CrossCountry Trains Limited

Directors' report and financial statements

Registered number 3007937

For the year ended 1 March 2008

Contents

Directors' report

The directors present their annual report and the audited financial statements for the year ended 1 March 2008 The previous financial year ended on 3 March 2007 As described below, for the year ended 1 March 2008, the Company was operational for the 36 week period ended 10 November 2007

Principal activities

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 was Birmingham with frequent services operating to and from Manchester, Sheffield, Reading and Bristol Some services were extended to and from Glasgow, Edinburgh, Aberdeen, Brighton, Bournemouth, Cardiff and Penzance The Company operated 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

As part of the re-mapping of various rail franchises, the Department for Transport ("DfT") gave notice that the original CrossCountry franchise would expire on 10 November 2007 The franchise, in revised form, was re-tendered and on 10 July 2007 it was announced that the new franchise had been awarded to Arriva Group plc

Following the termination of the franchise on 10 November 2007, the Company no longer has an ongoing operational business As the directors do not intend to acquire a replacement trade, they have not prepared the financial statements on a going concern basis The effect of this is explained in note 1

Results for the year and business review

The profit and loss account for the current year reflects the results of the Company for the year ended 1 March 2008 During the year, the Company was operational for the 36 week period ended 10 November 2007

The operating loss for the year was £0 4 million *(2007 £0 9 million profit)* The profit after tax for the year was £1 5 million *(2007 £1 7 million)*

Until the termination of the franchise, the Company operated under the terms of the franchise agreement and an agreement made with the Strategic Rail Authority ("SRA"), now the DfT, in July 2002 Under this latter agreement ("the July 2002 Arrangement"), the DfT set an annual budget for the franchise which provided for certain franchise support payments to the Company Interpretation of the July 2002 Arrangement was subsequently clarified by a supplemental letter signed by the Company and the DfT in April 2006 ("the Supplemental Letter") This detailed certain amendments to the process for confirmation and subsequent adjustment of the franchise support payments

Under the July 2002 Arrangement, the Company was able to claim further cash support for demonstrable cost overspends or revenue shortfalls against the DfT budgets As well as the franchise support receipts determined by the DfT for the period under the terms of the July 2002 Arrangement, additional franchise adjustments have been recognised under the Supplemental Letter relating to costs and revenues being different to the determined budget

On 10 November 2007 the termination of the franchise came into formal effect On this date, pursuant to a statutory transfer scheme, certain assets, rights and liabilities were transferred to the new franchise operator, XC Trains Limited From 11 November 2007, XC Trains Limited took over responsibility for train operations on the newly re-mapped CrossCountry franchise

Key performance indicators

Until the termination of the franchise, the Company used a range of financial and non-financial key performance indicators ("KPIs") across its activities

Financial results were closely monitored by management, shareholders and the DfT

Directors' report *(continued)*

Key performance indicators *(continued)*

Revenue was a key driver of profitability level and over the life of the franchise, the Company has seen substantial growth in customers using its services with passenger journeys approximately doubling since the Company took over the franchise in 1996

Significant non-financial KPIs included train punctuality, customer satisfaction and safety

Train punctuality as measured by Public Performance Measure ('PPM" being the percentage of trains that arrive at their destination within 10 minutes of their scheduled arrival time having called at all scheduled stations) continued its growth during the period of operation The annual average at the end of the franchise was 84 3% compared to 83 5% at the previous year end

Safety is discussed further in the Safety section below

Safety

Until the termination of the franchise, the Company remained committed, through annual continuous improvement, to maintaining a safe and secure environment for its passengers, workforce and the general public The Company's safety strategic objectives were

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

These were supported by specific focus on safety targets including year on year reduction in passenger and staff accidents, Signals Passed at Danger and safety related defects

By the end of the franchise, the Company had completed full implementation of the new train fleets These have safety features including (amongst others) enhanced crash protection, laminated windows, improved lighting, fire detection and fighting systems, power operated doors, CCTV and Train Management Systems These features together with improved reliability have helped to drive up safety performance trends and reduce accident figures

Dividends

Dividends paid during the year comprise a dividend of £2 5 million in respect of the previous year ended 3 March 2007

Directors

The directors who held office during the year were as follows

Anthony Collins	
Chris Gibb	
Charles Belcher	(resigned 31 August 2007)
Graham Leech	
Linda Bell	(resigned 31 December 2007)

The Company maintains Directors' and Officers' Liability insurance in respect of legal action that might be brought against its directors

