CrossCountry Trains Limited

Directors' report and financial statements

Registered number 3007937

2 March 2002

Contents

Directors' report

The Directors present their annual report and the audited financial statements for the year ended 2 March 2002.

Principal activity

The principal activity of the Company during the year was the operation of the passenger rail services which link a number of cities and other destinations in England, Scotland and Wales. The hub of the route network is Birmingham with frequent services operating to and from Manchester, Sheffield, Reading and Bristol. Some services are extended to and from Glasgow, Edinburgh, Aberdeen, Brighton, Bournemouth, Swansea and Penzance. The Company operates these services under the terms of a franchise agreement dated 28 November 1996 between Virgin Rail Group Limited and the Director of Passenger Rail Franchising. The franchise runs for fifteen years to 1 April 2012.

Business review

The profit and loss in the current year reflects the results of the Company for the year ended 2 March 2002.

The operating loss for the year was £30.9 million *(2001: £36.7 million)*. The retained loss for the year of £21.2 million *(2001: £33.4 million)* has been taken to reserves. The Company has continued to be impacted by disruptions following the Hatfield crash in October 2000.

The Directors were satisfied with the overall financial performance of the Company in the year.

Punctuality has risen gradually over the year to 73% at the financial year end.

Safety

The Company is committed, through annual continuous improvement, to creating a safe and secure environment for its passengers, workforce and the general public. We have four strategic objectives for the next ten years: -

- To halve the risk of death and injury to our customers and people.
- To eliminate main line Category A 'Signals Passed At Danger'
- To support the national initiative to reduce trespass and vandalism.
- To encourage a rail industry partnership to raise safety standards through shared information, best practice and common safety values.

These are supported by a three-year focus and specific one-year targets. We have made good progress against our shorter-term major initiatives: -

- Introduction of Train Protection Warning System (TPWS) on all new trains.
- Maintenance of a close safety partnership with Railtrack on the management of Possessions and Signal Sighting as route modernisation is undertaken.
- The use of Driver training simulators and introduction of interactive computer based training assessment tools for improved safety, training and off-line experience.
- *To promote the industry safety values throughout the Group and work with our suppliers to do the same.*

Track Access Charges and Franchise Receipts

Under the Office of the Rail Regulator's review of access charges, Railtrack charges have been increased across the industry. There has been a corresponding increase in franchise receipts, which have been increased under Clause 18.1 of the Track Access Agreement, to offset, on a no-gain no-loss basis, these additional track access charges.

Directors' report *(continued)*

Customer Service and Operations

During the year, the Company has been preparing for the changes in rolling stock and timetables. This has included recruiting and training additional Train Managers, Service Crew and Drivers, designing new service routines and making improvements at stations.

Marketing

The Company continues to seek innovative ways to attract passengers to use its services and has undertaken a number of promotional campaigns. The priority over the last 12 months was to attract customers back onto trains following the post Hatfield disruption. Significant promotional activity was undertaken during the year, including the half-price sale of Virgin Value tickets between May and August.
Promotions were used to drive sales through the Internet, which have more than doubled.. The creation of a customer database has enabled offers to be targeted at good prospects by e-mail with very high response rates.

New Rolling Stock introduced in the year

The Company's exciting programme of introducing new rolling stock is progressing well and is improving the experience of passengers through better reliability, performance and comfort. During the year, thirty-four new 'Voyager' trains were brought into service and are performing well. This is the first stage of the replacement of virtually the entire current fleet.

Future prospects

The directors are pleased to note that on 19 July revised arrangements (the "July Arrangement") were entered into between Virgin Rail Group Limited, West Coast Trains Limited and CrossCountry Trains Limited and the Strategic Rail Authority ("SRA"). The July Arrangement is supplemental to the Franchise Agreements, and commits the SRA to provide additional franchise support payments over the period to 1 March 2003, as well as establishing a basis for the renegotiation of both Franchise Agreements in light of the uncertainties surrounding the West Coast Route Modernisation programme. Further details are given in note 20 (d)

In addition to the Voyager trains currently running successfully in passenger service, forty four new 'Super Voyager' trains are scheduled to be brought into service as non tilting trains during the coming year at the rate of one a week. The Super Voyagers will begin tilt operation once the safety approvals have been obtained and the infrastructure is made ready, anticipated to be later this year.

