CrossCountry Trains Limited

Directors' report and financial statements

1 March 2003

Company number 3007937

Contents

Directors' report

The Directors present their annual report and the audited financial statements for the year ended 1 March 2003. The previous financial year ended on 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.

Results for the year and business review

The profit and loss in the current year reflects the results of the Company for the year ended 1 March 2003.

The operating loss for the year was £36.6 million *(2002: £30.9 million).* The retained loss for the year of £31.6 million *(2002: £21.2 million)* has been taken to reserves. The Directors were satisfied with the overall financial performance of the Company in the year.

The operation of the Company has been affected during the year by significant disruption on the West Coast main line, due to major engineering works. At the same time, work has been continuing in introducing new trains and also bringing the long planned-for clockface timetable to reality. In parallel, negotiations have been continuing with the Strategic Rail Authority ("SRA") following the arrangements entered into with them on 19 July 2002 (the "July Arrangement") which came about primarily as a result of the uncertainties surrounding the West Coast Route Modernisation programme. The July Arrangement is supplemental to the Franchise Agreements, and established a basis for renegotiation of the franchise agreement, with a target date of March 2004. It also provided additional franchise support payments in the intervening period.

Punctuality started the year at 73%, but early problems with the new clockface timetable caused some degradation in performance. Punctuality recovered to 70% by 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 trains, which mitigates the risks of 'Signals Passed at Danger'. All new trains have TPWS fitted as standard and the fitment plans for the old trains are on target.

Directors' report *(continued)*

- Maintenance of a close safety partnership with Network Rail on the management of Possessions and Signal Sighting as route modernisation is undertaken through actively participating in planning and implementation.
- The use of Driver training simulators and introduction of interactive computer based training assessment tools for improved safety, training and off-line experience. New train simulators are being fully utilised in conversion training for drivers of the new trains.
- To promote the industry safety values throughout the Group and work with our suppliers to do the same. The core values are being introduced into training courses, job descriptions and Safety Responsibility Statements.

Franchise income

As well as the franchise support arising under the original Franchise agreement, the following support has arisen in the current year:

- Under the Office of the Rail Regulator's review of access charges, Network Rail's charges were increased across the industry with effect from April 2001. There has been a corresponding increase in franchise receipts, under the Franchise Agreements, to offset, on a no-gain no-loss basis, these additional access charges;

- Under the July Arrangement, CrossCountry was provided with £65.3 million of additional franchise support for the current year.

New Rolling Stock introduced in the year

During the year forty four new 'Super Voyager' trains which were brought into operation, completing the new fleet of trains which now stands at 78 'Voyagers'. In addition, the new clockface timetable was introduced in September 2002 bringing a more frequent service across the network. This, combined with the new trains, has improved the experience of passengers through better reliability, performance and comfort.

Future prospects

It is not yet clear when the franchise renegotiations envisaged under the July Arrangement will be concluded. Nevertheless, the directors are confident that the renegotiation will enable CrossCountry to move forward on a profitable basis and at the same time bring about significant performance improvement.

The July Arrangement provided additional franchise support payments to CrossCountry while the renegotiation of the terms of the current franchises is being undertaken. The July Arrangement provides the SRA with the option of re-tendering the CrossCountry franchise after February 2004. However, at the current time, the SRA has not indicated that it intends to exercise this option. For the year ending 28 February 2004, in accordance with the July Agreement, a budget including additional franchise support has been provided by the SRA.

The forty four new 'Super Voyager' trains which were brought into operation by CrossCountry during the year are currently running as non tilting trains. They will begin tilt operation once the safety approvals have been obtained and the infrastructure is made ready, anticipated to be September 2003.

Proposed dividend

The directors do not recommend the payment of a dividend *(2002: £Nil)*.

Directors and their interests

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

Chris Green
Chris Tibbits
Anthony Collins
Brenda Klug
Paul Griffiths
Sue Murphy

The directors are also directors of Virgin Rail Group Holdings Limited and any interest in the shares of Virgin Rail Group Holdings Limited and other group undertakings are disclosed in that company's financial statements.