Directors' report *(continued)*

Employees

The Company 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 and membership or non-membership of a trade union

The Company uses the consultative procedures agreed with its staff and their 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 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 Company made no political or charitable contributions during the year *(2007 £Nil)*

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware, and each director has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

Auditors

The members of the Company have passed elective resolutions in accordance with Sections 366A, 252 and 386 of the Companies Act 1985 dispensing with the previous statutory requirement of holding annual general meetings, laying accounts before the Company in general meetings and re-appointing auditors annually

By order of the board

Anthony Collins
Director

120 Campden Hill Road
London
W8 7AR

4 June 2008

Statement of directors' responsibilities in respect of the directors' report and the financial statements

The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period

In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business As explained in note 1, the directors do not believe that it is appropriate to prepare the financial statements on a going concern basis

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its 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

KPMG

KPMG LLP
8 Salisbury Square
London
EC4Y 8BB

Independent auditors' report to the members of CrossCountry Trains Limited

We have audited the financial statements of CrossCountry Trains Limited for the year ended 1 March 2008 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses and the related notes These financial statements have not been prepared on the going concern basis for the reason set out in note 1 to the financial statements but under the accounting policies set out therein

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

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 4

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

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 whether in our opinion the information given in the Directors' Report is consistent with the financial statements

In addition we report to you if, in our opinion, 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 other transactions is not disclosed

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments 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

Independent auditors' report to the members of CrossCountry Trains Limited *(continued)*

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 1 March 2008 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditor

4 June 2008

Profit and loss account
for the year ended 1 March 2008

	Note	**Year ended 1 March 2008 £000**	Year ended 3 March 2007 £000
Turnover	*2*	**217,241**	282,196
Franchise income	*3*	**153,647**	181,492
Other operating income	*4*	**5,351**	7,254
Train operating expenditure	*5*	**(308,457)**	(373,399)
Staff costs	*8*	**(50,318)**	(70,826)
Depreciation	*14*	**(768)**	(952)
Other operating charges		**(17,090)**	(24,869)
Operating (loss)/profit		**(394)**	896
Profit on transfer of assets and liabilities	*9*	**460**	-
Income from other fixed asset investments		**30**	-
Interest receivable and similar income	*10*	**1,258**	960
Interest payable and similar charges	*11*	**(664)**	(684)
Other finance income (net)	*24 (ii)*	1,490	1,650
Profit on ordinary activities before taxation	*6*	**2,180**	2,822
Tax charge on profit on ordinary activities	*13*	**(722)**	(1,096)
Profit for the financial year		**1,458**	1,726

The results set out above relate to discontinued operations

There is no difference between the result as disclosed in the profit and loss account and the result on an unmodified historical cost basis

Movements in reserves are set out in note 21

Balance sheet
at 1 March 2008

	Note	1 March 2008		3 March 2007	
		£000	£000	£000	£000
Fixed assets					
Tangible assets	*14*		-		768
Investments	*15*		-		-
			-		768
Current assets					
Debtors	*16*	1,835		89,261	
Cash at bank and in hand		5,460		25,755	
		7,295		115,016	
Creditors Amounts falling due within one year	*17*	(6,406)		(103,558)	
Net current assets			889		11,458
Total assets less current liabilities			889		12,226
Creditors Amounts falling due after more than one year	*18*		-		(9,000)
Net assets excluding pension liability			889		3,226
Pension liability, net of deferred tax	*24*		-		(665)
Net assets including pension liability			889		2,561
Capital and reserves					
Called up share capital	*20*		-		-
Profit and loss account	*21*		889		2,561
Shareholders' funds	*22*		889		2,561

These financial statements were approved by the board of directors on 4 June 2008 and were signed on its behalf by

Anthony Collins
Director

Chris Gibb
Director

Statement of total recognised gains and losses
for the year ended 1 March 2008

	Year ended 1 March 2008 £000	Year ended 3 March 2007 £000
Profit for the financial year	**1,458**	1,726
Actuarial loss recognised on defined benefit pension scheme (see note 24 (iii))	**(900)**	(982)
Taxation on actuarial loss on defined benefit pension scheme	**270**	295
Total recognised gains relating to the financial year	**828**	1,039

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 financial statements, except as noted below

Basis of preparation

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

Under FRS 1 'Cash flow statements', the Company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the Company in its own published consolidated financial statements

Under FRS 8 'Related party disclosures', 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

