West Coast Trains Limited

Directors' report and financial statements

Registered number 3007940

For the year ended 3 March 2007

Contents

Directors' report

The directors present their annual report and the audited financial statements for the year ended 3 March 2007 The previous financial year ended on 4 March 2006

Principal activities

The principal activity of the Company during the year was the operation of passenger rail services between London (Euston) and Birmingham, Wolverhampton, Holyhead, Liverpool, Manchester, Preston, Carlisle and Glasgow The Company operates these services under the terms of an original franchise agreement dated 19 February 1997, amended and updated as detailed below, between Virgin Rail Group Limited and the Director of Passenger Rail Franchising The Amended and Restated Franchise Agreement runs to 31 March 2012

Results for the year and business review

The profit and loss account in the current year reflects the results of the Company for the year ended 3 March 2007

The operating profit for the year was £10 8 million *(2006 £15 8 million loss)*, and the profit for the year was £10 6 million *(2006 £8 3 million loss)*

Until 9 December 2006, the Company operated under the terms of the original franchise agreement, dated 19 February 1997, and an agreement made with the Strategic Rail Authority ("SRA"), now the DfT, in July 2002 Under this latter agreement ("the July 2002 Arrangement"), the DfT set an annual budget for the franchise which provided for certain franchise support payments to the Company Interpretation of the July 2002 Arrangement was subsequently clarified by a supplemental letter signed by the Company and the DfT in April 2006 ("the Supplemental Letter") This detailed certain amendments to the process for confirmation and subsequent adjustment of the franchise support payments

On 9 December 2006, the Company completed its long term negotiations with the DfT regarding the future of the franchise and its funding, and entered into an Amended and Restated Franchise Agreement ("ARFA"), dated 12 December 2006 but effective from 10 December 2006 The July 2002 Arrangement ceased from this point As part of this settlement, agreements were reached with Network Rail regarding settlement of all outstanding claims and counter-claims up to 9 December 2006 under the PUG 2 Track Access Agreement

The Company prides itself on continually seeking to improve on its customer service and satisfaction, and the selection, training and encouragement of staff continues to reflect this Not only is there considerable focus on our staff, but management are continually reviewing operations to give the best value for money service to customers

The Company has been working with mobile provider Orange to improve on-train mobile phone signal reception giving customers more reliable use of mobile phones, Blackberry devices and 3G Data Cards Following a successful trial on CrossCountry Trains Limited, a trial will commence in the Company and if successful, implementation will follow shortly after A project to deliver Wi-Fi is underway Improvements have been made to our website to simplify fares

On 23 February 2007, one of the Pendolino trains was involved in a derailment in Cumbria, resulting in one fatality Our thoughts remain with the family of the deceased and with the injured The initial report of the Rail Accident Investigation Bureau ("RAIB") suggested that the points were at fault and caused the derailment This was followed by Network Rail publicly accepting responsibility The train is currently in quarantine and detailed examination of the extent of the damage is underway

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

Revenue is a key driver of profitability level and the result of improved journey times, punctuality and comfort has seen large increases in passenger numbers being attracted to our services and journey numbers have grown year on year The Company is attracting passengers from the airlines particularly between London and Manchester, London and Liverpool and, following the security alerts on the airlines, London to Glasgow

Directors' report *(continued)*

Key performance indicators *(continued)*

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

The operations of the Company have again been affected during the year by significant disruption on the West Coast main line, due to major engineering works mainly at weekends However, the weekday timetable is stable and trains are now operating at up to 125 miles per hour The new Pendolino trains are improving the experience of passengers through better reliability, performance and comfort and there have been major year on year improvements in their performance

Train punctuality as measured by Public Performance Measure ("PPM" being the percentage of trains that arrive at their destination within 10 minutes of their scheduled arrival time having called at all scheduled stations) has improved The annual average was 86 1% for the year compared to 83 1% in the previous year

In the latest Customer Satisfaction surveys, the Overall Service Quality improved on its previous high score recorded last year Customer complaints have continued to fall

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

Amended and Restated Franchise Agreement

The Amended and Restated Franchise Agreement was negotiated using a range of assumptions with regards 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

Major incidents

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

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

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 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

