GB Railways Group Plc

Annual Report 2002

Contents

Highlights

GB Railways Group Plc owns passenger and freight railway businesses in Britain. The Company is actively pursuing other opportunities in passenger and freight railway businesses in the UK and overseas.

ANGLIA RAILWAYS

Anglia Railways Train Services Limited is a wholly owned subsidiary of GB Railways. It holds a franchise to operate passenger train services in Eastern England, including the mainline service from London to Ipswich and Norwich and connecting local services in East Anglia. The Anglia Railways franchise currently expires 1 April 2004.

GB RAILFREIGHT

GB Railfreight Limited has been established to provide rail freight services in Britain. It carries materials for Railtrack Plc and containers for Medite Shipping Company Limited pursuant to long term agreements and provides short-term services on an ad-hoc basis for a variety of customers. GBRf is actively pursuing other freight opportunities.

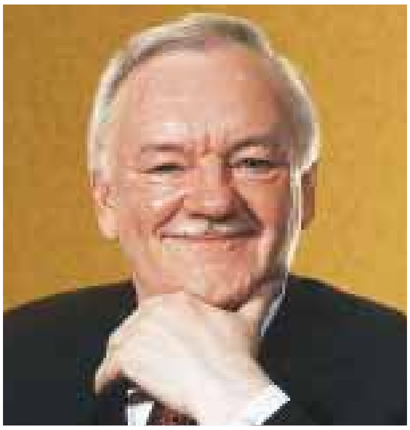
HULL TRAINS

GB Railways holds an 80% interest in Hull Trains Company Limited, which operates services between London Kings Cross and Kingston-upon-Hull. It has recently received approval to extend its track access rights to 2010.

Financial Summary		Year to 31 March 2002	Year to 31 March 2001 Restated
Turnover		**£75.8m**	£87.4m
Comprising			
● *Passenger and other income*		*£81.4m*	*£68.3m*
● *Payments (to)/from the SRA*		*(£5.6m)*	*£19.1m*
Loss before tax		**£1.2m**	£3.3m
Loss after tax		**£1.3m**	£2.6m
Shareholders' funds at end of year	– total	**£4.3m**	£5.6m
	– per share	**49.2p**	64.0p
Loss per share		**14.8p**	29.6p
Shares in issue (weighted average)		**8,750,000**	8,750,000
Shares Listing		The Alternative Investment Market of the London Stock Exchange	

business forward

Chairman's Statement and Review of Operations



Allen Sheppard, Chairman

> ***"The future outlook, both for our Group and for the industry, is more positive than it has been for some time."***

I am pleased to provide my report for the year ended 31 March 2002. The Group has made significant progress in the last year and the future outlook, both for our Group and for the industry, is more positive than it has been for some time. The Group has continued to broaden its base of operations with the continued development of GB Railfreight and Hull Trains. These two businesses have now passed through their start-up stage and have significant growth and potential value for shareholders.

Results

For the year ended 31 March 2002 the Group incurred a pre-tax loss of £1.2m (2001 – loss £3.3m). The loss was primarily due to the trading of the Anglia Railways franchise, which remained below market expectations in the aftermath of the Hatfield accident. However, the loss was significantly less than expected due to the effects of an amendment to the Anglia Railways franchise agreement, completed near the year-end. GB Railfreight was profitable and traded above expectations. Hull Trains suffered a loss, although it has now recovered well from the aftermath of Hatfield, and it is expected to move into operating profit in the near future.

Anglia Railways has relaunched their catering service, generating increased revenues.

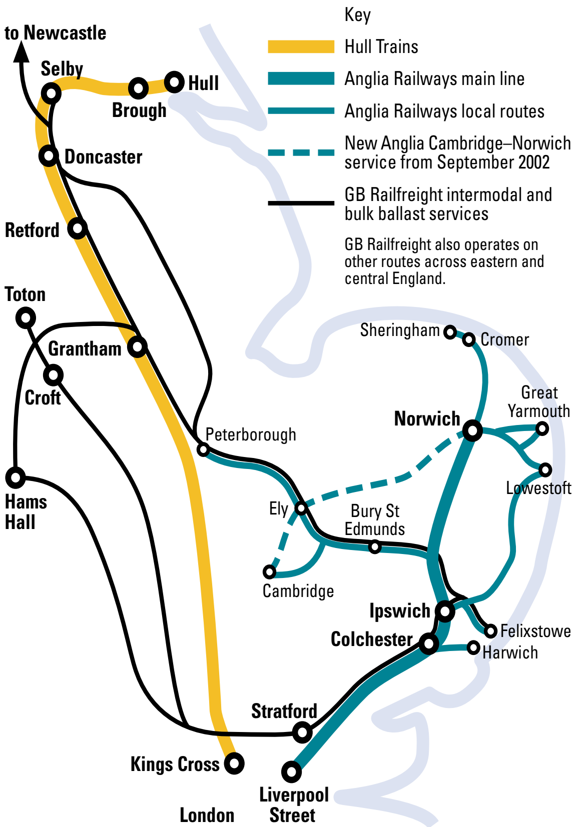
Excluding subsidy and premium payments, revenues for the year ended 31 March 2002 were £81.4m (2001 – £68.3m).

Two significant matters impacted on the results in the year.

First, as a result of a Regulatory review which took effect at the beginning of the financial year, Anglia Railways' track access payments to Railtrack were substantially reduced. Under our franchise agreement any change resulting from a Regulatory review is offset on a "no net gain, no net loss" basis by equivalent changes to the subsidy payment. Consequently, before the effects of the financial restructuring of Anglia Railways described below, the Group would have paid premiums to the Strategic Rail Authority ("SRA") of £9.4m compared to receiving a subsidy of £19.1m in 2001.

Second, near the end of the year the Group executed a Deed of Amendment to its Franchise Agreement for Anglia Railways. Under the terms of the Deed of Amendment the SRA made additional payments in the year of £3.8m to eliminate Anglia Railways' negative net worth and ensure that it traded at a break-even level. The Deed of Amendment provides that the SRA will ensure Anglia Railways continues to break-even until the end of the franchise.
The result of the payments under the Deed of Amendment and the effect of the no net gain, no net loss provisions relating to the Regulatory

Anglia Railways Customer Service Office in the refurbished Norwich Station.



review, meant that in the year the Group paid a net premium to the SRA of £5.6m.

The results also include the benefit of an ex-gratia payment of £1.9m received from Railtrack in respect of extra-contractual claims arising from the Hatfield accident that occurred in October 2000. The loss per share for the year was 14.8p (2001 restated loss – 29.6p). The Directors are not recommending the payment of a final dividend, nor was an interim dividend paid (2001 – nil).

When we issued our preliminary results on 18 June we stated that we were pursuing compensation for business interruption from our insurers due to the Hatfield accident. I am pleased to report that our claim has now been settled and will have a pre-tax benefit of 6p per share in the current year ending 31 March 2003.

Anglia Railways

Anglia Railways continued to suffer the ensuing consequences of the Hatfield accident, with passenger income in the first six months of the year showing no growth compared to the same period the year before. Toward the end of the summer we had started to see renewed growth in all sectors of our market but this stalled following the events of 11 September 2001, which had the effect of deterring passengers, particularly those taking long-distance journeys, for a couple of months. We have since seen growth return. Passenger revenue for the year at £63.9m is 6% higher than in 2001 (£60.3m). This reflects 4% growth on the Norwich to London mainline route and 15% on the local services. The very strong growth in the local services reflects Anglia's commitment to the region and the continued development of these services.

The Anglia Railways' team continues to pursue opportunities to enhance the Anglia Railways franchise. With the support of the SRA's Rail Passenger Partnership ("RPP") Programme we increased weekday services between Ipswich and Cambridge/Peterborough, and an additional service between Norwich and Cromer was introduced. Winter Sunday services between Ipswich and Felixstowe were also re-instated for the first time since the 1960's.

On 30 September 2002, Anglia Railways will launch an hourly service between Cambridge and Norwich. This is funded with the largest RPP grant to any operator. We are leasing four additional trains for this service.

During the year we completed installation of cycle parking at all our stations, under a £75,000 programme funded by the SRA, local authorities and Railtrack. We also produced a new cycle information leaflet and cycle users web site. Our initiatives were recognised when Anglia Railways was named Best Train Operator in the Cycle Mark 2001 awards.

Stations, too, enjoyed targeted upgrades. A new £3.2m multi-storey car park at Ipswich, financed by Railtrack, opened on time and on budget. The new car park has been well received, with occupancy exceeding expectations.