After several years of work and consultation, the current irregular timetable that exists outside the corridors to London is being replaced by a 'clock face' timetable going live in September 2002. This will unlock capacity bottlenecks and give passengers the simplicity of a regular interval, hourly timetable combining speed and frequency. This improved timetable is the biggest national timetable shake up for a decade and, combined with the new trains, will provide a substantially improved service to our customers.

Proposed dividend

The directors do not recommend the payment of a dividend *(2001: £Nil)*.

Post balance sheet events

Significant post balance sheet events are included in note 23.

Directors' report *(continued)*

Directors and their interests

The Directors of the Company during the year were as follows:

CEW Green
CJG Tibbits
A Tomlin (resigned 8 October 2001)
MP Furlong (resigned 2 January 2002)
AE Collins
RBJ Klug
PD Griffiths (appointed 23 January 2002)
SM Murphy (appointed 23 January 2002)

The directors are also directors of Virgin Rail Group Holdings Limited and their interests in the shares of Virgin Rail Group Holdings Limited and other group undertakings are disclosed in that company's financial statements.
No director had a material interest in any Contract with the company or with the Board.

Employees

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

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

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

Auditors

KPMG's business has been transferred to a limited liability partnership, KPMG LLP. Accordingly KPMG resigned as auditors on 30 September 2002 and the directors thereupon appointed KPMG LLP to fill the casual vacancy arising on 3 October 2002. A resolution for the re-appointment of KPMG LLP as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the board

9 October 2002

Peter Grant
Company Secretary

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 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 Company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

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 purpose of enabling them to give their audit report.

KPMG

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Report of the independent auditors' to the members of CrossCountry Trains Limited

We have audited the financial statements on pages 6 to 19.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 4, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 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.

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 2 March 2002 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP

9 October 2002

KPMG LLP
Chartered Accountants
Registered Auditors

Profit and loss account
for the year ended 2 March 2002

	Note	Year ended 2 March 2002 £000	Year ended 3 March 2001 £000
Turnover	2	**155,905**	148,132
Franchise receipts	20d	**119,452**	80,274
Other operating income	3	**31,689**	16,649
Train operating expenditure	4	**(279,232)**	(233,824)
Staff costs	5	**(41,928)**	(33,522)
Depreciation		**(252)**	(254)
Other operating charges		**(16,531)**	(14,152)
Operating loss	6	**(30,897)**	(36,697)
Income from other fixed asset investments		**-**	60
Other interest receivable and similar income	9	**269**	511
Interest payable and similar charges	10	**(3,704)**	(2,541)
Loss on ordinary activities before taxation		**(34,332)**	(38,667)
Tax on loss on ordinary activities	11	**13,158**	5,296
Retained loss on ordinary activities after taxation for the year	18	**(21,174)**	(33,371)

There were no recognised gains or losses other than the retained loss for the year. The whole of the results for the periods relate to continuing operations.

Balance sheet
at 2 March 2002

	Note	2 March 2002 £000	3 March 2001 £000
Fixed assets			
Tangible assets	*12*	**1,479**	600
Current assets			
Debtors	*14*	**38,524**	42,739
Cash at bank and in hand		**-**	6,235
		38,524	48,974
Creditors: amounts falling due within one year	*15a*	**(99,143)**	(87,540)
Net current liabilities			
- Due within one year		**(69,990)**	(46,428)
- Debtors due after more than one year	*14*	**9,371**	7,862
Total net current liabilities		**(60,619)**	(38,566)
Total assets less current liabilities		**(59,140)**	(37,966)
Creditors: amounts falling due after more than one year	*15b*	**(9,000)**	(9,000)
Net liabilities		**(68,140)**	(46,966)
Capital and reserves			
Called up share capital	*17*	**-**	-
Profit and loss account	*18*	**(68,140)**	(46,966)
Equity shareholder's funds	*19*	**(68,140)**	(46,966)