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

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

Peter Gram
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.

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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 22.

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 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 1 March 2003 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP 4 July 2003

KPMG LLP
Chartered Accountants
Registered Auditor

Profit and loss account

Year ended 1 March 2003

	Notes	2003	2002
		£000	£000
Turnover	2	188,156	155,905
Franchise income	3	181,524	119,452
Other operating income	4	16,096	31,689
Train operating expenditure	5	(344,663)	(279,232)
Staff costs	6	(53,929)	(41,928)
Depreciation	12	(294)	(252)
Other operating charges		(23,489)	(16,531)
Operating loss	7	**(36,599)**	**(30,897)**
Other interest receivable and similar income	9	418	269
Interest payable and similar charges	10	(5,498)	(3,704)
Loss on ordinary activities before taxation		**(41,679)**	**(34,332)**
Tax on profit on ordinary activities	11	10,109	13,158
Loss on ordinary activities after taxation for the financial year		**(31,570)**	**(21,174)**

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

Balance sheet

As at 1 March 2003

	Notes	2003	2002
		£000	£000
Fixed assets			
Tangible assets	12	2,814	1,479
Current assets			
Debtors	14	46,013	38,524
Cash at bank and in hand		21,419	-
		67,432	**38,524**
Creditors: Amounts falling due within one year	15	**(160,448)**	**(99,138)**
Net current liabilities			
Due within one year		(101,311)	(69,985)
Debtors Due after more than one year	14	8,295	9,371
Total net current liabilities		**(93,016)**	**(60,614)**
Total assets less current liabilities		**(90,202)**	**(59,135)**
Creditors: Amounts falling due after more than one year	16	(9,508)	(9,000)
Provision for liabilities and charges	17	-	(5)
Net liabilities		**(99,710)**	**(68,140)**
Capital and reserves			
Called up share capital	18	-	-
Profit and loss account	19	(99,710)	(68,140)
Equity shareholder's funds	20	**(99,710)**	**(68,140)**

These financial statements were approved by the board of directors on 4 July 2003
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 and CrossCountry and the SRA. The July Arrangement is supplemental to the Franchise Agreements, and commits the SRA to provide certain additional franchise support payments, as well as establishing a basis for the renegotiation of both franchise agreements in light of the uncertainties surrounding the future availability of railway infrastructure, including in particular the West Coast Route Modernisation programme.

Further details regarding the July Agreement are contained in note 3, which explains the framework within which the franchise is currently being renegotiated. The outcome and timing of those franchise renegotiations will determine the basis upon which future franchise support is to be made available by the SRA, upon which both franchises are dependent in order to continue in operation. Concerning the year to 28 February 2004, the SRA has provided budgets to CrossCountry under which provisional support amounts are committed. Under the July Arrangement, CrossCountry may claim additional cash support for demonstrable cost overspends or revenue shortfalls against the SRA budgets. Notwithstanding the overall level of committed support from the SRA, uncertainties remain as to the required phasing of that support in order to meet peak cash requirements. However, the directors believe that the SRA will accede to an appropriate re-phasing of the support payment schedule.

As referred to in note 3, the SRA has the option to offer the CrossCountry franchise to other bidders with effect from March 2004, subject to a one year notice period.

On the above basis, and having regard to the status of continuing negotiations with the SRA, 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. Turnover originates wholly in the United Kingdom.

Passenger 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.

Notes *(continued)*

1 Accounting policies *(continued)*

Franchise agreements

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 received for service disruption under the performance regime provisions of the track access agreement with Network Rail has been recognised over the 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 10 years
Fixtures and fittings	- 3 to 10 years
Software development	- Up to 3 years

New train service arrangement costs

Under the franchise agreement, the company is required to operate faster and more frequent services on the West Coast Main Line and on many of the CrossCountry Trains Limited routes. In order to achieve this, contracts have been entered into to lease new trains. Direct costs associated with developing the contracted new train service arrangements are carried forward within prepayments and are being released to the profit and loss account in line with the new trains leases. Costs incurred prior to developing the contracted new train service arrangements were written off as incurred.

