West Coast Trains Limited

Directors' report and financial statements

Registered number 3007940

For the financial year ended 6 March 2010

Contents

Directors' report

The directors present their annual report and the audited financial statements for the financial year ended 6 March 2010 The previous financial year ended on 28 February 2009

Principal activities

The principal activity of the Company during the financial year was the operation of passenger rail services between London (Euston) and Birmingham, Wolverhampton, Holyhead, Chester, Liverpool, Manchester, Preston, Carlisle and Glasgow The Company operates these services under the terms of an original franchise agreement dated 19 February 1997, amended by the Amended and Restated Franchise Agreement ("ARFA"), which was entered into on 9 December 2006 The franchise runs to 31 March 2012

Results for the year and business review

The profit and loss account, presented on page 8, reflects the results of the Company for the financial year ended 6 March 2010

The operating profit for the financial year was £68 3 million *(2009 £98 7 million)* The profit for the financial year was £50 6 million *(2009 £76 4 million)*

Despite the current economic conditions, the Company has seen passenger revenue growth during the financial year Volumes have been increasing, largely due to increasingly strong weekend travel and marketing campaigns, but yields remain under pressure The Company expects to remain profitable for the foreseeable future

The Company is focused on continually improving its customer service and satisfaction levels The selection, training and encouragement of staff continues to reflect this, while management is continually reviewing operations to provide the best value for money service to customers During the financial year the Company has further improved on-train mobile phone signal reception giving customers more reliable use of mobile phones, Blackberry devices and 3G Data Cards, as well as improving Wi-Fi on board all Pendolino trains

The Company continues to experience days of significant poor infrastructure performance, despite the generally improving trend when looking at the Public Performance Measure ("PPM" being the percentage of trains that arrive at their destination within 10 minutes of their scheduled arrival time having called at all scheduled stations) Despite this the Company's National Passenger Survey results have been trending upwards and the Company now sits in the top two nationally of long distance train operators in all categories The Company continues to press for improvements from Network Rail's performance contract to ensure that the effects of the poor performance days are minimised

The eagerly awaited high frequency and faster timetable is now fully operational, resulting in an overall increase in train services of 30 percent and journey time reductions of up to 50 minutes The key timetable improvements were an increase from two to three trains per hour to both Birmingham and Manchester from London and an hourly service from London to Glasgow and Chester The revenue and journey growth from the new timetable has ensured that the Company has bucked the trend of other long distance train operators, particularly noticeable in the current economic environment and with the poor performance by Network Rail

Key performance indicators

The Company uses a range of financial and non-financial key performance indicators ("KPIs") across its activities

Financial KPIs focus on profitability and cash management Financial results are closely monitored by management, shareholders and the Department for Transport ("DfT")

Revenue is a key driver of profitability levels and the result of improved journey times and comfort has contributed to a 16% increase in passenger journeys year on year

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

The operations of the Company have again been affected during the financial year by significant unplanned disruption on the West Coast Main Line, due to poor infrastructure reliability This is despite the route upgrade work having been completed by Network Rail

Directors' report *(continued)*

Key performance indicators *(continued)*

Train punctuality is measured by Public Performance Measure The annual average was 84 0% for the financial year compared to 80 1% in the previous financial year Although there has been an improvement, it falls below that expected from other long distance train operators running on new infrastructure and the Company has engaged with the Office of the Rail Regulator ("ORR") for assistance to improve the poor service experienced by customers

Despite the continued disruption, the latest Customer Satisfaction survey results are trending upwards For the financial year, customer complaints per thousand passenger journeys stood at 2 8 *(2009 4 5)* This has been achieved by the Group's good value for money offerings and the dedication of staff

Safety is discussed further in the Safety section below

Principal risks and uncertainties

Like most businesses, the Company faces a range of risks and uncertainties Detailed below are those specific risks and uncertainties that the directors believe could have the most significant impact on the Company's performance The risks and uncertainties described below are not intended to be an exhaustive list of all possible risks and uncertainties

Major incidents/Terrorism

As with any operator of public transportation, there is a risk that the Company is involved in a major incident which could result in injury to customers or staff The potential impact on the Company includes damage to the Company's reputation and possible claims against the Company The Company's focus on its safety environment is detailed in the Safety section below In addition the Company has procedures in place to respond to any major incident that may occur