These financial statements were approved by the board of directors on 9 October 2002 and were signed on its behalf by:

Chris Green
Director

Sue Murphy
Director

Notes

(forming part of the financial statements)

1 Accounting policies

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

Basis of preparation

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

The Company is exempt from the requirement of Financial Reporting Standard No 1 to prepare a cash flow statement as it is a wholly owned subsidiary undertaking of Virgin Rail Group Holdings Limited, and its cash flows are included within the consolidated cash flow statement of that company.

Going concern

The financial statements have been prepared on a going concern basis, having regard to revised arrangements entered into on 19 July 2002 (the "July Arrangement") between Virgin Rail Group Limited, West Coast Trains Limited and CrossCountry Trains Limited and the Strategic Rail Authority ("SRA"). The July Arrangement is supplemental to the Franchise Agreements, and commits the SRA to provide additional franchise support payments over the period to 1 March 2003, as well as establishing a basis for the renegotiation of both Franchise Agreements in light of the uncertainties surrounding the West Coast Route Modernisation programme. Further details regarding the July Arrangement are contained in note 19(d).

On the above basis, the directors believe that it remains appropriate to prepare the financial statements on a going concern basis. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

Turnover

Turnover represents the 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 Company 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 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.

Compensation for service disruption

Compensation received for service disruption under the performance regime provisions of the track access agreement with Railtrack PLC has been recognised over the expected period of disruption and is shown as other operating income.

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 to 20 years
Fixtures and fittings - 3 to 10 years
Software development - Up to 3 years

Notes *(continued)*

1. Accounting Policies *(continued)*

Stocks

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

New train service arrangement costs

Under the franchise agreement, the Company is required to operate faster and more frequent services on many of its 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 full 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.

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.

Leases

Where the Company 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.

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 are 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

The Company participates 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 Company 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 with the Company.

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

Details of the pension scheme are provided in note 20.

Taxation

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

Deferred tax is recognised without discounting, in respect of all timing differences between the treatment of certain item for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS19. A net deferred tax asset is regarded as recoverable and therefor recognised only when,

Notes *(continued)*

on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

2 Turnover

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

Turnover originates wholly in the United Kingdom.

Turnover comprises:

	Year ended 2 March 2002 £000	Year ended 3 March 2001 £000
Passenger revenue	**147,597**	141,171
Catering income	**7,308**	6,113
Other trading income	**1,000**	848
	155,905	148,132

Other trading income consists primarily of the hire of train crew and rolling stock.

3 Other operating income

Other operating income is compensation recognised in respect of the performance regime provisions of the track access agreement.

4 Train operating expenditure

Train operating expenditure comprises:

	Year ended 2 March 2002 £000	Year ended 3 March 2001 £000
Rolling stock costs	**79,414**	84,588
Track access costs	**132,427**	93,220
Station and depot access costs	**19,249**	17,283
Power costs	**12,265**	11,550
Other operating expenditure	**35,877**	27,183
	279,232	233,824

Included within rolling stock costs for the year ended 2 March 2002 is £11.5 million of liquidated damages which has been recognised in respect to the late delivery of the Voyager train sets in the year.