We also completed the extension to the car park at Stowmarket and opened a new ticket-office at London Liverpool Street Station. Our popular and successful telephone sales office at Norwich was expanded, with the installation of new equipment.

The Anglia Railways team was delighted to receive the 2002 Association of Train Operating Companies award for Innovation in Customer Service and, jointly with Norfolk County Council, the HSBC / Rail Business Integrated Transport award (where Anglia Railways was also runner up as Train Operator of the Year). This follows on from last year when Anglia Railways was named both UK and European Train Operator of the Year.

In the most recent six monthly report published by the SRA on train operator performance, Anglia Railways received the best rating by passengers of any train operator on the UK mainland, with an overall customer satisfaction rating of 90% (against a national average of 73%).

"Our objective is to continue to build a substantial freight operation and acquire a significant percentage of the total market."

We have recruited more than 35 train managers to operate our growing fleet of modern freight locomotives.

GB Railfreight

GB Railfreight's initial year of operation was very successful. Our objective is to continue to build a substantial freight operation and acquire a significant percentage of the total market, which we believe will continue to grow as the Government pursues its 10-year objective to increase rail freight traffic by 80%.

As new entrants into the Railfreight business our GBRf Train Managers are turning heads in the industry, and not just because they proudly wear suits and ties! They have established a reputation for unparalleled service, routinely exceeding customer expectations while performing to the most exacting standards. We are confident that this business will continue to thrive and expand.

GBRf commenced trading on 31 March 2001 providing haulage services to Railtrack under an 8-year contract. GBRf also began performing short-term work for other customers on an ad-hoc basis. In February 2002 GBRf entered into the inter-modal business, with a 5-year agreement to haul containers for The Medite Shipping Company between the Port of Felixstowe and terminals at Selby (in Yorkshire) and Hams Hall (near Birmingham).

Currently, the Medite contract calls for 5 services a week. This is expected to increase to 10 services a week within the next few months, when additional locomotives, wagons and enhanced infrastructure are available.

The additional short-term work, good performance and inter-modal business has meant that GBRf exceeded expectations with a pre-tax profit of £0.7m compared to last year's start up loss of £1.0m.

"Hull Trains . . . is another example of the hard work and innovation that our team has invested to develop our business."

New hardware has improved productivity in Anglia's telesales centre.

In October 2001, the Rail Regulator completed his review of rail freight access charges, reducing these by about half with a more transparent "tariff" charging structure. The SRA published its Freight Strategy, with plans to introduce a company-neutral freight grant scheme. Both decisions will increase the potential for use of freight by rail.

With the success of GBRf, we have ordered five more locomotives for delivery in 2002, similar to the seven we already have in service. With a fleet of efficient locomotives, a skilled and dedicated team, and a favourable regulatory regime, we are well placed to win more contracts.

Hull Trains

Hull Trains is our 80% owned open access passenger business, operating 26 round trip services each week between London's Kings Cross Station and Hull. While sustaining a start-up loss of £1.0m last year and enduring the effects of the Hatfield accident which led to a further loss of £0.6m this year, revenues are now growing rapidly and we expect the operation to cross over into operating profit in the next few months.

The Regulator has recently indicated his approval to an extended track access agreement to 2010. This allows us to lease faster and higher-capacity rolling stock, which translates into higher revenue. It may also allow us to secure additional routes, further enhancing profitability. While the new rolling stock will have higher lease charges, this will be offset in part by a significant reduction in track access charges. All in all, this means that Hull Trains should grow increasingly profitable in the coming years. With our partners in Hull Trains, we will have created a new and valuable rail service, outside of the franchised rail process and without any Government subsidy.

In performance terms, Hull Train's punctuality is the best in the industry for long distance, high-speed operators. Hull Trains was a runner up at the 2002 Rail Innovation Awards and was short listed for the East Riding Council's Chairman's Award for supporting economic development in the Yorkshire area.

As with our other businesses we are very proud of the accomplishments of the Hull Trains team. It is the only new open access operator conceived and introduced since commencement of the privatisation process and is another example of the hard work and innovation that our team has invested to develop our business.

Estonia

Our minority interest in Edelaraudtee AS, a passenger and freight railway operation in Western Estonia, continues to operate satisfactorily. We earned net management fees of approximately £0.09m last year (2001 – £0.04m). Our net investment in Edelaraudtee AS is £0.07m. While the financial impact on the Group is not material, our involvement may lead to other opportunities in the vast rail systems of Eastern Europe and Central Asia.

East West Rail

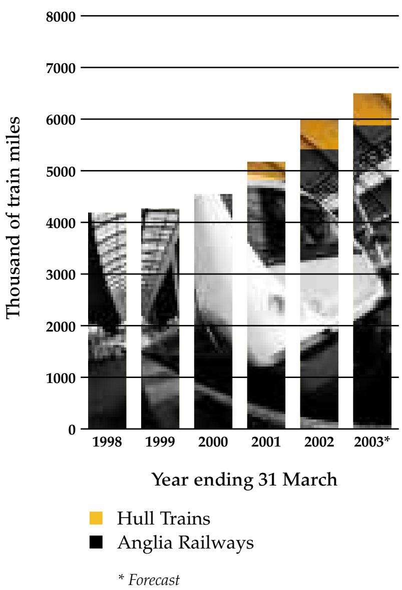
We continued to work with our partners, the East West Rail Consortium (comprising more than 30 local authorities) and Skanska Construction UK Limited, to develop this scheme for a rail link between Cambridge and Oxford. Potential alignments have been worked up in detail, and a business case will be submitted to the SRA in the near future.

Safety

Safety is an area where we will never become complacent. It remains an absolute priority and is continuously

GBRf locomotive hauling containers out of Hams Hall Euroterminal bound for Felixstowe.

Growth of GB Railways Passenger Train Services



monitored and reviewed by management. We actively participate in the Rail Industry Safety Group and continue to work with Railtrack and other industry participants to enhance performance and improve safety.

Franchise Bidding

The SRA published its Strategic Plan in January 2002. This confirmed its intention to combine the Anglia franchise with the West Anglia routes and the Great Eastern franchise, to form the Greater Anglia franchise. The SRA will commence the Greater Anglia franchising process this summer. We expect the process to take about 12 months, with a preferred bidder or winner announced in the autumn of 2003. The new franchise is expected to be for a term of 15 years, with five-yearly reviews. Pursuant to our Deed of Amendment, the SRA can terminate the Anglia Railways franchise any time after March 2003, upon six months notice, for the purpose of facilitating the creation of the Greater Anglia franchise. Otherwise, the Anglia Railways franchise terminates 1 April 2004.

In March 2002, the Group launched a major consultation exercise in preparation for the new Greater Anglia franchise. We have also begun discussions with potential partners for the Greater Anglia franchise.

The SRA has also commenced bidding for the new Wales & Borders franchise. GB Railways is one of eight pre-qualified bidders. Since the publication of the preliminary announcement of results on 18 June, we have submitted our indicative bid. We also said we had expected to join up with a partner for this franchise, which we did. We announced on 12 July that we had joined forces with Connex Transport UK Ltd which is the world's largest private sector passenger rail company with considerable financial strength.

The Future

With the expectation of profits in the current year, continued growth in our two non-franchised businesses and the potential of securing additional franchises we remain optimistic for the future.

On 23 October 2001 we announced that we were in preliminary discussions with a number of parties that could ultimately lead to a bid for, or investment in, the Company. Since then, the Company has held a number of discussions but none of these have resulted in a firm indication of an offer being made and at the date of the release of our preliminary announcement on 18 June the Directors terminated discussions with all parties regarding a bid for, or investment in, the Company. At that point the Directors no longer considered the Company to be in an offer period as defined by the City Code on Takeovers and Mergers.

As a consequence of having been in an offer period, we were restricted in our ability to provide comment and disclosure about the Company's prospects. The result of the offer period disclosure restrictions, we believe, was that the share price did not reflect a true value of the Company.

Specifically, the Directors did not feel that the shareholders or the market were aware that:

- the current net asset value of the Group is approximately 49p a share. Of this, £3.25m is in cash required to collateralise the Performance Bond for Anglia Railways, and, subject to the Franchise not being terminated for non-performance, will be released in full when the current franchise is terminated;

Anglia Railways' website now includes real-time train running information.