Ongoing Network Rail performance

The Company has completed the implementation of the December 2008 timetable This has seen an increase in the frequency of services between major locations including London and Birmingham and London and Manchester Reliable running of this timetable depends on the ability of Network Rail to maintain a fully operational network Failure to do so impacts the Company's operational performance

In order to manage the risk, there is close monitoring by management on the sustainability of new performance targets Where the Group believes that the targets are too soft, the ORR has been asked to mediate

Economic conditions

While revenue growth has been seen during the financial year, a prolonged or double dip downturn may result in revenue reduction and potential reduction of profit In order to minimise this risk, there is a focus at all levels of the Company on cost control and efficient operation The Company also benefits from contracted protection in the ARFA against shortfalls in revenue

Amended and Restated Franchise Agreement

The ARFA was negotiated using a range of assumptions with regard to revenue growth and cost base It is imperative that the Company takes all actions outlined in its bid to ensure that these targets are met

Breach of franchise

The Company is required to comply with certain conditions as part of its rail franchise agreement If it fails to comply with these conditions, it may be liable to penalties or the potential termination of the franchise Compliance with franchise conditions are closely managed and monitored and procedures are in place to minimise the risk of non-compliance

Directors' report *(continued)*

Principal risks and uncertainties *(continued)*

Failure of critical suppliers

The Company has a number of key suppliers supporting various areas of the business, for example infrastructure, rolling stock and IT Failure of one of these key suppliers would impact on financial and operational performance of the Company The Company has made contingency plans for each key supplier if this eventuality occurs

Financial risk management

The Company's activities expose it to a variety of financial risks It is the Company s policy to invest cash assets safely and profitably To control credit risk, counterparty credit limits are set by reference to published credit ratings In addition, the Company seeks to maximise finance income from short term deposits via the monitoring of cash balances and working capital requirements

Safety

The Company remains committed, through annual continuous improvement, to maintaining a safe and secure environment for its passengers, workforce and the general public The Company's ongoing safety strategic objectives are

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

These are supported by specific focus on safety targets including passenger and staff accidents levels, Signals Passed at Danger and safety related defects

Both the Pendolino and Super Voyager train fleets have a range of safety features These include (amongst others) enhanced crash protection, laminated windows, improved lighting, fire detection and fighting systems, power operated doors, CCTV and Train Management Systems These features together with improved reliability have helped to drive up safety performance trends and reduce accident figures

The Company has made good progress against its shorter-term major initiatives which include

- ongoing maintenance of a close safety partnership with Network Rail,
- upgrade and enhanced use of Driver training simulators supported by interactive computer based training assessment tools for improved safety, training and off-line experience, and
- promoting industry safety values throughout the Company and working with suppliers to do the same Core safety values are included in training courses, job descriptions and Safety Responsibility Statements

Future prospects

The directors remain confident that, under the terms of the ARFA, the Company will move forward on a profitable basis

Based on the anticipated profitable position and forecast cash flows of the Company, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the current franchise term

Directors' report *(continued)*

Dividends

Dividends paid during the financial year totalled £67 0 million *(2009 £74 9 million)*

Since the financial year end the Company has paid a dividend of £9 0 million which will be recognised in the 2010/11 financial statements

Directors

The directors who held office during the financial year were as follows

Anthony Collins
Chris Gibb
Graham Leech

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

Employees

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

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

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

Political and charitable contributions

The Company made no political contributions during the financial year *(2009 £Nil)* Contributions to UK charities amounted to £9,510 *(2009 £10,000)*

Disclosure of information to auditors

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

Auditors

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be re-appointed and KPMG LLP will therefore continue in office

By order of the board

Anthony Collins
Director

The School House
50 Brook Green
London
W6 7RR

28 May 2010

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

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

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

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period

In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006 They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities

KPMG

KPMG LLP
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

Independent auditors' report to the members of West Coast Trains Limited

We have audited the financial statements of West Coast Trains Limited for the financial year ended 6 March 2010 set out on pages 8 to 25 The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice)

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 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

As explained more fully in the Directors' Responsibilities Statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view

Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's ("APB"'s) Ethical Standards for Auditors

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at

www frc org uk/apb/scope/UKNP

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 6 March 2010 and of its profit for the financial year then ended,
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

- In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

S Haydn-Jones (Senior Statutory Auditor)
For and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