Following the termination of the franchise on 10 November 2007, the Company no longer has an ongoing operational business As the directors do not intend to acquire a replacement trade for the Company, they have not prepared the financial statements on a going concern basis No adjustments were necessary to the amounts at which the net assets are included in these financial statements compared with the values at which they would have been stated had the going concern basis of accounting been adopted

Based on industry practice certain assets, rights and liabilities of the Company associated with the operations of the franchise transferred to the new franchise operator on the franchise termination date

Turnover

Turnover represents the amounts receivable, excluding VAT, for services and goods supplied to external customers, primarily in respect of passenger transportation Turnover originates wholly in the United Kingdom

Passenger revenue represents principally amounts attributed to the Company by the Railway Settlement Plan for each financial period 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 out of train crew and rolling stock Other trading income and catering income are recognised as the income is earned

Franchise income

Revenue grants receivable 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 receivable/payable for service disruption under the performance regime provisions of the track access agreement with Network Rail is recognised over the period of disruption and the net amount is shown as other operating income

Notes *(continued)*

1 Accounting policies *(continued)*

Fixed assets and depreciation

Fixed assets are stated at cost less depreciation and any provision for impairment as set out in note 14

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 10 years
Fixtures and fittings	-	3 to 10 years

Fixed asset investments

Fixed asset investments are shown at cost less provision for impairment

New train service arrangement costs

Under the franchise agreement, the Company was required to operate faster and more frequent services on many of the CrossCountry routes In order to achieve this, contracts were entered into to lease new trains under operating lease arrangements In accordance with these agreements, the company incurred direct costs on behalf of the lessor associated with developing the contracted new train service arrangements These costs are an integral part of the operating lease expense, and therefore were recorded within prepayments when incurred and are being charged to the profit and loss account on a straight line basis from the point at which new trains came into operation until the earlier of the end of the relevant lease agreement or the franchise term

Track access costs

Track access costs are charged to the profit and loss account in the period to which they relate based on terms of the contract

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

Pensions and other post-retirement benefits

Until the termination of the franchise, the Company participated in a separate section of the Railways Pension Scheme ("RPS"), which provide benefits on a defined benefit basis The assets of the scheme were held separately from those of the Company in an independently administered fund

The RPS is a shared cost scheme with costs being shared between the employer and the members on the basis of a 60 40 split The Company has no rights or obligations in respect of the RPS following expiry of the related franchise Therefore, the liabilities recognised for the relevant section only represent that part of the net deficit of the section that the employer is obliged to fund over the life of the franchise to which the scheme relates The restriction on the liabilities is presented as a "franchise adjustment" to the overall deficit

The Company's contributions to the scheme are paid in accordance with the scheme rules and the recommendation of the actuary The charge to the profit and loss account reflects the current service costs of such obligations The expected return on scheme assets, the interest cost on scheme liabilities and the unwinding of the discount on the franchise adjustment are included within other finance income (net) in the profit and loss account

Notes *(continued)*

1 Accounting policies *(continued)*

***Pensions and other post-retirement benefits** (continued)*

Differences between the actual and expected returns on assets and experience gains/(losses) arising on the scheme liabilities during the year, together with differences arising from changes in assumptions, are recognised in the statement of total recognised gains and losses in the year

Assets are taken at mid-market value Details of the pension scheme are provided in note 24

Taxation

The charge for taxation is based on the result for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes Tax charges and credits are accounted for through the same primary statement (being either the profit and loss account or the statement of total recognised gains and losses) as the related pre-tax items

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items 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 therefore recognised only when 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

Dividends

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the Company Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements

2 Turnover

	2008	2007
	£000	£000
Passenger revenue	**207,220**	269,177
Catering income	**5,041**	6,456
Other trading income	**4,980**	6,563
	217,241	282,196

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

3 Franchise income

	2008	2007
	£000	£000
Receipts under July 2002 Arrangement	**149,416**	176,165
Adjustments under the Supplemental Letter	**4,231**	5,327
	153,647	181,492

Notes *(continued)*

3 Franchise income *(continued)*

Franchise income arises under the original Franchise Agreement between the DfT and the Company as supplemented by the July 2002 Arrangement and the Supplemental Letter Amongst other things, the July 2002 Arrangement specified interim support arrangements whilst the franchise terms were being re-negotiated These interim support arrangements were on the basis of the Company receiving a pre-tax profit margin equivalent to 1% of revenue

As well as the franchise support receipts determined by the DfT for the year under the terms of the July 2002 Arrangement, franchise income adjustments have been recognised under the Supplemental Letter relating to costs and revenues varying from the determined budget