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

Track Access Costs

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

Notes *(continued)*

1 Accounting policies *(continued)*

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 23.

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.

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 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.

2 **Turnover**

	2003	2002
	£000	£000
Passenger revenue	179,143	147,597
Catering income	8,023	7,308
Other trading income	990	1,000
	188,156	**155,905**

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

Notes *(continued)*

3 Franchise income

	2003	2002
	£000	£000
Receipts per Franchise Agreements	58,101	75,335
Clause 18.1 franchise receipts	58,149	44,117
Additional franchise support	65,274	-
	181,524	119,452

Franchise Arrangements

Franchise income arises under the original Franchise Agreements between the SRA and CrossCountry as supplemented by the July Arrangement, which comprised a letter agreement between Virgin Rail Group Limited, West Coast, CrossCountry, and the SRA. Amongst other things, the July Arrangement specified entitlements to additional franchise support for the current year (see additional explanation below) as well as interim support arrangements for future periods whilst the franchise terms are being renegotiated. In that respect the framework for the franchise renegotiations involves the CrossCountry franchise to be renegotiated with effect from 1 March 2004, with franchise support adjusted accordingly. If no agreement is reached the franchise will be run 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 with effect from March 2004, subject to a one year notice period.

Franchise income for the year

As well as the franchise support set out within the original Franchise Agreements, the following further support as arisen in the current year:

- Under the Office of the Rail Regulator's review of access charges, Network Rail's charges have been increased across the industry. There has been a corresponding increase in franchise receipts under the Franchise Agreement to offset on a no-gain no-loss basis, these additional access charges;

- Under the July Arrangement, the Group was provided with £65.3 million of additional franchise support for the current year.

4 Other operating income

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

Notes *(continued)*

5 Train operating expenditure

	2003	2002
	£000	£000
Rolling stock costs	120,395	79,414
Track access costs	147,390	132,427
Station and depot access costs	20,000	19,249
Power costs	17,711	12,265
Other operating expenditure	39,167	35,877
	344,663	**279,232**

Also included within rolling stock costs for the year ended 1 March 2003 is a credit of £4.4 million *(2002 £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.

6 Staff numbers and costs

	2003	2002
	£000	£000
Wages and salaries	44,951	35,816
Social security costs	3,421	2,843
Other pension costs	2,210	1,132
Other staff costs	3,347	2,137
	53,929	**41,928**

The average number of persons employed by the Company during the year were:

	2003	2002
Management	123	110
Other Staff	1,418	1,122
	1,541	**1,232**

Notes *(continued)*

7 Operating loss

Profit on ordinary activities before taxation is stated after charging:

	2003	2002
	£000	£000
Auditors' remuneration:		
Audit fees	36	35
Other services	36	4
Depreciation	294	252
Operating lease rentals:		
- hire of plant and machinery	70,015	49,440
- other operating leases	9,735	9,447

8 Remuneration of directors

	2003	2002
	£000	£000
Aggregate emoluments of directors	646	369
	646	**369**

	2003	2002
Retirement benefits are accruing for the following directors under:		
Defined benefit schemes	2	2

The aggregate emoluments of the highest paid director were £439,000 *(2002: £189,000)*. 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 £61,018 *(2002: £56,551)* with an accrued lump sum of £37,034 *(2002: £34,133)*.

Notes *(continued)*

9 Other interest receivable and similar income

	2003	2002
	£000	£000
Bank interest	418	269
	418	**269**

10 Interest payable and similar charges

	2003	2002
	£000	£000
Group undertakings	5,497	3704
Other	1	-
	5,498	**3,704**

11 Taxation

The taxation credit comprises:

	2003	2002
	£000	£000
UK Corporation Tax		
Current tax on income for the period	12,053	11,009
Adjustments in respect of prior periods	(1,939)	2,144
Current tax credit for the year	10,114	13,153
Deferred tax (see note 17):		
Originating / reversal of timing differences	-	751
Adjustment in respect of prior years	(5)	(746)
	10,109	13,158

Factors affecting the tax credit for the period

The current tax credit is lower (2002: higher) than the standard rate of corporation tax in the UK.