28 May 2010

Profit and loss account

for the financial year ended 6 March 2010

	Note	**Financial year ended 6 March 2010 £000**	Financial year ended 28 February 2009 £000
Turnover	*2*	**720,944**	649,161
Franchise income	*3*	**20,097**	24,118
Other operating income	*4*	**59,857**	106,177
Train operating expenditure	*5*	**(537,758)**	(485,434)
Staff costs	*8*	**(134,904)**	(127,772)
Depreciation	*13*	**(1,587)**	(413)
Other operating charges		**(58,367)**	(67,148)
Operating profit		**68,282**	98,689
Interest receivable and similar income	*9*	**551**	5,411
Interest payable and similar charges	*10*	**(573)**	(1,492)
Other finance income (net)	*25*	**1,180**	1,940
Profit on ordinary activities before taxation	*6*	**69,440**	104,548
Tax charge on profit on ordinary activities	*12*	**(18,808)**	(28,123)
Profit for the financial year		**50,632**	76,425

The results set out above relate to continuing operations

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

Movements in reserves are set out in note 22

Balance sheet
at 6 March 2010

	Note	6 March 2010		28 February 2009	
		£000	£000	£000	£000
Fixed assets					
Tangible assets	13		5,275		2,823
Investments	14		-		-
			5,275		2,823
Current assets					
Debtors	15	115,127		356,913	
Cash at bank and in hand	16	75,815		132,909	
		190,942		489,822	
Creditors Amounts falling due within one year	17	(154,297)		(433,139)	
Net current assets					
Due within one year			28,507		40,234
Debtors due after more than one year	15		8,138		16,449
Total net current assets			36,645		56,683
Total assets less current liabilities			41,920		59,506
Creditors: Amounts falling due after more than one year	18		(21,000)		(21,000)
Provisions for liabilities	19		(4,638)		(4,668)
Net assets excluding pension liability			16,282		33,838
Pension liability, net of deferred tax	25		(2,246)		(3,715)
Net assets			14,036		30,123
Capital and reserves					
Called up share capital	21		-		-
Profit and loss account	22		14,036		30,123
Shareholders' funds	23		14,036		30,123

These financial statements were approved by the board of directors on 28 May 2010 and were signed on its behalf by

Anthony Collins
Director

Chris Gibb
Director

Company number 3007940

Statement of total recognised gains and losses
for the financial year ended 6 March 2010

	Financial year ended 6 March 2010 £000	Financial year ended 28 February 2009 £000
Profit for the financial year	**50,632**	76,425
Actuarial gain on defined benefit pension scheme (see note 25)	**390**	5,830
Taxation charge on actuarial gain on defined benefit pension scheme	**(109)**	(1,632)
Total recognised gains relating to the financial year	**50,913**	80,623

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements, except as noted below

Basis of preparation

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

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

Under FRS 8 Related party disclosures' the Company is exempt from the requirement to disclose transactions with related parties, which are part of the group, on the grounds that it is a wholly owned subsidiary undertaking of Virgin Rail Group Holdings Limited and the Company s results are consolidated in its parent company financial statements

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 (which administers the income allocation system within the UK rail industry) for each financial period Income is attributed based on models of certain aspects of passenger behaviour and to a lesser extent from allocations agreed for specific revenue flows The attributed share of season ticket income is deferred within creditors and released to the profit and loss account over the life of the relevant season ticket

Other trading income consists principally of the provision of station facilities to other train operators, retail commissions, car parking and the hire out of train crew and rolling stock Other trading income and catering income are recognised as the income is earned

Franchise income

Revenue grants receivable in respect of the operation of the rail franchise are taken to the profit and loss account in the financial year to which they relate

Compensation for service disruption

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

Network change compensation receivable in respect of lost revenue and incremental costs incurred due to Network Rail's alterations of the track and infrastructure is recognised over the period of disruption and is shown within other operating income

Notes *(continued)*

1 Accounting policies *(continued)*

Fixed assets and depreciation

Fixed assets are stated at cost less depreciation Depreciation is provided to write off the cost less estimated residual value on a straight line basis over the shorter of the useful economic life of the assets or the remaining duration of the franchise and commences from the date on which the assets are ready for use

Fixed asset investments

Fixed asset investments are shown at cost less provision for impairment

New train service arrangement costs

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

Track access costs

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

Network Rail has undertaken a programme of infrastructure works to upgrade the West Coast Main Line to enable trains to run at higher speeds and frequencies Under a series of supplemental track access agreements, the Company paid additional separately identifiable track access charges in respect of the increased track speed and capacity that these infrastructure improvement works create This increased track capacity became available to the Company with the introduction of the new timetable in September 2004 In order that additional track access charges can be recorded in the periods in which the Company benefits from the additional track capacity, additional payments made prior to September 2004 were recorded within prepayments and are being charged to the profit and loss account on a straight line basis from September 2004 to the end of the franchise term