4 Other operating income

	2008 £000	2007 £000
Performance regime	**5,351**	7,254

Performance regime income is in respect of the performance regime provisions of the Track Access Agreement

5 Train operating expenditure

	2008 £000	2007 £000
Rolling stock costs	**89,458**	122,879
Track access costs	**140,276**	141,616
Station and depot access costs	**17,585**	25,347
Power costs	**30,310**	41,611
Other operating expenditure	**30,828**	41,946
	308,457	373,399

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

6 Profit on ordinary activities before taxation

	2008 £000	2007 £000
Profit on ordinary activities before taxation is stated		
after charging		
Depreciation	**768**	952
Operating lease rentals		
Hire of plant and machinery	**31,087**	45,169
Other operating leases	**9,206**	12,705
Auditors' remuneration		
Audit of these financial statements	**49**	48

Notes *(continued)*

7 Remuneration of directors

	2008	2007
	£000	£000
Aggregate emoluments of directors	**198**	242

	Number	
Retirement benefits are accruing for the following directors under		
Defined benefit schemes	**-**	1

The aggregate emoluments of the highest paid director were £197,693 *(2007 £242,083)*

8 Staff numbers and costs

The average number of persons employed by the Company (including directors) during the 36 week period of operational business to 10 November 2007 was as follows

	Number of employees	
	2008	2007
Management	**248**	251
Other staff	**1,428**	1,429
	1,676	1,680

The aggregate payroll costs were as follows

	£000	£000
Wages and salaries	**39,464**	54,613
Redundancy costs	**138**	267
Social security costs	**3,340**	4,659
Other pension costs	**4,500**	6,640
Other staff costs	**2,876**	4,647
	50,318	70,826

On 10 November 2007, the franchise termination date, pursuant to a statutory transfer scheme, all staff were transferred out of the Company

Notes *(continued)*

9 Profit on transfer of assets and liabilities

On 10 November 2007 the termination of the franchise came into formal effect and, pursuant to a statutory transfer scheme, certain assets, rights and liabilities were transferred to the new franchise operator, XC Trains Limited The profit on transfer of assets and liabilities was as follows

	£000
Transfer proceeds	83
Book value of net liabilities transferred	377
Profit on transfer	460

10 Interest receivable and similar income

	2008 £000	2007 £000
Bank interest	1,258	960

11 Interest payable and similar charges

	2008 £000	2007 £000
Amounts payable to group undertakings	659	589
Finance charges on finance leases	-	4
Other interest	5	91
	664	684

12 Dividends

	2008 £000	2007 £000
Dividends paid		
2006/07 dividend paid in 2007/08	2,500	-
2005/06 dividend paid in 2006/07	-	2,543
	2,500	2,543

Notes *(continued)*

13 Taxation

Analysis of charge in year

	2008		2007	
	£000	**£000**	£000	£000
UK corporation tax				
Current tax on income for the year	**597**		1,172	
Adjustments in respect of prior years	**(507)**		-	
Total current tax		**90**		1,172
Deferred tax (see note 19)				
Origination/reversal of timing differences	**628**		(52)	
Effect of decreased tax rate	**17**		-	
Adjustments in respect of prior years	**(13)**		(24)	
Total deferred tax		**632**		(76)
Tax charge on profit on ordinary activities		**722**		1,096

Factors affecting the tax charge for the current year

The standard rate of tax for the year based on the UK standard rate of corporation tax is 30% *(2007 30%)* The actual tax charge for the current and previous year differs from the standard rate for the reasons set out in the following reconciliation

	2008	2007
	£000	£000
Current tax reconciliation		
Profit on ordinary activities before tax	**2,180**	2,822
Current tax at 30% *(2007 30%)*	**654**	847
Effects of		
Expenses not deductible for tax purposes	**192**	273
Depreciation for year in excess of capital allowances	**58**	208
Non taxable income	**(9)**	-
Other timing differences	**(298)**	(156)
Adjustments in respect of prior years	**(507)**	-
Total current tax charge (see above)	**90**	1,172

Notes *(continued)*

14 Tangible fixed assets

	Plant, equipment, fixtures and fittings £000
Cost	
At beginning of year	4,400
Disposals	(4,400)
At end of year	-
Depreciation	
At beginning of year	3,632
Charge for year	768
On disposals	(4,400)
At end of year	-
Net book value	
At 1 March 2008	-
At 3 March 2007	768

