CrossCountry Trains Limited

Directors' report and financial statements

4 March 2000
Registered number 3007937

Contents

Directors' report

The Directors present their annual report and the audited financial statements for the year ended 4 March 2000.

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 underlying financial performance of the company has improved, with an operating loss of £19,384,000 *(1999: loss of £8,269,000)* after a reduction in the franchise support receipt of £17,016,000. The loss for the year ended 4 March 2000 of £13,035,000 *(1999: £1,115,000)* has been taken to reserves.

The directors believe the new marketing and sales initiatives, and a more focused approach to customer service, have contributed to the growth in passenger numbers year on year by 6%, and in revenue of 10% for the same period.

Reliability and punctuality remain key priorities for management. Significant progress has been made during the year, with punctuality improved to 87.0% from a low during 1998/99 of 71.7%. Reliability has consistently exceeded target at 99.2%.

The SSRA's most recent performance statistics were issued on 6 June and we are pleased to report that the SSRA chief executive singled out CrossCountry for making the most performance improvements of 7% year on year on trains arriving within ten minutes.

The Group has also focused over the past year on customer service skills training, creating a "service with style", and on several other on-board improvements, successfully creating a more consistent product.

Future prospects

The construction of the new rolling stock for the CrossCountry franchise has begun with delivery commencing in 2001.

CrossCountry will use both non-tilting and tilting high speed diesel electric trains to be known as Voyagers and Super Voyagers.

Proposed dividend

The directors do not recommend the payment of a dividend *(1999: £Nil)*.

Directors report *(continued)*

Directors and their interests

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

CEW Green	(appointed 10 March 1999)
BMM Barrett	(resigned 24 August 1999)
CJG Tibbits	
A Tomlin	
MP Furlong	(appointed 10 March 1999)
AE Collins	(appointed 16 September 1999)
RBJ Klug	(appointed 16 September 1999)

CEW Green, A Tomlin, CJG Tibbits, MP Furlong, AE Collins and RBJ Klug were directors of Virgin Rail Group Limited during part or all of the period and their interests in the shares of Virgin Rail Group Limited are disclosed in that company's financial statements.

None of the directors had a beneficial interest in any shares of the company or of any other group undertaking other than stated above. No director had a material interest in any Contract with the company or with the Board.

Year 2000

The directors consider that the action taken to address the year 2000 problem has been successful. No significant year 2000 failures have occurred. The directors estimate that the costs borne by the company for changes to its own and industry wide systems in connection with year 2000 issues were £0.6 million.

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.

Political and Charitable Donations

The company made no donations to charities or to political parties in the current year (1999: £nil).

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

Peter Gram 28 July 2000
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
2 Cornwall Street
Birmingham
B3 2DL
United Kingdom

Report of the auditors to the members of CrossCountry Trains Limited

We have audited the financial statements on pages 5 to 15.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 3, 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. 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 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 4 March 2000 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG

KPMG
Chartered Accountants
Registered Auditors

28 July 2000

Profit and loss account
for the year ended 4 March 2000

	Note	**Year ended 4 March 2000 £000**	53 weeks ended 6 March 1999 £000
Turnover	2	**156,452**	147,048
Franchise receipts		**87,328**	104,344
Train operating expenditure	3	**(224,854)**	(226,178)
Staff costs	4	**(26,473)**	(25,018)
Depreciation		**(159)**	(93)
Other operating charges		**(11,678)**	(8,372)
Operating loss	5	**(19,384)**	(8,269)
Profit on disposal	7	**1,127**	-
Income from other fixed asset investments		**20**	-
Other interest receivable and similar income	8	**353**	1,386
Interest payable and similar charges	9	**(1,268)**	(771)
Loss on ordinary activities before taxation		**(19,152)**	(7,654)
Tax on loss on ordinary activities	10	**6,117**	6,539
Retained loss on ordinary activities after taxation for the year	17	**(13,035)**	(1,115)