Fuel costs

Fuel costs represent the commodity spot price ruling at the date of the transaction or, if appropriate, the commodity price under the related fuel hedging 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

Provisions

Provisions are recognised where the Company has a present obligation as a result of a past event and it is probable that the Company will be required to settle that obligation The amounts recognised are the best estimate of the expenditure that will be required to meet the Company's obligation

Notes *(continued)*

1 Accounting policies *(continued)*

Pensions and other post retirement benefits

The Company participates in its own separate section of the Railways Pension Scheme (RPS), which provides benefits on a defined benefit basis The assets of the RPS are held separately from those of the Company in an independently administered fund The RPS is a shared cost scheme with costs being shared between the employer and the members on the basis of a 60 40 split

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

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

Differences between the actual and expected returns on assets and experience gains/(losses) arising on the scheme liabilities during the financial year, together with differences arising from changes in assumptions, are recognised in the statement of total recognised gains and losses in the financial year The resulting defined benefit asset/liability net of the franchise adjustment and any deferred tax is presented separately after other net assets on the face of the balance sheet

Pension scheme assets are measured using market values For quoted securities the current bid-price is taken as market value Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return Details of the pension scheme are provided in note 25

Taxation

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

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS19 Deferred Tax' A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

Dividends

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

Notes *(continued)*

2 Turnover

	2010 £000	2009 £000
Passenger revenue	**679,034**	611,012
Catering income	**10,503**	10,204
Other trading income	**31,407**	27,945
	720,944	649,161

Other trading income consists primarily of the provision of station facilities to other train operators, retail commissions receivable, car parking and the hire out of train crew and rolling stock

3 Franchise income

	2010 £000	2009 £000
(Payments)/receipts under ARFA (Amended and Restated Franchise Agreement)	**(48,023)**	28,627
Revenue support/(share) adjustment	**68,120**	(4,509)
	20,097	24,118

The ARFA allows for adjustment to franchise payments under a number of circumstances, the more routine circumstances being for revenue share and revenue support These provisions apply when actual revenues exceed or fall short of that anticipated as set out in the National Rail Franchise Terms

4 Other operating income

	2010 £000	2009 £000
Network change compensation and performance regime	**57,421**	103,827
Property income	**2,436**	2,350
	59,857	106,177

Network change compensation is receivable in respect of lost revenue and incremental costs incurred due to Network Rail s alterations of the track and infrastructure during the financial year

Net performance regime income/cost is in respect of service disruption under the performance regime provisions of the track access agreement with Network Rail

Notes *(continued)*

5 Train operating expenditure

	2010 £000	2009 £000
Rolling stock costs	**215,608**	209,978
Track access costs	**170,552**	152,752
Station and depot access costs	**10,966**	13,478
Power costs	**60,147**	31,966
Other operating expenditure	**80,485**	77,260
	537,758	485,434

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

6 Profit on ordinary activities before taxation

	2010 £000	2009 £000
Profit on ordinary activities before taxation is stated after charging/(crediting)		
Depreciation	**1,587**	413
Operating lease rentals		
Hire of plant and machinery	**82,773**	78,527
Other operating leases	**9,078**	18,343
Rental income received on properties	**(2,436)**	(2,350)
Auditors' remuneration		
Audit of these financial statements	**70**	72

7 Remuneration of directors

	2010 £000	2009 £000
Aggregate emoluments of directors	**808**	843

	Number	
Retirement benefits are accruing for the following directors under		
Defined benefit schemes	**3**	3

The aggregate emoluments of the highest paid director were £308 568 *(2009 £322,112)* The director is a member of the defined benefit scheme under which the accrued pension to which the director would be entitled from normal retirement if the director were to retire at the end of the financial year was £38,322 *(2009 £32,922)* with an accrued lump sum of £20 628 *(2009 £18,293)*

Notes *(continued)*

8 Staff numbers and costs

The average number of persons employed by the Company (including directors) during the financial year was as follows

	Number of employees **2010**	2009
Management	**503**	541
Other staff	**2,492**	2,507
	2,995	3,048