Notes *(continued)*

11 Taxation *(continued)*

The differences are explained below

	2003	2002
	£000	£000
Current tax reconciliation		
Loss on ordinary activities before tax	41,679	34,332
Current credit tax at 30 % (2002: 30 %)	12,504	10,300
Effects of:		
Expenses not deductible for tax purposes	(560)	(37)
Capital allowances for period in excess of depreciation	109	52
Adjustments to tax charge in respect of prior years	(1,939)	2,144
Other short term timing differences	-	694
Total current tax credit (see above)	10,114	13,153

12 Tangible fixed assets

	Plant, equipment, fixtures and fittings
	£000
Cost	
At 2 March 2002	2,291
Additions	1,629
At 1 March 2003	3,920
Depreciation	
At 2 March 2002	812
Charge for year	294
At 1 March 2003	1,106
Net book value	
At 1 March 2003	2,814
At 2 March 2002	1,479

Notes *(continued)*

13 Fixed asset 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

	2003	2002
	£000	£000
Amounts falling due within one year		
Trade debtors	7,697	12,125
Other debtors	5,609	6,239
Group relief	12,053	-
Prepayments and accrued income	12,359	10,789
	37,718	**29,153**
Amounts falling due after more than one year		
Prepayments	8,295	9,371
	46,013	**38,524**

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

15 Creditors: amounts falling due within one year

	2003	2002
	£000	£000
Bank overdraft	-	2,530
Trade creditors	27,319	13,088
Amount owed to parent undertaking	91,490	51,877
Amount owed to fellow subsidiary undertaking	3,849	3,091
Corporation tax	709	656
Other taxes and social security costs	2,309	1,200
Other creditors	7,035	3,518
Accruals and other deferred income	27,045	22,734
Deferred season ticket income	692	444
	160,448	**99,138**

Notes *(continued)*

16 Creditors: amounts falling due after more than one year

	2003	2002
	£000	£000
Amount owed to parent undertaking	9,000	9,000
Obligations under finance leases	508	-
	9,508	**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.

17 Provisions for liabilities and charges

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

	£000
As at 2 March 2002	5
Transfers to profit & loss account	(5)
As at 1 March 2003	-

	2003	2002
	£000	£000
Accelerated capital allowances	(92)	(5)
Tax losses carried forward	92	-
	-	(5)

A deferred tax asset of £4.5m 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.

18 Called up share capital

	2003	2003	2002	2003
	Number	£	Number	£
Ordinary shares of £1 each:				
Authorised	9,000,000	9,000,000	9,000,000	9,000,000
Allotted, called up and fully paid	1	1	1	1

Notes *(continued)*

19 Reserves

	Profit and loss account
	£000
At 2 March 2002	(68,140)
Retained loss for the year	(31,570)
At 1 March 2003	**(99,710)**

20 Reconciliation of movements in shareholder's funds

	2003	2002
	£000	£000
Loss for the financial year	(31,570)	(21,174)
Opening shareholder's funds	(68,140)	(46,966)
Closing shareholder's funds	**(99,710)**	**(68,140)**

21 Commitments

(a) The company had capital commitments of £20,000 at 1 March 2003 *(2002: £Nil).*

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

	2003	2002
	£000	£000
Land and buildings		
Within one year	13	13
In the second to fifth years inclusive	286	286
After five years	89	89
	388	**388**
Other operating leases		
Within one year	12	974
In the second to fifth years inclusive	26,442	21,602
After five years	45,048	37,510
	71,502	**60,086**

Notes *(continued)*

21 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) Under the Franchise Agreement and the July Arrangement (see note 3) there is a requirement for CrossCountry to comply with certain performance and other obligations.

22 Contigent Liabilities

CrossCountry guarantees the liabilities for unremitted monies to the Rail Settlement Plan held by Trainline.com Limited.