Anglia Railways has won an array of national awards including the Association of Train Companies award for 'Innovation in Customer Service' at the 2002 Railway Industry Innovation Awards.

- under the terms of the Deed of Amendment for Anglia Railways, the Company is paid performance-related management fees which are expected to total almost £3m over the next two years;
- the Directors expect the Group to trade profitably this year;
- with the Regulatory approval of the long term access agreement for Hull Trains the value of Hull Trains has substantially increased;
- GB Railfreight already has long term contracts, and will have significant and sustainable value as it develops further over the next few years.

At the time of the preliminary announcement, we stated that if they were permitted to do so, the Directors and senior management would seek to increase their personal holdings if the shares remained at or near their current price. This they did, acquiring an additional 6% of the outstanding shares of the Group on 28 June.

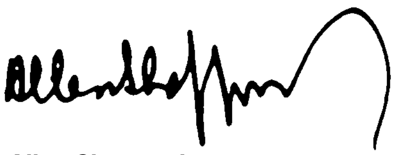
Although we have terminated bid discussions, we continue discussions with potential partners for the Greater Anglia franchise, amongst other opportunities.

On 10 July, the parent company of Freightliner Ltd, a competitor to our GB Railfreight operation, released a statement saying that they were considering ways in which a combination of its railfreight business with that of GB Railways might be achieved which could include, amongst other things, an offer for the Group in combination with another party.

We immediately responded to this statement by saying that we had not received any formal approach from Freightliner's parent and nor were we in discussions with them or any other party regarding the sale of GB Railfreight or any other part of the Group.

The Group is therefore back in an offer period. We will keep shareholders informed if this situation progresses.

We continue to take great pride in the accomplishments of Anglia Railways, Hull Trains and GB Railfreight. The past year was another uncertain and difficult one for the industry. It is a credit to the more than 800 individuals that work within the Group to have grown their operations under such uncertain conditions. As always, on behalf of the Board and Shareholders I would like to express our appreciation for their continuing efforts and contribution.



Allen Sheppard
Chairman

23 July 2002

Usage of our new £3.2 million Ipswich car park is exceeding expectations.

Directors and Senior Management

The Board comprises:

Lord Sheppard of Didgemere KCVO Kt

Chairman, GB Railways Group Plc

Lord Sheppard was a director of Grand Metropolitan Plc from 1975, Chief Executive from 1986 until 1994, and Chairman from 1987 until his retirement in 1996. He has held many non-executive positions including serving as a Director of the British Railways Board from 1985 to 1990. He was made Life Peer in 1994. He is currently President of London First, where he has taken a particular interest in transport matters. Aged 69.

Jeremy Long

Deputy Chairman and Chief Executive, GB Railways Group Plc, Chairman Anglia Railways Train Services Limited, Chairman of GB Railfreight Limited and Director of Hull Trains Company Limited

Mr Long has held a range of senior positions in consumer hospitality and service businesses. Mr Long became an executive director of the Company in June 1998, having previously acted in a non-executive capacity. Mr Long is a Chartered Accountant. Aged 49.

Max D Steinkopf

Executive Director and Company Secretary GB Railways Group Plc, Company Secretary Anglia Railways Train Services Limited, Director of GB Railfreight Limited and Director and Assistant Secretary Hull Trains Company Limited

Mr Steinkopf is a commercial lawyer, qualified to practice in Ontario, Canada and the State of New York and has wide business experience. He takes lead responsibility for the implementation of major investment initiatives. Aged 46.

Michael Schabas

Director, GB Railways Group Plc, GB Railfreight Limited and Hull Trains Company Limited

Mr Schabas is a consultant who has shaped several major rail projects including Docklands Light Railway, Jubilee Line Extension, West Coast Main Line modernisation, Channel Tunnel Rail Link and Vancouver Skytrain. He has a Masters degree in Transport Policy from Harvard University. Mr Schabas provides strategic advice on operational and expansion strategy. Aged 45.

Richard Drake

Finance Director, GB Railways Group Plc and Anglia Railways Train Services Limited and Director, Hull Trains Company Limited

Mr Drake is a Chartered Management Accountant. He was previously Finance and Commercial Director of Tulip International (UK) Ltd. Aged 45.

Senior management includes:

Timothy Clarke

Managing Director, Anglia Railways Train Services Limited

Formerly Commercial Director of Anglia Railways, Mr Clarke has 27 years' experience in British Rail and Anglia Railways. He has a degree in Business Studies. Aged 46.

Jonathan Denby

Corporate Affairs Director, Anglia Railways Train Services Limited

Mr Denby has 13 years' experience with British Rail and Anglia Railways. He has a degree in Transport Management and Planning and a Masters degree in Business Administration. Aged 34.

John Ellis

Non-Executive Director, Anglia Railways Train Services Limited and GB Railfreight Limited

Mr Ellis is a consultant with 37 years' experience in the privatised UK Rail industry, British Rail and Railtrack, where he held a variety of senior appointments including Managing Director ScotRail, and Production Director Railtrack. He is a fellow of the Institute of Logistics and Transport. Aged 64.

Jim Morgan

Managing Director, Hull Trains Company Limited and Director, Anglia Railways Train Services Limited

Mr Morgan is a senior railway executive with 28 years' experience in the privatised UK Rail industry, British Rail and Railtrack where, among his positions, he was Director - London Projects. Mr Morgan has a First in Civil Engineering from the University of Newcastle-Upon-Tyne, and received an MBA from Strathclyde University. He is a Chartered Engineer. Aged 54.

Elizabeth Mullen

Sales & Marketing Director, Anglia Railways Train Services Limited

Miss Mullen has 13 years' experience in British Rail, Scotrail and Anglia Railways. She has a degree in Marketing. Aged 36.

Mark Pickersgill

Operations Director, Anglia Railways Train Services Ltd

Mr Pickersgill has 23 years' experience in British Rail and Anglia Railways. He has a Higher National Diploma in Engineering and is completing his MBA at Durham University. Aged 40.

John Smith

Managing Director, GB Railfreight Limited and Director, Anglia Railways Train Services Limited

Formerly Deputy Managing Director of Anglia Railways, Mr Smith has 25 years' experience in British Rail and Anglia Railways. He has a degree in Mechanical Engineering and is a Chartered Engineer. Aged 41.

Stephen Taylor

Human Resources Director, Anglia Railways Train Services Limited

Mr Taylor has over 21 years' business experience across varying industry sectors. He holds a degree in Human Resources Management and is a fellow of the Institute of Personnel and Development. Aged 49.

Company Information

Directors

Lord Sheppard of Didgemere
Independent Non-Executive Chairman

Jeremy Long
Deputy Chairman & Chief Executive

Max D Steinkopf
Executive Director & Company Secretary

Richard Drake
Finance Director

Michael Schabas
Non-Executive Director

Registered Office

15-25 Artillery Lane,
London E1 7HA

Nominated Adviser

Investec Henderson Crosthwaite,
2 Gresham Street,
London EC2V 7QP

Nominated Broker

WestLB Panmure Limited,
New Broad Street House,
35 New Broad Street,
London EC2M 1NH

Bankers

The Royal Bank of Scotland plc,
24 Grosvenor Place,
London SW1X 7HP

Solicitors

Theodore Goddard,
150 Aldersgate Street,
London EC1A 4EJ

Goodman Derrick,
90 Fetter Lane,
London EC4A 1PT

Auditors

BDO Stoy Hayward,
8 Baker Street,
London W1U 3LL

Registrars

Northern Registrars Limited,
Northern House,
Penistone Road,
Fenay Bridge,
Huddersfield,
West Yorkshire HD8 0LA

Company number

3263210

Report of the Directors

for the year ended 31 March 2002

The Directors present their report together with the audited financial statements for the year ended 31 March 2002.

Principal activities

The Group's principal activities are the acquisition, development and operation of railway businesses. The Company operates in the UK through its wholly-owned subsidiaries, Anglia Railways Train Services Limited and GB Railfreight Limited. It also has an 80% shareholding in Hull Trains Company Limited.

A review of the Group's operations during the year, together with an indication of future prospects, is included in the Chairman's Statement.

Results and dividend

The results for the year are set out on page 18. Revenues, excluding franchise subsidies and premiums for the year ended 31 March 2002 were £81,358,000, a 19% increase over the prior year (2001 - £68,347,000). Losses before tax reduced to £1,238,000 (2001 - loss £3,300,000).

The loss was primarily due to the continued aftermath of Hatfield with both Anglia and Hull Trains revenues behind expectations had the accident not happened and the subsequent speed restrictions not been implemented.