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

Notes *(continued)*

5 Staff costs

Staff costs comprise:

	Year ended 2 March 2002 £000	Year ended 3 March 2001 £000
Wages and salaries	**35,816**	27,661
Social security costs	**2,843**	2,271
Other pension costs	**1,132**	859
Other staff costs	**2,137**	2,731
	41,928	33,522

	Number	Number
The average number of persons employed by the Company during the year were		
Management	**110**	106
Other Staff	**1122**	888
	1,232	994

6 Operating loss

	Year ended 2 March 2002 £000	Year ended 3 March 2001 £000
Operating loss is stated after charging:		
Depreciation	**252**	254
Auditors' remuneration		
Audit fees	**35**	35
Non audit fees	**4**	3
Operating lease rentals		
- hire of plant and machinery	**49,440**	43,229
- other operating leases	**9,447**	2,284

7 Exceptional costs

Since the Hatfield crash, which occurred on 17 October 2000, the company has incurred a material loss of passenger revenue, partly mitigated by compensation received from Railtrack PLC. The impact is still being felt in the current year.

Notes *(continued)*

8 Remuneration of directors

	Year ended 2 March 2002 £000	Year ended 3 March 2001 £000
Aggregate emoluments of directors	**369**	388
	Number	Number
Number of directors who are members of defined benefit pension scheme	**2**	2

The aggregate emoluments of the highest paid director were £189,000 *(2001: £176,000)*. He is a member of a defined benefit scheme under which the accrued pension to which he would be entitled from normal retirement if he were to retire at the end of the year was £56,551 *(2001: £54,454)* with an accrued lump sum of £34,133 *(2001: £30,919)*.

9 Other interest receivable and similar income

	Year ended 2 March 2002 £000	Year ended 3 March 2001 £000
Bank interest	**269**	469
Other interest	**-**	42
	269	511

10 Interest payable and similar charges

	Year ended 2 March 2002 £000	Year ended 3 March 2001 £000
Group undertakings	**3,704**	2,541

Notes *(continued)*

11 Taxation

The taxation credit comprises:

	Year ended 2 March 2002 £000	Year ended 3 March 2001 £000
UK Corporation Tax		
Current tax on income for the period	11,009	5,906
Adjustments in respect of prior periods	2,144	(610
Current tax credit for the year	13,153	5,296
Deferred tax(see note 16)-Originating/reversal of timing differences	751	
-Adjustment in respect of prior years	(746)	
Tax on profit on ordinary activities	13,158	5,296

Factors affecting the tax credit for the current period

The current tax credit for the period is higher (2001: lower) than the standard rate of corporation tax in the UK (30%, 2001: 30%). The differences are explained below.

	2002 £000	2001 £000
Current tax reconciliation		
Profit on ordinary activities before tax	34,332	38,667
Current tax at 30 % (2001: 30 %)	10,300	11,600
Effects of:		
Expenses not deductible for tax purposes	(37)	(25)
Capital allowances for period in excess of depreciation	52	18
Other short term timing differences	694	(5,687)
Adjustments to tax charge in respect of prior years	2,144	(610)
Total current tax credit (see above)	13,153	5,296

Notes *(continued)*

12 Tangible fixed assets

	Plant, equipment, fixtures and fittings £000
Cost	
At 3 March 2001	1,160
Additions	1,131
At 2 March 2002	**2,291**
Depreciation	
At 3 March 2001	560
Charge for year	252
At 2 March 2002	**812**
Net book value	
At 2 March 2002	**1,479**
At 3 March 2001	600

13 Investments

The Company owns one of the 26 four pence shares in ATOC Limited, and one of the 25 four pence ordinary shares in each of Rail Settlement Plan Limited and Rail Staff Travel Limited.

14 Debtors

	2 March 2002 £000	3 March 2001 £000
Amounts falling due within one year		
Trade debtors	**12,125**	2,787
Group relief receivable	-	12,023
Other debtors	**6,239**	5,725
Prepayments and accrued income	**10,789**	14,342
	29,153	34,877
Amounts falling due after more than one year		
Prepayments and accrued income	**9,371**	7,862
Total debtors	**38,524**	42,739

Prepayments falling due after more than one year represent deferred costs in respect of new train service arrangements (note 1).