The aggregate payroll costs were as follows

	2010 £000	2009 £000
Wages and salaries	**113,650**	107,671
Redundancy costs	**1,616**	479
Social security costs	**9,438**	8,942
Other pension costs	**10,200**	10,680
	134,904	127,772

9 Interest receivable and similar income

	2010 £000	2009 £000
Bank interest receivable	**541**	5,330
Other interest receivable	**10**	81
	551	5,411

10 Interest payable and similar charges

	2010 £000	2009 £000
Amounts payable to group undertakings	**541**	1,333
Other interest payable	**32**	159
	573	1,492

Notes *(continued)*

11 Dividends

	2010 £000	2009 £000
Dividends paid	**67,000**	74,882

Since the financial year end, the Company has paid a dividend of £9 0 million which will be recognised in the 2010/11 financial statements

12 Taxation

Analysis of charge in financial year

	2010		2009	
	£000	**£000**	£000	£000
UK corporation tax				
Current tax on income for the financial year	**18,932**		29,694	
Adjustments in respect of prior financial years	**(777)**		(1,461)	
Total current tax		**18,155**		28,233
Deferred tax (see note 20)				
Origination/reversal of timing differences	**603**		139	
Adjustments in respect of prior financial years	**50**		(249)	
Total deferred tax		**653**		(110)
Tax charge on profit on ordinary activities		**18,808**		28,123

Factors affecting the tax charge for the current financial year

The standard rate of tax for the financial year based on the UK standard rate of corporation tax is 28% *(2009 28%)* The current tax charge for the current and previous financial year differs from the standard rate for the reasons set out in the following reconciliation

	2010 £000	2009 £000
Current tax reconciliation		
Profit on ordinary activities before tax	**69,440**	104,548
Current tax at 28% *(2009 28%)*	**19,443**	29,273
Effects of		
Expenses not deductible for tax purposes	**92**	381
(Capital allowances in excess of depreciation)/depreciation in excess of capital allowances	**(141)**	96
Other timing differences	**(462)**	(235)
Effect of decreased tax rate	**-**	179
Adjustments in respect of prior financial years	**(777)**	(1,461)
Total current tax charge (see above)	**18,155**	28,233

Notes *(continued)*

13 Tangible fixed assets

	Plant, equipment, fixtures and fittings £000
Cost	
At beginning of financial year	36,459
Additions	4,039
At end of financial year	40,498
Accumulated depreciation	
At beginning of financial year	33,636
Charge for financial year	1,587
At end of financial year	35,223
Net book value	
At 6 March 2010	**5,275**
At 28 February 2009	2,823

14 Investments

	£000
At beginning and end of financial year	-

The company owns one ordinary share of four pence in each of ATOC Limited, Rail Settlement Plan Limited and Rail Staff Travel Limited and one ordinary share of one pound in NRES Limited

15 Debtors

	2010 £000	2009 £000
Amounts falling due within one year		
Trade debtors	**39,038**	287,474
Amounts owed by group undertakings	**39**	389
Other debtors	**46,347**	25,649
Deferred tax (see note 20)	**1,425**	1,616
Prepayments and accrued income	**20,140**	25,336
	106,989	340,464
Amounts falling due after more than year		
Prepayments and accrued income	**8,138**	16,449
	115,127	356,913

Notes *(continued)*

15 Debtors *(continued)*

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

	2010 £000	2009 £000
Deferred costs		
Amounts falling due within one year	**8,310**	8,310
Amounts falling due after more than one year	**8,138**	16,449
	16,448	24,759

16 Cash at bank and in hand

At 6 March 2010, the cash at bank and in hand included £16 3 million *(2009 £20 9 million)* in a separate escalating rental reserve account, in relation to the leasing of the Pendolino trains under the terms of the ARFA

17 Creditors: Amounts falling due within one year

	2010 £000	2009 £000
Trade creditors	**58,989**	358,219
Amounts owed to group undertakings	**3,905**	2,588
Corporation tax	**13,076**	18,691
Group relief	**-**	563
Other taxes and social security costs	**4,642**	5,365
Other creditors	**51,945**	19,996
Accruals and other deferred income	**17,381**	23,674
Deferred season ticket income	**4,359**	4,043
	154,297	433,139

18 Creditors: Amounts falling due after more than one year

	2010 £000	2009 £000
Amounts owed to group undertakings	**21,000**	21,000

Notes *(continued)*

19 Provision for liabilities

	Dilapidations provision £000
At beginning of financial year	4,668
Utilised during the financial year	(30)
At end of financial year	**4,638**