Directors' report *(continued)*

Safety *(continued)*

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

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

The Company has made good progress against it's shorter-term major initiatives which include

- completing the implementation of speed supervised tilt operation for Pendolino trains,
- ongoing maintenance of a close safety partnership with Network Rail on the management of Possessions and Signal Sighting as route modernisation is undertaken through actively participating in planning and implementation,
- 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 The core values have been introduced into training courses, job descriptions and Safety Responsibility Statements

Future prospects

The Company now operates under the terms of the ARFA as described above

The directors are confident that this renegotiation will enable the company to move forward on a profitable basis and, at the same time, continue its performance improvement In that respect the Company remains dependent on rail infrastructure improvements, including the conclusion of the West Coast Route Modernisation

Dividends

Dividends paid during the year comprise a final dividend of £13 1 million in respect of the previous year ended 4 March 2006

Since the year end the directors have paid a final dividend of £34 0 million, in respect of the year ended 3 March 2007, which will be recognised in the 2007/08 financial statements

Directors

The directors who held office during the year were as follows

Anthony Collins
Chris Gibb
Charles Belcher
Graham Leech
Linda Bell

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

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

Directors' report *(continued)*

Employees *(continued)*

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 group'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

Events after the balance sheet date

Details of significant events occurring after the balance sheet date are included in note 26 to the financial statements

Political and charitable contributions

The Company made no political or charitable contributions during the year *(2006 £Nil)*

Disclosure of information to auditors

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

Auditors

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

By order of the board

Anthony Collins
Director

120 Campden Hill Road
London
W8 7AR

22 June 2007

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

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

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

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

In preparing these financial statements, the directors are required to

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

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 1985 They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities

KPMG LLP
8 Salisbury Square
London
EC4Y 8BB

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

We have audited the financial statements of West Coast Trains Limited for the year ended 3 March 2007 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses and the related notes These financial statements have been prepared under the accounting policies set out therein

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

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 5

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed

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

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements

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

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 3 March 2007 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

KPMG LLP
Chartered Accountants
Registered Auditor

22 June 2007

Profit and loss account

for the year ended 3 March 2007

	Note	Year ended 3 March 2007 £000	Year ended 4 March 2006 £000
Turnover	2	**540,530**	463,742
Franchise income	3	**83,718**	68,163
Other operating income	4	**17,394**	26,334
Train operating expenditure	5	**(463,096)**	(409,685)
Staff costs	8	**(107,602)**	(102,200)
Depreciation	13	**(2,604)**	(6,305)
Other operating charges		**(57,516)**	(55,870)
Operating profit/(loss)		**10,824**	(15,821)
Interest receivable and similar income	9	**5,837**	3,438
Interest payable and similar charges	10	**(2,233)**	(2,842)
Other finance income (net)	25(ii)	**2,240**	1,949
Profit/(loss) on ordinary activities before taxation	6	**16,668**	(13,276)
Tax (charge)/credit on profit/(loss) on ordinary activities	12	**(6,100)**	5,013
Profit/(loss) for the financial year		**10,568**	(8,263)

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 3 March 2007

	Note	3 March 2007		4 March 2006	
		£000	£000	£000	£000
Fixed assets					
Tangible assets	*13*		1,668		4,069
Investments	*14*		-		-
			1,668		4,069
Current assets					
Debtors	*15*	185,896		185,702	
Cash at bank and in hand	*16*	125,962		69,353	
		311,858		255,055	
Creditors: Amounts falling due within one year	*17*	(245,886)		(193,805)	
Net current assets					
Due within one year			32,902		19,869
Debtors due after more than one year	*15*		33,070		41,381
Total net current assets			65,972		61,250
Total assets less current liabilities			67,640		65,319
Creditors Amounts falling due after more than one year	*18*		(21,000)		(21,000)
Provisions for liabilities	*19*		(4,794)		-
Net assets excluding pension liability			41,846		44,319
Pension liability, net of deferred tax	*25*		(7,539)		(15,323)
Net assets			34,307		28,996
Capital and reserves					
Called up share capital	*21*		-		-
Profit and loss account	*22*		34,307		28,996
Shareholders' funds	*23*		34,307		28,996