15 Fixed asset investments

At the beginning of the year, the Company owned one ordinary share of four pence in each of ATOC Limited, Rail Settlement Plan Limited and Rail Staff Travel Limited and one ordinary share of one pound in NRES Limited

On 28 November 2007 these shares were transferred to XC Trains Limited at book value

Notes *(continued)*

16 Debtors

	2008 £000	2007 £000
Amounts falling due within one year		
Trade debtors	**813**	62,733
Amounts owed by group undertakings	**497**	1,829
Other debtors	**286**	11,102
Deferred tax (see note 19)	**239**	316
Prepayments and accrued income	**-**	13,281
	1,835	89,261

Prepayments and accrued income include the following deferred costs in respect of new train service arrangement costs

	2008 £000	2007 £000
Deferred costs		
Amounts falling due within one year	**-**	1,579

17 Creditors: Amounts falling due within one year

	2008 £000	2007 £000
Trade creditors	**3,132**	27,819
Amounts owed to group undertakings	**50**	1,453
Corporation tax	**78**	721
Other taxes and social security costs	**-**	1,679
Other creditors	**2,707**	2,724
Accruals and other deferred income	**439**	67,839
Deferred season ticket income	**-**	1,323
	6,406	103,558

18 Creditors: Amounts falling due after more than one year

	2008 £000	2007 £000
Amounts owed to group undertakings	**-**	9,000

Notes *(continued)*

19 Deferred tax

The deferred tax asset, which has been provided for at 28% *(2007 30%)*, is set out below

	2008	2007
	£000	£000
At beginning of year	**601**	230
(Charge)/credit to profit and loss account	**(632)**	76
Credit to statement of total recognised gains and losses	**270**	295
At end of year	**239**	601
Disclosed as		
Debtors – deferred tax asset (see note 16)	**239**	316
Pension liability (see note 24)	**-**	285
Net deferred tax asset	**239**	601

The elements of deferred taxation are as follows

	£000	£000
Accelerated capital allowances	**-**	316
Other timing differences	**239**	285
	239	601

During the year, as a result of the change in UK corporation tax rates which were effective from 1 April 2008, deferred tax balances have been re-measured Deferred tax relating to timing differences which are expected to reverse prior to 1 April 2008 is measured at 30% and deferred tax relating to timing differences expected to reverse after 1 April 2008 is measured at the tax rate of 28% as this is the tax rate that will apply on reversal This has resulted in a charge to the profit and loss account of £17,000

20 Called up share capital

	2008	2007
	£	£
Authorised.		
9,000,000 ordinary shares of £1 each	**9,000,000**	9,000,000
Allotted, called up and fully paid:		
1 ordinary share of £1	**1**	1

Notes *(continued)*

21 Reserves

	Profit and loss account £000
At beginning of year	2,561
Profit for the financial year	1,458
Dividends paid (see note 12)	(2,500)
Actuarial loss on pension scheme (see note 24 (iii))	(900)
Deferred tax on actuarial loss on pension scheme	270
At end of year	**889**

Under the Supplemental Letter there was a restriction as to the level of dividends that the Company could pay out of the distributable reserves based on a calculation agreed within the Supplemental Letter This restriction ceased on 10 November 2007

22 Reconciliation of movements in shareholders' funds

	2008 £000	2007 £000
Profit for the financial year	**1,458**	1,726
Dividends paid (see note 12)	**(2,500)**	(2,543)
Actuarial loss on pension scheme (see note 24 (iii))	**(900)**	(982)
Deferred taxation on actuarial loss on pension scheme	**270**	295
Net reduction in shareholders' funds	**(1,672)**	(1,504)
Opening shareholders' funds	**2,561**	4,065
Closing shareholders' funds	**889**	2,561

23 Commitments

(a) The Company had capital commitments of £Nil at 1 March 2008 *(2007 £Nil)*

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

	Land and buildings		**Other operating leases**	
	2008 £000	2007 £000	**2008 £000**	2007 £000
Within one year	-	8,688	-	31,463

Notes *(continued)*

24 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 the RPS are held separately from those of the Company

The Company has no rights or obligations in respect of the RPS following expiry of the related franchise Therefore, the liabilities recognised for the relevant section of the RPS only represent that part of the net deficit of the section that the employer is obliged to fund over the life of the franchise to which the section relates The restriction on the liabilities is presented as a "franchise adjustment" to the overall deficit

On 10 November 2007, the franchise termination date, pursuant to a statutory transfer scheme, all staff transferred out of the Company At the point of transfer the deficit on the section relevant to the Company was £Nil The gross assets and liabilities of the section transferred out in line with the transfer of the re-mapped franchise