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 4 March 2000

	Note	4 March 2000 £000	6 March 1999 £000
Fixed assets			
Tangible	*11*	**496**	435
Current assets			
Stocks	*13*	**257**	56
Debtors	*14*	**35,771**	32,225
Cash at bank and in hand		**77**	6,266
		36,105	38,547
Creditors: amounts falling due within one year	*15a*	**(41,196)**	(30,542)
Net current (liabilities)/assets			
- Due within one year		**(12,112)**	3,633
- Debtors due after more than one year	*14*	**7,021**	4,372
Total net current (liabilities)/assets		**(5,091)**	8,005
Total assets less current liabilities		**(4,595)**	8,440
Creditors: amounts falling due after more than one year	*15b*	**(9,000)**	(9,000)
Net liabilities		**(13,595)**	(560)
Capital and reserves			
Called up share capital	*16*	-	-
Profit and loss account	*17*	**(13,595)**	(560)
Equity shareholder's funds	*18*	**(13,595)**	(560)

These financial statements were approved by the board of directors on 28TH JULY 2000 and were signed on its behalf by:

CEW Green
Director

A Tomlin
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 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 the going concern basis as the directors of the parent company, Virgin Rail Group Limited, have undertaken to provide such financial support as is necessary for the company to meet its liabilities as they fall due for the foreseeable future.

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.

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

Stocks

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

Notes *(continued)*

1 Accounting policies *(continued)*

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.

Deferred taxation

Deferred taxation 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.

Notes *(continued)*

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 4 March 2000 £000	53 weeks ended 6 March 1999 £000
Passenger revenue	**148,641**	140,136
Catering income	**6,295**	5,495
Other trading income	**1,516**	1,417
	156,452	147,048

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

3 Train operating expenditure

Train operating expenditure comprises:

	Year ended 4 March 2000 £000	53 weeks ended 6 March 1999 £000
Rolling stock costs	**77,484**	76,141
Track access costs	**95,354**	97,134
Station and depot access costs	**17,371**	16,759
Power costs	**9,027**	8,444
Other operating expenditure	**25,618**	27,700
	224,854	226,178

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

Notes *(continued)*

4 Staff costs

Staff costs comprise:

	Year ended 4 March 2000 £000	53 weeks ended 6 March 1999 £000
Wages and salaries	**22,572**	21,149
Social security costs	**1,741**	1,643
Other pension costs	**745**	654
Other staff costs	**1,415**	1,572
	26,473	25,018
	Number	Number
The average number of persons employed by the Company during the year were	**926**	867

5 Operating loss

	Year ended 4 March 2000 £000	53 weeks ended 6 March 1999 £000
Operating loss is stated after charging		
Depreciation	**159**	93
Auditors' remuneration		
Audit fees	**30**	40
Non audit fees	**4**	9
Operating lease rentals		
- hire of plant and machinery	**44,484**	44,825
- other operating leases	**642**	553

6 Remuneration of directors

	Year ended 4 March 2000 £000	53 weeks ended 6 March 1999 £000
Aggregate emoluments of directors	**259**	251
	Number	Number
Number of directors who are members of defined benefit pension scheme	**2**	1

Notes *(continued)*

7 Profit on disposal

The profit on disposal relates to the goodwill attributable to thetrainline which was transferred in the year.

8 Other interest receivable and similar income

	Year ended 4 March 2000 £000	53 weeks ended 6 March 1999 £000
Group undertakings	-	271
Bank interest	**353**	1,115
	353	1,386

9 Interest payable and similar charges

	Year ended 4 March 2000 £000	53 weeks ended 6 March 1999 £000
Group undertakings	**1,268**	771

10 Taxation

The taxation credit comprises:

	Year ended 4 March 2000 £000	53 weeks ended 6 March 1999 £000
Corporation tax based on the loss for the year:		
Group relief	**6,117**	6,189
Corporation tax at 30%	-	504
Adjustment in respect of prior period:		
Corporation tax under provided in previous years	-	(154)
	6,117	6,539

Notes *(continued)*

11 Tangible fixed assets

	Plant, equipment, fixtures and fittings £000
Cost	
At 6 March 1999	582
Additions	220
At 4 March 2000	**802**
Depreciation	
At 6 March 1999	147
Charge for year	159
At 4 March 2000	**306**
Net book value	
At 4 March 2000	**496**
At 6 March 1999	435

12 Investments

The Company owns one of the 25 four pence shares in each of the following companies.