Notes *(continued)*

15 Creditors

(a) Amounts falling due within one year

	2 March 2002 £000	3 March 2001 £000
Bank	**2,530**	-
Trade creditors	**13,088**	23,062
Amounts owed to parent undertaking	**51,877**	29,517
Amounts owed to fellow subsidiary undertakings	**3,091**	9,719
Corporation tax	**656**	610
Other taxes and social security costs	**1,200**	914
Other creditors	**3,523**	3,544
Accruals and other deferred income	**22,734**	19,783
Deferred season ticket income	**444**	391
	99,143	87,540

Deferred income includes £2.0 million (2001: £16.6 million) in respect of compensation receivable for service disruption (see note 1).

(b) Amounts falling due after more than one year

	2 March 2002 £000	3 March 2001 £000
Amounts owed to parent undertaking	**9,000**	9,000

The amount owed to the parent undertaking due after more than one year is subordinated to the claims of all other creditors of the Company and may only be called for repayment at the end of the fifteen year franchise period. Interest is payable at the LIBOR rate plus a margin.

16 Deferred taxation

	£000
As at 4 March 2001	-
Transferred to the profit and loss account	5
As at 4 March 2002	5

Unprovided and provided deferred tax assets / (liabilities) at 30% are set out below:

	Provided 2 March 2002 £000	Provided 3 March 2001 £000	**Unprovided 2 March 2002 £000**	Unprovided 3 March 2001 £000
Accelerated capital allowances	**5**	-	-	(2)
Other timing differences	**-**	-	**2,733**	5,670
	5	-	**2,733**	5,668

Notes *(continued)*

A deferred tax asset of £2.7m relating to carried forward tax losses has not been recognised. The tax benefit of these losses can only be realised through the offset against particular income. At this stage, it is not considered that the degree of certainty required by FRS 19 Deferred tax to support the recognition of this asset exists.

17 Called up share capital

	Number of shares	**2 March 2002**	3 March 2001
		£	£
Ordinary shares of £1 each:			
Authorised	9,000,000	**9,000,000**	9,000,000
Allotted, called up and fully paid	1	**1**	1

18 Reserves

	Profit and loss account
	£000
At 3 March 2001	(46,966)
Retained loss for the year	(21,174)
At 2 March 2002	**(68,140)**

19 Reconciliation of movements in shareholder's funds

	2 March 2002	3 March 2001
	£000	£000
Loss for the financial year	**(21,174)**	(33,371)
Opening shareholder's funds	**(46,966)**	(13,595)
Closing shareholder's funds	**(68,140)**	(46,966)

20 Commitments

(a) The company had no capital commitments at 2 March 2002 *(2001: £Nil)*.

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

	2 March 2002	3 March 2001
	£000	£000
Land and buildings		
Within one year	**13**	133
In the second to fifth years inclusive	**286**	13
After five years	**89**	40
	388	186
Other operating leases		
Within one year	**974**	15,199
In the second to fifth years inclusive	**21,602**	28,163
After five years	**37,510**	8,324
	60,086	51,686

Notes *(continued)*

20 Commitments *(continued)*

(c) In addition, the company has, in the normal course of its 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.

(d) Other commitments

The Franchise Agreement between the Strategic Rail Authority ("SRA") and CrossCountry Trains Limited ("CCT") provides for annual receipts from or payments to (together the 'franchise support amounts') the SRA in respect of the operation of the franchise. The revised arrangements entered into on 19 July 2002 (the "July Arrangement"), between Virgin Rail Group Limited ("VRGL"), WCT and CCT and the SRA, which are supplemental to the Franchise Agreement, have the effect of varying the previously committed franchise support amounts. In that respect, the July Arrangement specifies an interim increase in franchise support receipts for CCT for the year ending 1 March 2003; for future periods, the level of franchise support amounts will depend upon the outcome of the franchise renegotiations, the basis for which is set out in the July Arrangement.

The July Arrangement provides that the CCT franchise is to be renegotiated with effect from March 2004, with franchise support amounts adjusted accordingly - if no agreement is reached within this period, the group will run the franchise under a management contract for a fee equivalent to 1% of revenue, or alternatively the SRA has the option to offer the franchise to other bidders.