In the case of Anglia the ongoing loss of passenger revenue meant that we could not continue to trade the franchise without additional support from the SRA. In March 2002 we signed a Deed of Amendment to the Anglia Franchise Agreement that provided £3.8m additional subsidy in the outgoing year. The Deed of Amendment ensures that Anglia will trade at breakeven for the rest of the franchise term with the possibility of an incentive payment at termination.

Hull Trains continued to make losses, albeit on a reducing basis as revenue recovered and growth returned. We now expect Hull to trade profitably at an operating level from June 2002 based on this continued growth and improved journey times in the Summer 2002 timetable.

GB Railfreight's first year of full operation was an unqualified success, exceeding its budgeted profit and establishing a good reputation for the quality and consistency of service.

The Directors do not recommend the payment of a final dividend (2001 – nil per share) nor was an interim dividend paid (2001 – nil per share) giving a total dividend for the year of nil per share (2001 – nil per share).

Going concern

After making enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Directors and their interests

Details of Directors who served during the year are noted on page 10. An Annual General Meeting of the Company will be held on 21 August 2002 at which certain Directors will retire by rotation and, being eligible, will offer themselves for re-election.

The beneficial interests of the Directors in the shares of the Company were:

	As at 31 March 2002		As at 31 March 2001	
Lord Sheppard of Didgemere	**215,000**	**2.5%**	215,000	2.5%
Jeremy Long	**390,000**	**4.5%**	390,000	4.5%
Michael Schabas	**600,000**	**6.9%**	600,000	6.9%
Max D Steinkopf	**580,000**	**6.6%**	580,000	6.6%
Richard Drake	**–**	**–**	–	–

The Directors have no interest in the shares of any other Group company.

No Director had any contract or arrangement of significance with a Group undertaking during the year. The Company maintains liability insurance for directors and officers of Group companies.

Directors' remuneration

All matters relating to the remuneration of the executive Directors are determined by the Remuneration Committee, which is chaired by Lord Sheppard and also comprises Jeremy Long and Max D Steinkopf. The objective of the Remuneration Committee is to ensure that the executive Directors are both highly motivated and fairly rewarded for their contribution to the Group's overall performance having due regard to the interests of shareholders, the overall remuneration structure within the Group and practices adopted by comparator companies. The Remuneration Committee considers all elements comprising executive remuneration, including basic salary, performance-related bonus, share option scheme grants, pension provision, benefits-in-kind and service agreement terms.

The executive Directors are each paid an annual salary which is open to annual review on 1 April each year. In addition, certain Directors participate in a performance-related bonus arrangement, paid at the discretion of the Committee. Pension benefits and benefits-in-kind are awarded as considered appropriate by the Committee. The non-executive Directors' fees are determined by the Board, with the non-executive Directors taking no part in the deliberations. The remuneration of the Directors who served during the year is set out in note 6 to the accounts on page 25.

The Directors participate in one or more of the Group's share option schemes. The Approved Share Option Scheme 1998 and the Unapproved Share Option Scheme 1998 both incorporate performance target requirements which must be achieved before the exercise of the share option is permitted. The performance targets are set by the Remuneration Committee in respect of each grant of options. The performance targets for options issued to date are that there must be an increase in total shareholder return cumulatively over any three consecutive years of at least 9 percentage points more than the Retail Price Index. In addition to the above schemes, Directors may participate in the Shadow Share Scheme 1997, which incorporates similar performance targets as for the share option schemes. Rights under all schemes can only be exercised after a minimum of three years, except in the event of a change of control or in certain exceptional circumstances.

	J P W Long		M D Steinkopf		M H Schabas		R Drake			
	Number granted	*Exercise price (p)*	*Number granted*	*Exercise price (p)*	*Number granted*	*Exercise price (p)*	*Number granted*	*Exercise price (p)*	*Market value at date of grant (p)*	*Period of exercise*
Approved Share Option Scheme 1998										
Brought forward	14,457	207.5	14,457	207.5	–	–	–	–	207.5	13/10/01-11/10/08
Total carried forward	**14,457**		**14,457**		**–**		**–**			
Unapproved Share Option Scheme 1998										
Brought forward	85,543	207.5	85,543	207.5	100,000	207.5	–	–	207.5	13/10/01-11/10/08
Brought forward	80,000	105.0	40,000	105.0	40,000	105.0	–	–	105.0	18/01/03-18/01/10
Total carried forward	**165,543**		**125,543**		**140,000**		**–**			
Shadow Share Scheme 1997										
Brought forward	60,000	112.3	30,000	112.3	30,000	112.3	–	–	112.3	18/01/03-18/01/10
Brought forward	–	–	–	–	–	–	100,000	85.0	85.0	03/07/03-03/07/10
Total carried forward	**60,000**		**30,000**		**30,000**		**100,000**			

No Directors' share options were granted or exercised during the year.

All Directors have service contracts with notice periods which do not exceed 12 months.

Substantial share interests

The Company has been notified of the following holders of 3% or more of its issued share capital for the purpose of section 198 of the Companies Act 1985, as at 8 May 2002:

	Number	***%***
Henderson Investors Limited and its associated companies	2,176,548	24.87
Foreign & Colonial Special Utilities Trust PLC	785,000	8.97
AS Suprema Securities	380,000	4.34

These holdings are in respect of the aggregate of investment management clients' interests within their respective asset management companies.

Financial Review

a) Financial reporting

The Company has adopted FRS17 (Transitional Arrangements), FRS18 and FRS19.

b) Cash flow and treasury

For details of the Group's cashflow and treasury position see note 19.

c) Capital Structure

The Group's UK franchised activities have relatively high fixed costs, relating to track access contracts, rolling stock operating leases and staff costs. This structure inherently involves significant off-balance sheet leverage. The Group has no debt funding. Most of the capital expenditure requirements of the Group are funded by infrastructure and rolling stock suppliers, leaving a relatively low level of fixed asset costs to be borne by the Group.

Employee policies

All disabled employees and prospective employees who are disabled are given full and fair consideration for vacancies for which they have applied, given due regard to their particular aptitudes and ability. As and where it is appropriate employees are retrained within the scope of their ability if they become disabled during their employment with the Group. For the purposes of recruitment, training, development and promotion, disabled employees are considered and treated on an equal basis with all other employees.

A series of verbal and written briefs and newsletters informs employees as to the nature and demands of the business. A suggestion scheme and bonus scheme link the employees and business closely together. The Group consults with employees and, where applicable, with their union representatives prior to making decisions that affect them.

The Group has established training programmes covering safety and customer service which are a key factor in ensuring a safe, efficient and effective delivery of the business.

At the beginning of 1998 the Company introduced a Profit-Sharing Employee Share Scheme and invited all employees to receive free shares in the Company.

The foregoing applies to all UK based employees of GB Railways Group Plc and its subsidiaries.

Supplier payment policy

The Company and Group agree payment terms with suppliers at the commencement of business. It is the Company and Group's policy to pay its creditors in accordance with these individual suppliers' policies which is normally after having taken 30 days credit following the month of the invoice from each supplier provided that all relevant conditions of supply have been met. The number of creditor days represented by trade creditors for the Group at 31 March 2002 was 45 (2001 – 44). The Company does not carry on any material trading activities so the directors do not deem it appropriate to disclose the Company's own creditor days.

Directors' responsibilities

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss of the Group 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 departure 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 Group will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Corporate governance

Directors

During the year the Board consisted of 2 non-executive directors and 3 executive directors. Details of these Board members are given on page 8 of this report. The Board meets at least four times each year and more frequently as and when required. As a consequence of the small size of the Company, all material matters are dealt with by the Board.

Statement of compliance with the Code of Best Practice

The Board is committed to ensuring that proper standards of corporate governance operate throughout the Company. The Company supports the Principles of Corporate Governance set out in the Combined Code published in June 1998, but considers that at this stage in the Company's development, the expense of full compliance with the Combined Code is not appropriate. It is the Board's intention as the Company grows to ensure that it observes the Combined Code (so far as is practicable) and also complies with the guidance issued by the Quoted Companies Alliance.

Dialogue with institutional shareholders

The Company reports formally to shareholders twice a year, when its half-year and full-year results are announced and an Interim Report and Annual Report are sent to shareholders. The Annual Report includes notice of the Annual General Meeting of the Company at which a presentation is given and directors are available to take questions, both formally during the meeting and informally after the meeting. The Chairman and other Directors are available for dialogue with major shareholders on the Company's plans and objectives and from time to time meets with them.