ATOC Limited
Rail Settlement Plan Limited
Rail Staff Travel Limited

13 Stocks

	4 March 2000 **£000**	6 March 1999 £000
Raw materials and consumables	**257**	56

Notes *(continued)*

14 Debtors

	4 March 2000 £000	6 March 1999 £000
Amounts falling due within one year		
Trade debtors	**7,378**	8,863
Amounts owed by parent undertaking	**-**	1,172
Amounts owed by fellow subsidiary undertakings	**2,069**	158
Group relief receivable	**4,834**	6,189
Other debtors	**3,309**	3,281
Prepayments and accrued income	**11,160**	8,190
	28,750	27,853
Amounts falling due after more than one year		
Other debtors	**-**	25
Prepayments and accrued income	**7,021**	4,347
	7,021	4,372
Total debtors	**35,771**	32,225

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

15 Creditors

(a) Amounts falling due within one year

	4 March 2000 £000	6 March 1999 £000
Trade creditors	**23,567**	21,407
Amounts owed to parent undertaking	**13,749**	271
Amounts owed to fellow subsidiary undertakings	**-**	4,243
Other taxes and social security costs	**701**	648
Other creditors	**1,647**	392
Accruals and other deferred income	**1,113**	3,189
Deferred season ticket income	**419**	392
	41,196	30,542

(b) Amounts falling due after more than one year

	4 March 2000 £000	6 March 1999 £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.

Notes *(continued)*

16 Called up share capital

	Number of shares	**4 March 2000**	6 March 1999
		£	£
Ordinary shares of £1 each:			
Authorised	9,000,000	**9,000,000**	9,000,000
Allotted, called up and fully paid	1	**1**	1

17 Reserves

	Profit and loss account
	£000
At 6 March 1999	(560)
Retained loss for the year	(13,035)
At 4 March 2000	**(13,595)**

18 Reconciliation of movements in shareholder's funds

	4 March 2000	6 March 1999
	£000	£000
Loss for the financial year	**(13,035)**	(1,115)
Opening shareholder's funds	**(560)**	555
Closing shareholder's funds	**(13,595)**	(560)

19 Commitments

(a) The Company had no capital commitments at 4 March 2000 *(1999: £Nil)*.

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

	4 March 2000	6 March 1999
	£000	£000
Land and buildings		
Within one year	**42**	-
In the second to fifth years inclusive	**42**	-
After five years	**558**	550
	642	550
Other operating leases		
In the second to fifth years inclusive	**43,512**	29,849
After five years	**1,448**	13,899
	44,960	43,748

Notes *(continued)*

19 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 to commence from delivery of the first new train from 2001.

(d) Other commitments

Under the franchising arrangements the Company has agreed with the Office of Passenger Rail Franchising ("OPRAF") annual amounts receivable or payable in respect of the operation of the franchise for future periods. The amount progressively changes from £72.2 million receivable for the year ending 3 March 2001 to an amount payable of £9.6 million, 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 Agreement. The Company can apply to have the receipts raised in certain circumstances including adverse changes by the Regulator to the access charging regime. Changes can also be made if the Franchising Director amends the fares regulation formula in a way which adversely affects the Company.

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.

20 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. 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 4 March 2000, calculated in accordance with SSAP 24, was £745,000 *(1999: £654,000)*.

21 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 Limited and the Company's results are consolidated in its parent company financial statements.

22 Parent undertaking

At the year end, the parent undertaking of the smallest and largest group of undertakings for which group financial statements are drawn up is Virgin Rail Group Limited. This company was also the ultimate parent company at the year end. Copies of the Virgin Rail Group Limited consolidated financial statements can be obtained from its registered office, at 120 Campden Hill Road, London, W8 7AR.