The dilapidations provision relates to costs required to be incurred at the 17 stations managed by the Company in accordance with the standards for station conditions required by the National Station Access Conditions (1996) (Annex 1) These costs are expected to be incurred by 31 March 2012, the ARFA expiry date

20 Deferred tax

The deferred tax asset, which has been recognised for at 28% *(2009 28%)*, is set out below

	2010 **£000**	2009 £000
At beginning of financial year	**3,061**	4,583
(Charge)/credit to profit and loss account	**(653)**	110
Charge to statement of total recognised gains and losses	**(109)**	(1,632)
At end of financial year	**2,299**	3,061
Disclosed as		
Debtors – deferred tax asset (see note 15)	**1,425**	1,616
Pension liability (see note 25)	**874**	1,445
Net deferred tax asset	**2,299**	3,061

The elements of deferred taxation are as follows

	£000	£000
Excess of capital allowances over depreciation	**1,425**	1,616
Other timing differences	**874**	1,445
	2,299	3,061

21 Called up share capital

	2010 **£**	2009 £
Allotted, called up and fully paid.		
1 ordinary share of £1	**1**	1

Notes *(continued)*

22 Reserves

	Profit and loss account £000
At beginning of financial year	30,123
Profit for the financial year	50,632
Dividends paid (see note 11)	(67,000)
Actuarial gain on pension scheme (see note 25)	390
Deferred tax on actuarial gain on pension scheme	(109)
At end of financial year	**14,036**

23 Reconciliation of movements in shareholders' funds

	2010 £000	2009 £000
Profit for the financial year	**50,632**	76,425
Dividends paid (see note 11)	**(67,000)**	(74,882)
Actuarial gain on pension scheme (see note 25)	**390**	5,830
Deferred taxation on actuarial gain on pension scheme	**(109)**	(1,632)
Net (reduction in)/addition to shareholders' funds	**(16,087)**	5,741
Opening shareholders' funds	**30,123**	24,382
Closing shareholders' funds	**14,036**	30,123

24 Commitments

(a) The Company had capital commitments of £Nil at 6 March 2010 *(2009 £Nil)*

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

	Plant and machinery		**Other operating leases**	
	2010 £000	2009 £000	**2010 £000**	2009 £000
In the second to fifth years inclusive	**87,481**	87,626	**8,934**	18,088

(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 access facilities, train maintenance arrangements and IT outsourcing

(d) Under the ARFA, there is a requirement for the Company to comply with certain performance and other obligations

(e) During the financial year, the Company entered into fuel hedging arrangements to fix a proportion of its fuel costs The fuel hedges are in place until 31 March 2012 The fair value of these arrangements as at 6 March 2010 was £2 5 million

Notes *(continued)*

25 Pension scheme

The Company participates in its own separate shared cost section of the Railways Pension Scheme (RPS ') The RPS is a funded scheme and provides benefits based on final pensionable pay The assets of the RPS are held separately from those of the Company The RPS is a shared cost scheme with costs being shared between the employer and the members on the basis of a 60 40 split

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

The latest actuarial valuation of the Company s section of the RPS was undertaken at 31 December 2007 using the projected unit method This valuation has been updated to 6 March 2010 by a qualified independent actuary, using revised assumptions that are consistent with the requirements of FRS 17

Net pension liability

	2010	2009
	£000	£000
Present value of funded defined benefit obligations	**(386,770)**	(298,060)
Fair value of section assets	**293,540**	211,200
	(93,230)	(86,860)
Members share of section	**37,290**	34,740
Franchise adjustment	**52,820**	46,960
Deficit recognised by Company	**(3,120)**	(5,160)
Related deferred tax asset	**874**	1,445
Net pension liability	**(2,246)**	(3,715)

Movements in present value of defined benefit obligation

	2010	2009
	£000	£000
At beginning of financial year	**298,060**	318,910
Employer share of current service cost	**10,000**	10,680
Members share of current service cost	**6,190**	6,630
Past service cost	**200**	-
Interest cost	**19,250**	19,550
Benefits paid	**(10,950)**	(14,800)
Actuarial losses/(gains)	**64,020**	(42,910)
At end of financial year	**386,770**	298,060