Audit committee
The audit committee provides a link between the Board and the Company's auditors on matters falling within the scope of the Company's audit. These matters include accounting standards and policies, internal financial control procedures and the Company's financial statements and reports, which are intended for publication.

Treasury policy

The Group operates a centralised service managing interest rate risk and financing. The Board agrees and reviews policies and financial instruments for risk management.

The Group holds or issues financial instruments to finance its operations and to manage the interest rate arising from its operations and from its sources of finance.

Operations are funded principally by a mixture of equity, retained profits and working capital.

Further information on borrowings and financial instruments is contained in note 19 to the financial statements.

Political donations and charitable payments

The Group is an active supporter of Business in the Community, a corporate member of the Norfolk and Suffolk Wildlife Trusts and supports the London Transport Museum. In addition the Group made charitable donations of £780 and Anglia Railways donated free travel tickets to certain charities in the East Anglia region. The Group made no political donations during the year, although it has sponsored receptions at party conferences as part of its ongoing consultation process.

Auditors

A resolution to reappoint BDO Stoy Hayward will be proposed at the Annual General Meeting.

Approval of financial statements

The financial statements will be presented at an Annual General Meeting of the Company to be held on 21 August 2002. Further details are set out in the Notice of Annual General Meeting.

By order of the Board

Max D Steinkopf
Secretary

17 June 2002

Report of the Independent Auditors

To the shareholders of GB Railways Group Plc

We have audited the financial statements of GB Railways Group Plc for the year ended 31 March 2002 on pages 18 to 36 which have been prepared under the accounting policies set out on pages 22 and 23.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

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.

We read other information contained in the annual report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' Report and the Chairman's Statement and Review of Operations. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom 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 affairs of the Company and the Group as at 31 March 2002 and of the result of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

BDO Stoy Hayward
Chartered Accountants and Registered Auditors
London

23 July 2002

Consolidated Profit and Loss Account

for the year ended 31 March 2002

	Note	Year ended 31 March 2002 £'000	Year ended 31 March 2001 Restated £'000
Turnover			
Passenger and other income	3	**81,358**	68,347
Payments (to)/from the SRA	3	**(5,599)**	19,069
Operating expenditure		**(77,385)**	(91,342)
Group operating loss	4	**(1,626)**	(3,926)
Share of operating loss in Associate	14	**–**	(7)
Loss on ordinary activities before interest & other income		**(1,626)**	(3,933)
Loss on disposal of fixed assets		**(4)**	–
Income from fixed asset investments		**–**	60
Interest payable	7	**(40)**	(4)
Interest receivable and similar income	8	**432**	577
Loss on ordinary activities before taxation		**(1,238)**	(3,300)
Taxation on loss on ordinary activities	9	**(54)**	709
Accumulated loss for the financial year attributable to members of the parent company	22	**(1,292)**	(2,591)
Basic and diluted loss per share	11	**(14.8p)**	(29.6p)

All amounts relate to continuing activities.

Consolidated Statement of Total Recognised Gains and Losses

for the year ended 31 March 2002

Total recognised gains and losses relating to the year		**(1,292)**	(2,591)
Prior year adjustment	2	**654**	–
Total recognised gains and losses since last annual report		**(638)**	(2,591)

The notes on pages 22 to 36 form part of these financial statements.

Consolidated Balance Sheet

at 31 March 2002

	Note	2002 £'000	2002 £'000	2001 Restated £'000	2001 Restated £'000
Fixed assets					
Tangible fixed assets	13		**1,845**		1,940
Investments	14		**64**		64
			1,909		2,004
Current assets					
Stocks	15	**663**		603	
Debtors	16	**9,055**		6,685	
Bonded cash	19	**5,934**		5,898	
Cash at bank and in hand		**5,525**		6,323	
		21,177		19,509	
Creditors: amounts falling due within one year	17	**18,782**		15,917	
Net current assets			**2,395**		3,592
Net assets			**4,304**		5,596
Capital and reserves					
Share capital	20		**66**		66
Share premium	21		**6,309**		6,309
Profit and loss account	21		**(2,071)**		(779)
Equity shareholders' funds	22		**4,304**		5,596

The financial statements were approved by the board on 17 June 2002.

Max D Steinkopf
Director

The notes on pages 22 to 36 form part of these financial statements.

Company Balance Sheet

at 31 March 2002

	Note	2002 £'000	2002 £'000	2001 £'000	2001 £'000
Fixed assets					
Tangible fixed assets	13		**41**		49
Investments	14		**84**		3,334
			125		3,383
Current assets					
Stocks	15	**140**		50	
Debtors	16	**2,700**		1,674	
Bonded cash	19	**3,250**		3,250	
Cash at bank and in hand		**1,302**		1,623	
		7,392		6,597	
Creditors: amounts falling due within one year	17	**1,759**		1,263	
Net current assets			**5,633**		5,334
Net assets			**5,758**		8,717
Capital and reserves					
Share capital	20		**66**		66
Share premium	21		**6,309**		6,309
Profit and loss account	21		**(617)**		2,342
Equity shareholders' funds	22		**5,758**		8,717

The financial statements were approved by the board on 17 June 2002.

Max D Steinkopf
Director

The notes on pages 22 to 36 form part of these financial statements.

Consolidated Cash Flow Statement

for the year ended 31 March 2002

	Note	Year ended 31 March 2002 £'000	Year ended 31 March 2002 £'000	Year ended 31 March 2001 £'000	Year ended 31 March 2001 £'000
Net cash outflow from operating activities	26		**(558)**		(938)
Returns on investments and servicing of finance					
Interest paid		**(5)**		(4)	
Interest received		**432**		577	
Dividends received		**–**		60	
Net cash inflow from returns on investments and servicing of finance			**427**		633
Taxation					
Corporation tax (paid)/received			**(211)**		292
Capital expenditure and financial investment					
Payments to acquire tangible fixed assets		**(420)**		(415)	
Payments to acquire investment		**–**		(64)	
Sale proceeds from disposal of fixed assets		**–**		189	
Net cash outflow from capital expenditure and financial investment			**(420)**		(290)
Cash outflow before use of liquid resources and financing			**(762)**		(303)
Management of liquid resources					
Increase in bonded cash			**(36)**		(41)
Decrease in cash in the year	28		**(798)**		(344)

The notes on pages 22 to 36 form part of these financial statements.

1 Accounting policies

The financial statements have been prepared under the historical cost convention and are in accordance with applicable accounting standards. The following principal accounting policies have been applied:

Basis of consolidation

The consolidated financial statements incorporate the results of GB Railways Group Plc and all of its subsidiary and associated undertakings as at 31 March 2002 using the acquisition method of accounting. The results of subsidiary undertakings are included from the date of acquisition.

Goodwill

For acquisitions after 1 April 1998, goodwill, which represents the excess of cost of acquisitions of subsidiary companies and businesses over the value attributed to their net assets, is amortised through the profit and loss account by equal instalments over its estimated useful life up to a maximum of 20 years. Goodwill previously eliminated against reserves has not been reinstated, and on a subsequent disposal would be charged to the profit and loss account.

Turnover

Turnover represents passenger income, freight income, franchise premiums and subsidies and other related income.

Passenger income is attributed by the income allocation systems of Rail Settlement Plan Limited. 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 tickets.

Payments to and from the SRA relate to the agreed allocation from the Strategic Rail Authority of grants, incentives and no net loss no net gain adjustments as a result of the Regulator's review in respect of passenger services operated by Anglia Railways Train Services Limited.

Fixed assets and depreciation

Depreciation is provided on a straight line basis over periods related to the estimated useful economic lives of assets. The lives used for plant and equipment are 3-10 years, property related expenditure lives are up to 40 years.

Capital grants are credited to accruals and deferred income on the balance sheet and released to the profit and loss account over the estimated useful economic lives of the related assets.

The carrying values of tangible fixed assets are reviewed for any impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

Associates and joint ventures

An entity is treated as an associated undertaking where the Group has a participating interest and exercises significant influence over its operating and financial policy decisions.

In the Group accounts, interests in associated undertakings are accounted for using the equity method of accounting. The consolidated profit and loss account includes the Group's share of the operating results, interest, pre-tax results and attributable taxation of such undertakings based on audited financial statements for the year. In the consolidated balance sheet, the interests in associated undertakings are shown as the Group's share of the net assets, inclusive of any goodwill. Any premium on acquisition is dealt with in accordance with the policy for goodwill.

