr/>	<hr/>	<hr/>	<hr/>

### Reconciliation of net cash flow to movement in funds

	6 March 1999 £000	28 February 1998 £000
Increase/(decrease) in cash in the period	2,427	(4,529)
Cash outflow from lease financing	58	32
	<hr/>	<hr/>
Change in net funds resulting from cash flows	2,485	(4,497)
New finance leases	(905)	-
	<hr/>	<hr/>
Movement in net funds in period	1,580	(4,497)
Net funds at beginning of the period	54,806	59,303
	<hr/>	<hr/>
Net funds at end of the period	56,386	54,806
	<hr/>	<hr/>

## Notes (continued)

### 28 Related party transactions

At 6 March 1999 and 28 February 1998, certain of the Company's shareholders were trusts, or companies owned by the trusts (together the 'trust shareholders'), the principal beneficiaries of which were RCN Branson and his immediate family. None of the trust shareholders individually has a controlling interest in the Company. The trust shareholders have interests directly and indirectly in certain other companies which are considered to give rise to related party disclosures under Financial Reporting Standard No.8 'Related Party Disclosures'.

Certain administrative costs, relating predominantly to the provision of company secretarial and tax services, are recharged by Virgin Management Limited to the Company. Such costs, together with charges for the services of two non-executive directors and Mr Branson as president, and royalties payable on licences for use of the Virgin name amounted to £248,000 (1998: £134,000). Included in other creditors at the period end is an amount of £19,000 (1998: £97,000) owing to Virgin Management Limited.

Charges for the services of one non-executive director are made by Stagecoach plc and amounted to £3,000 (1998: £nil). This amount is included in other creditors at the period end.

Under the terms of a Loan Instrument dated 7 March 1997, and amended with effect from 7 October 1998 the Company issued £25,000,000 of unsecured loan stock. Interest of 10% per annum is payable quarterly in arrears. Interest payable during the period in respect of this loan amounted to £3,357,000 (1998: £3,432,000). The interests of the Trust shareholders and other related party shareholders in this loan stock are set out below:

	6 March 1999 £
Trust shareholders	5,000,000
Stagecoach plc	20,000,000
	<hr/> 25,000,000 <hr/>

Their interests in the warrants over the non-voting ordinary shares of 10 pence (see note 20) are set out below:

	6 March 1999 £
Trust shareholders	700,000
	<hr/>

### 29 Ultimate parent company and parent undertaking of larger group

The Company has no parent undertaking and therefore its results are not consolidated in the accounts of any other entity.