Prior to transfer, the latest actuarial valuation of the Company's section of the RPS was undertaken at 31 December 2004 using the projected unit method The movement in deficit up to the point of transfer has been determined by a qualified independent actuary, using revised assumptions that are consistent with the requirements of FRS 17

	2008	2007	2006
	%	%	%
Rate of increase in salaries	**4.9**	4 5	4 4
Rate of increase in pensions in payment and deferred pensions	**3 4**	3 0	2 9
Discount rate	**6.1**	5 1	4 8
Inflation assumption	**3.4**	3 0	2 9

The assumptions used by the actuary are the best estimates chosen from a large range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice

Notes *(continued)*

24 Pension scheme *(continued)*

The fair value of the section's scheme assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the section's scheme liabilities, which are derived from cash flow projections over long periods and are therefore inherently uncertain, are

	2008		2007		2006	
	Expected rate of return % pa	**Fair value £000**	Expected rate of return % pa	Fair value £000	Expected rate of return % pa	Fair value £000
Fair value of assets						
Equities	-	-	8 5	95,700	7 7	89,393
Bonds	-	-	5 1	14,070	4 7	12,224
Property	-	-	7 5	13,430	7 0	9,622
Other	-		6 5	11,780	4 5	6,101
Total market value of assets	-	-	7 8	134,980	7 1	117,340
Present value of section liabilities		-		(146,170)		(134,331)
Deficit in the section		-		(11,190)		(16,991)
Franchise adjustment		-		10,240		16,503
Deficit recognised by company		-		(950)		(488)
Related deferred tax asset at 30%		-		285		146
Net pension liability		-		(665)		(342)

The amounts included in the financial statements are as follows

(i) Analysis of the amount charged to operating profit

	2008 £000	2007 £000
Current service cost	**4,500**	6,640
Total charged to operating profit	**4,500**	6,640

(ii) Analysis of the amount credited to other finance income

	2008 £000	2007 £000
Interest on section liabilities	**(3,240)**	(4,290)
Expected return on section assets	**4,370**	5,150
Interest credit on franchise adjustment	**360**	790
Net credit to other finance income	**1,490**	1,650

Notes *(continued)*

24 Pension scheme *(continued)*

(iii) Analysis of the amount recognised in statement of total recognised gains and losses

	2008 £000	2007 £000
Actual return less expected return on section assets	**3,460**	2,410
Experience loss arising on section liabilities	**(4,310)**	(7,062)
Changes in assumptions underlying the present value of section liabilities	**(50)**	3,670
Actuarial loss recognised in statement of total recognised gains and losses	**(900)**	(982)

(iv) Movement in deficit during the year on an FRS 17 basis

	2008 £000	2007 £000
Deficit at beginning of year	**(950)**	(488)
Current service cost	**(4,500)**	(6,640)
Contributions paid	**4,860**	5,510
Other finance income	**1,490**	1,650
Actuarial loss	**(900)**	(982)
Deficit at end of year	**-**	(950)

(v) Experience gains and losses

	2008	2007	2006	2005	2004
Difference between actual and expected return on section assets					
amount (£000)	-	2,410	8,193	1,600	6,800
percentage of section assets	-	2%	7%	2%	9%
Experience (loss)/gain on section liabilities					
amount (£000)	-	(7,062)	6,867	3,240	(4,400)
percentage of present value of section liabilities	-	(5%)	4%	3%	(5%)
Total actuarial (loss)/gain recognised in statement of total recognised gains and losses					
amount (£000)	-	(982)	1,453	2,240	(2,000)
percentage of present value of section liabilities	-	(1%)	1%	2%	(2%)

Notes *(continued)*

25 Events after the balance sheet date

On 28 March 2008 the Company received £850,000 from the DfT, being an agreed payment, outside of the Letter Agreement, in relation to the Company's requirement to correct a funding shortfall on the pension scheme as a result of the franchise re-mapping

26 Ultimate parent company and parent undertaking of larger group

The parent undertaking of the smallest group of undertakings, including the Company, for which group financial statements are drawn up is Virgin Rail Group Holdings Limited The parent undertaking of the largest group of undertakings, including the Company, for which group financial statements are drawn up is Virgin Wings Limited

Copies of the Virgin Rail Group Holdings Limited and Virgin Wings 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

As at 1 March 2008, the ultimate parent company is Virgin Group Holdings Limited, a company registered in the British Virgin Islands