Foreign currency

Foreign currency transactions of individual companies are translated at the rates ruling when they occurred. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet dates. Any differences are taken to the profit and loss account.

1 **Accounting policies** *continued*

Financial instruments

In relation to disclosures made in note 19:

- short term debtors and creditors are not treated as financial assets or financial liabilities.
- the group does not hold or issue derivative financial instruments for trading purposes.
- there are no forward fixed exchange contracts.

Leasing

The capital element of finance leasing obligations for plant and equipment assets is included in fixed assets and depreciated in the same way as owned assets.

The capital element of finance liabilities is included within creditors. The liability is stated at the deemed capital portion of the annual lease payments calculated on the annuity method, with the remainder of the annual payment, representing interest, being shown within interest payable and similar charges in the profit and loss account.

Rentals under operating leases are charged to the profit and loss account as incurred over the lease term.

Stocks

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

Investments

Investments held as fixed assets are stated at cost less any provision for impairment in value.

Deferred taxation

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date.

The recognition of deferred tax assets is limited to the extent that the Group anticipates to make sufficient taxable profits in the future to absorb the reversal of underlying timing differences. Deferred tax balances are discounted at an appropriate rate.

Pensions

The Railways Pension Scheme provides pension benefits to the majority of current employees on a defined benefit basis under two separate sections.

The "Omnibus Section" of the scheme is a multi-employer section where contribution rates are calculated for all section members as a whole and not for each individual employer in the section. This is operated on a money purchase basis with the pension cost charge being the contributions payable to the fund and as such is accounted for as a defined contribution scheme.

The "Anglia Railways Shared Cost Section" is a segregated part of the Railways Pension Scheme where contribution rates are calculated individually for each employer's section. This is accounted for as a defined benefit scheme.

Contributions to the Group's defined contribution pension scheme are charged to the profit and loss account in the year in which they become payable.

Liquid resources

For the purposes of the cash flow statement, liquid resources includes bonded cash. This is cash which is held in relation to the franchise agreement and can only be accessed with permission from the SRA.

2 Prior year adjustment

The comparative figures have been restated following the Group's decision to adopt FRS 19 – Deferred Tax.

The effect of this accounting policy change in the prior year has been to create a deferred tax asset of £654,000 in the prior year and decrease the loss after tax in the prior year by the same amount. Had the accounting policy remained the same, the taxation charge in the current year would have decreased by £7,000 and loss after tax for the current year would have been £7,000 lower.

If FRS 19 was not adopted the loss for the year would have been £1,285,000 (2001 – Loss £3,245,000), and shareholders funds £3,657,000 (2001 – £4,942,000).

3 Turnover, profit and net assets

Turnover, which is stated net of value added tax, represents amounts receivable from third parties.

All turnover, profit and net assets are attributable to the Group's principal activity, the operation of rail services in the United Kingdom.

Turnover is analysed as follows:

	2002 £'000	2001 £'000
Passenger income	**68,357**	61,674
Other income	**13,001**	6,673
	81,358	68,347
Payments (to)/from the SRA	**(5,599)**	19,069
	75,759	87,416

4 Operating loss

The following amounts have been charged/(credited) in arriving at the operating loss:

	2002 £'000	2001 £'000
Depreciation	**434**	309
Auditors' remuneration – audit (Company £40,000 – 2002; £33,000 – 2001)	**105**	97
– other	**20**	11
Profit on disposal of fixed assets	**–**	(1)
Exchange loss/(gain)	**13**	(15)
Operating lease rentals – rolling stock charge	**17,298**	15,582
– buildings	**4,123**	3,310
– other including infrastructure	**15,937**	38,702
Compensation receivable under rail access agreements	**(10,370)**	(7,068)

5 Employee costs

	2002 £'000	2001 £'000
Wages and salaries	**19,413**	16,155
Social security costs	**1,585**	1,320
Other pension costs	**329**	179
	21,327	17,654

The average number of persons employed by the Group during the year, including Directors, was:

	Number	Number
Operations	**746**	665
Management/administration	**149**	112
	895	777

6 Directors' remuneration

	Salary and fees £'000	Bonus £'000	Benefits £'000	Total £'000	2001 £'000	Pension £'000	2001 £'000
Executive Directors							
Jeremy Long	**125** (a)	**20**	**2**	**147**	115	**19**	12
Max Steinkopf	**119** (b)	**15**	**–**	**134**	103	**25**	25
Richard Drake	**100**	**15**	**6**	**121**	72	**15**	7
Non-Executive Directors							
Lord Sheppard	**50**	**–**	**–**	**50**	50	**–**	–
Michael Schabas	**144**	**15**	**–**	**159**	126	**–**	–
Total	**538**	**65** (c)	**8**	**611**	466	**59**	44
Prior year	459	–	7	466		44	

(a) After deduction of a salary sacrifice of nil (2001 – £12,000), made in lieu of payments into a defined contribution pension fund.

(b) After deduction of a salary sacrifice of £6,250 (2001 – £25,000), made in lieu of payments into a defined contribution pension fund.

(c) The bonuses were paid in 2002 in relation to the prior year results, due to the directors' successes in negotiating a settlement with Railtrack regarding the Hatfield incident and the successful start-up of GB Railfreight and Hull Trains.

Three directors (2001 – three) were in defined contribution pension schemes.

7 Interest payable

	2002 £'000	2001 £'000
Hire purchase interest	**–**	4
Corporation tax interest	**34**	–
Other interest	**6**	–
	40	4

8 Interest receivable and similar income

	2002 £'000	2001 £'000
Bank deposits	**432**	577

9 Taxation on loss on ordinary activities

	2002 £'000	2001 Restated £'000
Current tax		
Adjustment in respect of previous periods	**47**	(55)
Deferred tax		
Origination and reversal of timing differences	**7**	(654)
Taxation charge/(credit) on loss on ordinary activities	**54**	(709)

The tax assessed for the year is higher than the standard rate of corporation tax in the UK. The differences are explained below:

	2002 £'000	2001 Restated £'000
Loss on ordinary activities before tax	**(1,238)**	(3,300)
Loss on ordinary activities at the standard rate of corporation tax in the UK of 30% (2001 – 30%)	**(371)**	(990)
Effects of:		
Expenses not deductible for tax purposes	**98**	70
Income not charged to tax	**(3)**	(41)
Depreciation for period in excess of capital allowances	**33**	–
Capital allowances for period in excess of depreciation	**–**	(15)
Accumulation of tax losses	**243**	976
Adjustment to tax charge in respect of previous periods	**47**	(55)
Current tax charge for period	**47**	(55)

Factors that may affect future tax charges

A deferred tax asset of £380,000 which relates to tax losses and timing differences in Anglia Railways Train Services Ltd has not been provided as the losses are not expected to reverse against future taxable profits for the foreseeable future.

10 Minority interests

This relates to the 20% holding held by the minority in Hull Trains Company Limited. No losses or liability have been attributed to the minority as the parent company has a commercial obligation to provide finance in respect of losses attributed to the minority interest.

11 Loss per share

Basic loss per ordinary share has been calculated using the weighted average number of shares in issue during the year. The weighted average number of equity shares in issue was 8,750,000 (2001 – 8,750,000) and the loss was £1,292,000 (2001 Restated – £2,591,000).

Diluted loss per share was the same as basic loss per share for this year since, under FRS 14, none of the subsisting options over shares were deemed to be dilutive by reference to the average price of the shares during the year.

12 GB Railways Group plc - profit and loss account

The Company has taken advantage of the exemption allowed by Section 230 of the Companies Act 1985 from presenting its own profit and loss account. The loss for the year before distributions dealt with in the financial statements of the Company was £2,959,000 (2001 – profit of £187,000). This includes the write off of the Company's £3,250,000 investment in its Anglia Railways subsidiary.

13 Tangible fixed assets

	Group	**Company**
Plant and equipment	£'000	£'000
Cost		
At 1 April 2001	2,773	67
Additions	343	2
Disposals	(81)	–
At 31 March 2002	**3,035**	**69**
Depreciation		
At 1 April 2001	833	18
Charge for year	434	10
Disposals	(77)	–
At 31 March 2002	**1,190**	**28**
Net book value		
At 31 March 2002	**1,845**	**41**
At 31 March 2001	1,940	49

14 Fixed asset investments

	Associated Undertaking £'000	Unlisted Investments £'000	Total £'000
Group			
Cost			
At 1 April 2001 and 31 March 2002	7	64	71
Share of retained loss			
At 1 April 2001 and 31 March 2002	(7)	–	(7)
At 31 March 2001 and 31 March 2002	–	64	64

The associated undertaking comprises a 70% holding in Abbotcrown Limited. The company has not been treated as a subsidiary undertaking in terms of FRS 2 – Accounting for Subsidiary Undertakings, as the Group has restricted influence. The company is restricted from taking certain decisions without the consent of its minority shareholder and GB Railways Group plc cannot exercise control.