23 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 subsidiaries' sections of the RPS was undertaken at 31 December 2001 using the projected unit method. It was assumed that the investment return would be 6.3% per annum in respect of new money invested, and 5.6% per annum in respect of existing assets, and that future salary increases would be 4.0% per annum. Present and future pensions were assumed to increase at 2.5% per annum. The assets of the sections were taken at their market value, which at 31 December 2001 amounted to £62,200,000 (including an additional employer contribution of £400,000 made early in 2002) for CrossCountry Trains Limited. The market value of the assets as a percentage of the value of accrued benefits (allowing for projected salaries) was 93%. Given the deterioration in the market value of the sections since 31 December 2001, no surplus has been taken into account when assessing the variation element of the pension cost.

The pensions charge for CrossCountry included in the parent company group accounts for the period ended 1 March 2003, calculated in accordance with SSAP 24, was £3,330,000 *(2002: £2,419,000)*.

FRS 17 Additional Disclosures

Financial Reporting Standard 17 ("Retirement Benefits") came into effect for accounting periods ending on or after 22 June 2001. Compulsory adoption of the new standard has been delayed and it now applies for accounting periods starting on or after 1 January 2005. Until then the following additional transitional disclosures are required. The results of the last formal valuation of the section were updated by a qualified actuary in order to estimate the financial position of the section as at 1 March 2003. The major actuarial assumptions used by the actuary were:

	2003	**2002**
Rate of increase in salaries	3.90%	4.00%
Rate of increase in pensions in payment and deferred pensions	2.40%	2.50%
Discount rate	5.60%	5.75%
Inflation assumption	2.40%	2.50%

*plus 0.75%pa promotional salary scale

Notes *(continued)*

23 Pension Scheme *(continued)*

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

The fair value of 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:

	2003	2003	2002
	Expected rate of return	**Fair value**	**Fair value**
Fair value of assets	**% pa**	**£000**	**£000**
Equities	8.60%	43,200	51,900
Bonds	5.20%	5,400	6,200
Property	6.90%	3,700	3,400
Other	3.90%	200	-
Total market value of assets	8.10%	52,500	61,500
Total value of Section liabilities		(62,700)	(61,400)
(Deficit) / surplus		(10,200)	100
(Deficit) / surplus recognised by company		(10,200)	100
Related deferred tax asset / (liability) (at 30%)		3,100	(30)
Net pension (liability) / asset		(7,100)	70

The amount of this net pension (liability)/asset would have a consequential effect on reserves if it had been recognised in these accounts
The Company's share of the net pension asset which would be recognised in the Company's balance sheet as at 1 March 2003 if FRS17 had been adopted in full would be as follows:

	2003	2002
	£000	**£000**
Net assets excluding pensions	(99,710)	(68,140)
Pensions	(7,100)	70
Net assets including pensions	(106,810)	(68,070)
Profit and loss reserve excluding pensions	(99,710)	(68,140)
Pensions	(7,100)	70
Profit and loss reserve including pensions	(106,810)	(68,070)

Notes *(continued)*

23 Pension Scheme *(continued)*

If FRS 17 had been fully adopted, the amounts included in the financial statements would have been as follows:

(i) Analysis of amounts charged to operating profit

	£000
Current service cost	3,600
Total charged to operating profit	3,600

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

	£000
Interest on pension Section liabilities	2,300
Expected return on Section assets	(2,900)
Net credit to other finance income	(600)

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

	£000
Actual return less expected return on Section assets	(11,000)
Experience gain/(loss) arising on Section liabilities	1,800
Changes in assumptions underlying the present value of Section liabilities	(400)
Actuarial loss recognised in statement of total recognised gains and losses	(9,600)

(iv) Movement in deficit / surplus during the year on an FRS 17 basis was as follows:

	£000
Surplus at the beginning of the year	100
Current service cost	(3,600)
Contributions paid	2,300
Other finance income	600
Actuarial gain/(loss)	(9,600)
(Deficit) at the end of the year	(10,200)

(v) Experience gains and losses	**% of Section assets/liabilities**	**2003**
		£000
Difference between actual and expected return on Section assets	21.00%	(11,000)
Experience gain on Section liabilities	2.90%	1,800
Total actuarial loss recognised in STRGL	15.30%	(9,600)

Notes *(continued)*

24 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.

25 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.