Under the July Arrangement there is a requirement for VRGL, WCT and CCT to comply with certain performance and other obligations. Failure to comply with these obligations could result in a breach of the revised arrangements, as a consequence of which the terms and conditions of the WCT and CCT franchises would revert to the original Franchise Agreements.

21 Pension scheme

Prior to acquisition by Virgin Rail Group Limited, the Company was participating in the British Rail shared cost section of the Railways Pension Scheme ("RPS"). Since acquisition the Company has participated in its own separate shared cost section of the RPS. The RPS is a funded scheme and provides benefits based on final pensionable pay. The assets of RPS are held separately from those of the Company.

The latest actuarial valuation of the Company's section of the RPS was undertaken at 31 December 1998 using the projected unit method. The next formal valuation will be undertaken with an effective date no later than 1 January 2002. It was assumed that the investment return would be 6.75% per annum, future salary increases would be 4.5% per annum. Present and future pensions were assumed to increase at 3.0% per annum. The assets of the section were valued by discounting the projected income and capital payments from the investments allowing for dividends to grow at 3.75% per annum in respect of UK equities. The market value of the assets attributable as at 31 December 1998 was £62.0 million. The actuarial value of the assets as a percentage of accrued benefits (allowing for projected salaries) was 102%. Part of the surplus is being used to finance a reduced joint contribution rate of 12.5% of Section Pay until September 2003.

The pensions charge for the period ended 2 March 2002, calculated in accordance with SSAP 24, was £2,419,000 *(2001: £859,000)*.

Notes *(continued)*

21 Pension scheme *(continued)*

FRS 17 Additional Disclosures

Financial Reporting Standard 17 ("Retirement Benefits") comes into effect for accounting periods ending on or after 22 June 2001. Adoption of the new standard is being phased over three years and in this first year the Company is required to disclose the difference between the market value of the pension scheme assets and the present value of its benefit obligations as at 2 March 2002. The results of the last formal valuation of the section was updated by a qualified actuary in order to estimate the financial position as at 2 March 2002. The major actuarial assumptions used by the actuary were:

	2 March 2002
Rate of increase in salaries	4.00%
Rate of increase in pensions in payment and deferred pensions	2.50%
Discount rate	5.75%
Inflation assumption	2.50%

The Company's share of the net pension asset / (liability) which would be recognised in the Company's balance sheet as at 2 March 2002 if FRS17 had been adopted in full would be as follows:

	2 March 2002 **£000**
Fair value of assets	
Equities	**51,900**
Bonds	**6,200**
Property	**3,400**
Other	**-**
Total market value of assets	**61,500**
Present value of Section liabilities	**(61,400)**
Surplus	**100**
Surplus recognized by company	**100**
Related deferred tax liability (at 30%)	**-**
Net pension asset	**100**

22 Related parties

Under Financial Reporting Standard No 8, the Company is exempt from the requirement to disclose transactions with related parties, which are part of the group, on the grounds that it is a wholly owned subsidiary undertaking of Virgin Rail Group Holdings Limited and the Company's results are consolidated in its parent company financial statements.

Notes *(continued)*

23 Post balance sheet events

On 19 July 2002 the VRGL, WCT and CCT entered into a revised arrangement with the SRA, which amended the Franchise agreements and committed the SRA to provide additional franchise support to 1 March 2003 for both franchises. Note 19(d) provides further details.

24 Parent undertaking

The parent undertaking of the smallest and largest group of undertakings for which group financial statements are drawn up is Virgin Rail Group Holdings Limited.

Copies of the Virgin Rail Group Holdings Limited consolidated financial statements are available to the public and may be obtained from the Registrar of Companies, Companies House, Crown Way, Cardiff, CF4 3HZ.

The ultimate parent company is Virgin Group Investments Limited, a company registered in the British Virgin Islands.