The unlisted investment comprises a 20% share in Railway Holdings Limited, which owns 100% of the share capital of GB Railways Eesti AS, a company registered in Estonia. GB Railways Eesti AS owns Edelaraudtee AS, the passenger and freight railway operator in Western Estonia. The Company has not been treated as an associated undertaking in terms of FRS 9 – Associates and Joint Ventures, as the Group does not exercise significant influence over the Company's operating and financial policies.

Unlisted investments also includes 1 ordinary share of 4 pence each in each of the following companies:

ATOC Limited
Rail Settlement Plan Limited
Rail Staff Travel Limited

Details of the principal subsidiary undertakings which have been consolidated in the Group financial statements are set out below.

Name	Group holding	Country of incorporation and operation	Nature of business
Anglia Railways Train Services Limited	100%	Great Britain	Train operating company
East West Rail Limited	100%	Great Britain	Dormant company
GB Extended Ventures Limited	100%	Great Britain	Dormant company
GB Railfreight Limited	100%	Great Britain	Freight operating company
GB Railways Limited	100%	Great Britain	Holding company
GB Railways Overseas Limited	100%	Great Britain	Dormant company
Great Anglia Railways Limited	100%	Great Britain	Dormant company
Greater Anglia Railways Limited	100%	Great Britain	Dormant company
Great Anglian Railways Limited	100%	Great Britain	Dormant company
Greater Anglian Railways Limited	100%	Great Britain	Dormant company
Rail Wales Limited	100%	Great Britain	Dormant company
Hull Trains Company Limited	80%	Great Britain	Train operating company

14 Fixed asset investments *continued*

Company	**Subsidiary undertakings** £'000	**Associated undertakings** £'000	**Unlisted investments** £'000	**Total** £'000
Cost				
At 1 April 2001 and 31 March 2002	3,263	7	64	3,334
Provision				
At 1 April 2001	–	–	–	–
Provided in year	3,250	–	–	3,250
At 31 March 2002	**3,250**	**–**	**–**	**3,250**
Written Down Value				
At 31 March 2002	**13**	**7**	**64**	**84**
At 31 March 2001	3,263	7	64	3,334

15 Stocks

	Group 2002 £'000	Group 2001 £'000	**Company 2002 £'000**	Company 2001 £'000
Engineering stores	**480**	519	**–**	–
Rolling stock	**140**	50	**140**	50
Catering stores	**43**	34	**–**	–
	663	603	**140**	50

The directors do not consider that any material difference exists between the cost stated above and the present replacement cost.

16 Debtors

	Group 2002 £'000	Group 2001 Restated £'000	**Company 2002 £'000**	Company 2001 £'000
Trade debtors	**5,734**	3,929	**286**	74
Amounts owed by group undertakings	**–**	–	**2,361**	1,554
Deferred tax asset	**647**	654	**–**	–
Other debtors	**542**	812	**26**	26
Prepayments and accrued income	**2,132**	1,290	**27**	20
	9,055	6,685	**2,700**	1,674

Included in other debtors is an amount of £10,000 (2001 – £11,000), which is due after more than one year. Amounts due after more than one year included in Deferred tax total £484,000 (2001 (Restated) – £438,000).

17 Creditors: amounts falling due within one year

	Group 2002 £'000	Group 2001 £'000	**Company 2002 £'000**	Company 2001 £'000
Trade creditors	**6,125**	7,810	**593**	343
Amounts owed to group undertakings	**–**	–	**524**	524
Corporation tax	**–**	163	**–**	–
Other taxation and social security	**575**	522	**21**	19
Other creditors	**1,180**	837	**496**	281
Accruals and deferred income	**10,902**	6,585	**125**	96
	18,782	15,917	**1,759**	1,263

18 Deferred taxation

The company has changed its accounting policy in respect of deferred tax following the decision to adopt FRS 19 - Deferred Tax this year. Under the company's previous accounting policy deferred tax was only recognised to the extent that it was probable that an asset or liability would crystallise. The company's new accounting policy is set out in note 1.

The effect of this accounting policy change in the prior year has been to create a deferred tax asset of £654,000 in the prior year and decrease the loss after tax in the prior year by the same amount. Had the accounting policy remained the same, the taxation charge in the current year would have decreased by £7,000 and loss after tax for the current year would have been £7,000 lower.

The deferred tax asset relates to the tax losses incurred by GB Railfreight Ltd in the year ended 31 March 2001 and Hull Trains Company Ltd since it began trading. These companies are subsidiaries of GB Railways Group Plc. GB Railfreight is now profitable and these losses are expected to be fully recovered against taxable profits in the year ending 31 March 2003. Hull Trains is expected to become profitable on a period by period basis in the next few months and utilise its tax losses over the next few years.

	2002 £'000
Balance at 1 April 2001	
– As previously reported	**–**
– Prior year adjustment	**654**
– As restated	**654**
Charged to profit and loss account (note 9)	**(7)**
Balance at 31 March 2002	**647**

19 Financial instruments

Interest rate and currency of cash balances

The Group's passenger railway activities are characterised by short revenue collection periods. Income is received as cash or near-cash, or through industry clearing houses with short average payment periods. Hence, the Group's balance sheet shows high net current assets, and high cash balances on which significant interest income is earned. The Group's cash balances earn various rates of interest, based on the corporate money market rates set by The Royal Bank of Scotland. The Group is therefore affected by changes in UK interest rates. There are no fixed rate financial assets. The management of cash flow and investment of cash is controlled by the finance function. Cash is invested on a short-term basis.

The Group held sterling cash balances of £11,459,000 (2001 – £12,221,000) at 31 March 2002 of which £5,934,000 (2001 – £5,898,000) is bonded and not available to meet working capital needs. GB Railways Group plc holds £3,250,000 (2001 – £3,250,000) of cash which is used as security to provide a performance bond under the Anglia Railways franchise agreement and Anglia Railways holds £2,684,000 (2001 – £2,648,000) as security for a bond in respect of advanced season ticket purchases.

The Group does not have significant currency exposure from transactions.

Long-term loans

The Group does not have any long-term loans.

Undrawn bank facilities

GB Railways Group plc has an undrawn bank borrowings facility of £100,000 (2001 – £100,000) available to it. This facility is for the purposes of providing flexibility in the management of liquidity and is subject to annual review.

Fair value of financial instruments

The difference between the fair values and book values of financial instruments is not significant.

20 Called up share capital

	Authorised		Allotted, called up and fully paid	
	Number	**£'000**	**Number**	**£'000**
At 1 April 2001 and 31 March 2002				
Ordinary shares of 0.75p each	**30,000,000**	**225**	**8,750,000**	**66**

At 31 March 2002 there were outstanding options over 835,000 shares under the Approved Share Option Scheme 1998, the Unapproved Share Option Scheme 1998 and the Shadow Share Scheme 1997. All three schemes are described in the Directors' Report. Exercise prices and exercise periods are as follows:

Number of options	Exercise price per option (p)	Period of exercise
350,000	207.5	13/10/01 – 11/10/08
170,000	105.0	18/01/03 – 18/01/10
120,000	112.3	18/01/03 – 18/01/10
100,000	85.0	03/07/03 – 03/07/10
95,000	100.0	31/05/00 – 30/05/07

At 31 March 2002 the mid-market quotation per ordinary share as derived from the Stock Exchange Daily Official List was 40.5p. The highest price attained for the ordinary share during the year was 52.5p and the lowest was 35.0p.

21 Reserves

Group	Share premium £'000	Profit and loss account £'000
At 1 April 2001 – As previously reported	6,309	(1,433)
Prior year adjustment	–	654
At 1 April 2001 – Restated	6,309	(779)
Loss for the year	–	(1,292)
At 31 March 2002	**6,309**	**(2,071)**

The cumulative amount of goodwill written off to reserves in respect of prior years is £154,000 (2001 – £154,000).