Notes *(continued)*

25 Pension scheme *(continued)*

Movements in fair value of section assets

	2010 £000	2009 £000
At beginning of financial year	**211,200**	299,190
Expected return on section assets	**16,200**	22,780
Contributions by employer	**10,670**	9,580
Contributions by members	**6,310**	5,980
Benefits paid	**(10,950)**	(14,800)
Actuarial gains/(losses)	**60,110**	(111,530)
At end of financial year	**293,540**	211,200

Expense recognised in the profit and loss account

	2010 £000	2009 £000
Current service cost	**10,000**	10,680
Past service cost	**200**	-
Expected return on section assets	**(9,720)**	(13,670)
Interest on section liabilities	**11,550**	11,730
Interest credit on franchise adjustment	**(3,010)**	-
	9,020	8,740

The expense is recognised in the following lines of the profit and loss account

	2010 £000	2009 £000
Staff costs	**10,200**	10,680
Other finance income	**(1,180)**	(1,940)
	9,020	8,740

Amounts recognised in the statement of total recognised gains and losses

The total amount recognised in the consolidated statement of total recognised gains and losses in respect of actuarial gains and losses is £390 000 gain *(2009 £5,830,000 gain)*

Cumulative actuarial gains/losses reported in the statement of total recognised gains and losses since 1 March 2004 are £2 310,000 gain *(2009 £1,920,000 gain)*

Notes *(continued)*

25 Pension scheme *(continued)*

Movement in deficit recognised by Company

	2010 £000	2009 £000
At beginning of financial year	**(5,160)**	(11,830)
Current service cost	**(10,000)**	(10,680)
Past service cost	**(200)**	-
Contributions	**10,670**	9,580
Other finance income	**1,180**	1,940
Actuarial gain	**390**	5,830
At end of financial year	**(3,120)**	(5,160)

Fair value of section assets

	2010 £000	2009 £000
Equities	**196,710**	132,510
Bonds	**29,950**	22,000
Property	**24,380**	23,390
Other	**42,500**	33,300
	293,540	211,200
Actual return on section assets	**76,310**	(88,750)

Future contributions

The Company currently expects to pay contributions of £10 4 million over the period of the 2010/11 financial statements

Actuarial assumptions

Principal actuarial assumptions at the balance sheet date were as follows

	2010 %	2009 %
Rate of increase in salaries	**4 4**	4 1
Rate of increase in pensions in payment and deferred pensions	**3 4**	3 1
Discount rate	**5.8**	6 4
Inflation assumption	**3.4**	3 1
Long term rate of return expected on		
- Equities	**8.2**	8 1
- Bonds	**5.3**	6 0
- Property	**7 9**	7 5
- Other	**7 5**	6 5
- Overall	**7 8**	7 6

Notes *(continued)*

25 Pension scheme *(continued)*

***Actuarial assumptions** (continued)*

The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity The assumptions are as follows

Member aged 60 (current life expectancy) 25½ years (male), 27 years (female)

Member aged 40 (life expectancy from age 60) 27½ years (male), 28½ years (female)

History of section

The history of the section for the current and prior years is as follows

Balance sheet

	2010 £000	2009 £000	2008 £000	2007 £000	2006 £000
Present value of section liabilities	(386,770)	(298,060)	(318,910)	(293,450)	(281,710)
Fair value of section assets	293,540	211,200	299,190	275,500	245,230
Deficit in section	(93,230)	(86,860)	(19,720)	(17,950)	(36,480)
Members share of section	37,290	34,740	7,890	7,180	14,590
Franchise adjustment	52,820	46,960	-	-	-
Deficit recognised by Company	(3,120)	(5,160)	(11,830)	(10,770)	(21,890)

Experience adjustments

	2010	2009	2008	2007	2006
Experience adjustments on section assets					
amount (£000)	36,070	(66,920)	(12,040)	4,530	16,941
percentage of section assets	12%	(32%)	(4%)	2%	7%
Experience adjustments on section liabilities					
amount (£000)	(2,510)	(1,860)	(1,220)	100	8,045
percentage of present value of section liabilities	(1%)	(1%)	-	-	3%

26 Ultimate parent company and parent undertaking of larger group

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

Copies of the Virgin Rail Group Holdings Limited and Virgin Wings Limited consolidated financial statements are available to the public and may be obtained from the Registrar of Companies, Companies House Crown Way, Cardiff, CF14 3UZ

As at 6 March 2010, the ultimate parent company is Virgin Group Holdings Limited, a company registered in the British Virgin Islands