Company	Share premium £'000	Profit and loss account £'000
At 1 April 2001	6,309	2,342
Loss for the year	–	(2,959)
At 31 March 2002	**6,309**	**(617)**

22 Reconciliation of movements in shareholders' funds

	Group 2002 £'000	Group 2001 Restated £'000	**Company 2002 £'000**	Company 2001 £'000
(Loss)/profit for the financial year	**(1,292)**	(2,591)	**(2,959)**	187
Net (reduction)/increase in shareholders' funds	**(1,292)**	(2,591)	**(2,959)**	187
Opening shareholders' funds				
As previously stated	**4,942**	8,187	**8,717**	8,530
Prior year adjustment – deferred tax	**654**	–	**–**	–
Closing shareholders' funds	**4,304**	5,596	**5,758**	8,717

23 Pension scheme

The majority of the Group's employees are members of either the Anglia Railways Shared Cost Section ("the Anglia Section") or the GB Railfreight Limited Shared Cost Section ("Omnibus Section"), both part of the Railways Pension Scheme (RPS) which is a funded defined benefit scheme. Additionally the Group runs defined contribution pension schemes which are available to all employees who are not eligible to join the previous two schemes.

The RPS was established with effect from 1 October 1994 when the British Rail Pension Scheme was partitioned.

"The Anglia Section" was established on 5 January 1997 and assets transferred to it in accordance with the rules of the Railways Pension Scheme Order 1994. Members pay normal contributions at the rate of 5% of Section Pay and Participating Employers at the normal rate of 1.5 times the contribution of members. A full actuarial valuation of the Section was carried out at 31 December 1998 and updated to 31 March 2002 on a FRS 17 basis by Watson Wyatt LLP, independent qualified actuaries. The major assumptions at 31 March 2002 used by the actuary were:

Rate of increase in salaries	4.00%
Rate of increase for pensions in payment	2.50%
Rate of increase for deferred pensioners	2.50%
Discount rate	5.75%
Inflation assumption	2.50%

The assets in the scheme and the expected rate of return at 31 March 2002 were:

	Long-term rate of return expected at 31 March 2002	**Value at 31 March 2002 £'000**
Equities	7.50%	31,800
Bonds	5.25%	2,400
Other – Property	6.50%	2,100
– Other	5.25%	100
Total market value of assets		36,400
Present value of scheme liabilities		(35,400)
Surplus in the scheme		1,000
Related deferred tax liability		–
Net pension asset on a FRS 17 basis		1,000

Contributions of £6,000 were made in the year to 31 March 2002 (0.1% of pensionable pay). An actuarial evaluation is presently being undertaken which may impact future levels of contributions.

The effect on the profit and loss reserve if the pension scheme asset were incorporated into the financial statements is as follows:

	31 March 2002 £'000
Profit and loss reserve excluding pension asset	**(2,071)**
Pension reserve	**1,000**
Profit and loss reserve	**(1,071)**

23 Pension scheme *continued*

Under FRS 17 any surplus or deficit in the scheme is required to be recognised in the financial statements for the year ending 31 March 2004. However, Anglia Railways executed a Deed of Amendment to its Franchise Agreement in the current year, under which the SRA is committed to providing an additional subsidy to keep Anglia Railways at zero net asset value.

In the event that there is a pension scheme surplus or deficit which affects the net asset value of Anglia Railways on the termination of the franchise, it will be fully compensated by adjustment to the subsidy payments from the SRA. There will therefore be no net asset or liability to Anglia Railways upon termination of the Franchise.

The "Omnibus Section" was established on 1 September 1999 and GB Railfreight Ltd joined on 1 July 2000. Members pay normal contributions at the rate of 10.8% of section pay and participating employers at the rate of 1.5 times the contribution rate of members. Results of The Omnibus Section's first valuation in December 2001 are not yet available. This is a multi-employer section where contribution rates are calculated for all section members as a whole and not for each individual employer in the section. Therefore, although this is a part of the Railways Pension Scheme, which is a defined benefit scheme, GB Railfreight Ltd cannot identify its share of the underlying assets and liabilities. It is operated on a money purchase basis with the pension cost charge being the contributions payable to the fund and as such is accounted for as a defined contribution scheme.

The defined contribution scheme was established on 1 September 1997. The assets of the scheme are held separately from those of the Group in an independent administered fund. The pension cost charge represents contributions payable by the Group to the fund. Members pay normal contributions at the rate of 5% of section pay and employers at the rate of 1.5 times this rate.

Pension contributions during the year were as follows:

	2002	2001
	£'000	£'000
Railways Pension Scheme	**144**	58
Defined contribution pension scheme	**185**	121
	329	179

24 Operating lease commitments

The Group had the following annual commitments under non-cancellable operating leases which expire as follows:

	2002			2001		
	Within one year	**In two to five years**	**After five years**	Within one year	In two to five years	After five years
	£'000	**£'000**	**£'000**	£'000	£'000	£'000
Rolling stock	**61**	**13,698**	**1,229**	6,043	8,904	1,237
Buildings	**2**	**3,120**	**–**	–	3,472	–
Other	**25**	**16,624**	**–**	2	39,350	–
	88	**33,442**	**1,229**	6,045	51,726	1,237

Other leases include annual commitments to Railtrack for access to the railway infrastructure.

25 Contingent Asset

Anglia Railways and Hull Trains are currently in negotiations with their insurer for compensation in respect of losses arising from the incident that occurred at Hatfield in October 2000. It is not practicable at this point in time to place an estimate on the amount the Group is likely to receive.

26 Reconciliation of operating profit to net cash outflow from operating activities

	2002 £'000	2001 £'000
Operating loss	**(1,626)**	(3,926)
Depreciation charges	**434**	309
Profit on investment	**–**	(7)
(Increase)/decrease in stocks	**(60)**	45
(Increase)/decrease in debtors	**(2,377)**	275
Increase in creditors	**3,071**	2,366
Net cash outflow from operating activities	**(558)**	(938)

27 Reconciliation of net cash flow to movement in net funds

	2002 £'000	2001 £'000
Decrease in cash in the year	**(798)**	(344)
Increase in bonded cash	**36**	41
Movement in net funds	**(762)**	(303)
Net funds at start of year	**12,221**	12,524
Net funds at end of year	**11,459**	12,221

28 Analysis of changes in net funds

	At 1 April 2001 £'000	Cash Flows £'000	**At 31 March 2002 £'000**
Bonded cash	5,898	36	**5,934**
Cash at bank and in hand	6,323	(798)	**5,525**
Net funds	12,221	(762)	**11,459**

Details of bonded cash are stated in note 19.

29 Related party transactions

During the year the Company entered into the following arrangements with related parties.

	2002 £'000	2001 £'000
Management expenses charged to Edelaraudtee AS	**396**	100
Invoices paid on behalf of Abbotcrown Ltd	**3**	74

Balances due from related parties at the year end were:

	2002 £'000	2001 £'000
Edelaraudtee AS	**228**	100
Abbotcrown Ltd	**8**	5

ANGLIA

"As a London commuter of three years I seriously believe that Anglia are the only company that continually provide a good standard of service to their customers."

M.D. by e-mail

"I would challenge anyone to find a better regular on-train dining service than that now provided by Anglia Railways – not only in this country, but in Europe . . . and, indeed, anywhere in the world."

F.W. Ipswich

"I would like to congratulate Anglia Railways on their excellent service and forward thinking attitude in the last six years . . ."

C.B. Lowestoft, Suffolk

GBRf

"It is a very refreshing to work with a rail [freight] company who can be creative, do not harp back to the past, and have a "can do" mentality. Align this fantastic approach to the enthusiasm of your people and the product on offer is irrefutably very dynamic."

C.G. Freight Customer

HULL

"This is the first time I have used Hull Trains, and I have to say it is the best rail journey I have ever had . . . The staff were exceptionally helpful and friendly. I will not hesitate to use your service again, and will recommend it highly to anyone."

S.G. Carlton

". . . an incredibly convenient train, which not only runs on time, but goes directly from London to Hull, without changes being necessary and even manages to have superb customer relations, both on board and in the office."

M.S. London

"Today's delay could not have been avoided and I can only praise the staff. They kept us well informed . . . we were offered the use of a phone . . . and we were offered complimentary beverages."

N.F. Hull

GB Railways Group Plc
15-25 Artillery Lane, London E1 7HA

Tel: 020 7983 5103   Fax: 020 7375 2594
email: info@gbrailways.com
www.gbrailways.com