These financial statements were approved by the board of directors on 22 June 2007 and were signed on its behalf by

Anthony Collins
Director

Linda Bell
Director

Statement of total recognised gains and losses
for the year ended 3 March 2007

	Year ended 3 March 2007 £000	Year ended 4 March 2006 £000
Profit/(loss) for the financial year	**10,568**	(8,263)
Actuarial gain/(loss) on defined benefit pension scheme (see note 25(iii))	**11,250**	(1,320)
Taxation on actuarial gain/(loss) on defined benefit pension scheme	**(3,375)**	396
Total recognised gains/(losses) relating to the financial year	**18,443**	(9,187)

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

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 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

Franchise income

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

Compensation for service disruption

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

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 estimated useful economic lives of the assets and commences from the date on which the assets are brought into use The lives used for the major categories of assets are

Plant and equipment	-	3 - 10 years
Fixtures and fittings	-	3 - 10 years

Notes *(continued)*

1 Accounting policies *(continued)*

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

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

Pensions and other post retirement benefits

The Company participates in separate sections of the Railways Pension Scheme ("RPS"), which provides benefits on a defined benefit basis The assets of the scheme are held separately from those of the company in an independently administered fund

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 liability recognised for these schemes represents only that part of the net deficit of the schemes that the employer is obliged to fund over the life of the franchise to which the scheme relates The restriction on the liability is presented as the "franchise adjustment"

Notes *(continued)*

1 Accounting policies *(continued)*

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

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 year, together with differences arising from changes in assumptions, are recognised in the statement of total recognised gains and losses in the 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

Assets are taken at mid-market value Details of the pension scheme are provided in note 25

Taxation

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

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

2 Turnover

	2007 £000	2006 £000
Passenger revenue	**502,273**	423,555
Catering income	**8,715**	7,937
Other trading income	**29,542**	32,250
	540,530	463,742

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

3 Franchise income

	2007 £000	2006 £000
Receipts under July 2002 Arrangement	**82,400**	47,014
Adjustments under the Supplemental Letter	**(48,131)**	21,149
Receipts under Amended and Restated Franchise Agreement dated 12 December 2006	**55,327**	-
Revenue Share adjustment	**(5,878)**	-
	83,718	68,163

Notes *(continued)*

3 Franchise income *(continued)*

Until 9 December 2006, franchise income arose under the original Franchise Agreements between the DfT and the Company as supplemented by the July 2002 Arrangement and the Supplemental Letter Amongst other things, the July 2002 Arrangement specified interim support arrangements whilst the franchise terms were being re-negotiated These interim support arrangements were on the basis of annual budgets that included a pre-tax profit margin equivalent to 2% of revenue

As well as the franchise support receipts determined by the DfT for the period to 9 December 2006 under the terms of the July 2002 Arrangement, franchise income adjustments have been recognised to this date under the Supplemental Letter relating to costs and revenues varying from the determined budget

On 12 December 2006, the Company entered into an Amended and Restated Franchise Agreement ("ARFA"), with an effective start date of 10 December 2006 Franchise payments have now been agreed in real prices to 31 March 2012

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

	2007	2006
	£000	£000
Network change compensation and performance regime	**15,028**	24,607
Property	**2,366**	1,727
	17,394	26,334

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 year

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

5 Train operating expenditure

	2007	2006
	£000	£000
Rolling stock costs	**161,666**	161,268
Track access costs	**210,247**	158,832
Station and depot access costs	**11,398**	10,436
Power costs	**19,684**	15,648
Other operating expenditure	**60,101**	63,501
	463,096	409,685

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

Notes *(continued)*

6 Profit/(loss) on ordinary activities before taxation

	2007 £000	2006 £000
Profit/(loss) on ordinary activities before taxation is stated		
after charging/(crediting)		
Depreciation	**2,604**	6,305
Operating lease rentals		
Hire of plant and machinery	**74,525**	78,399
Other operating leases	**15,250**	14,217
Rental income received on properties	**(2,366)**	(1,727)
Auditors' remuneration		
Audit of these financial statements	**49**	47

7 Remuneration of directors

	2007 £000	2006 £000
Aggregate emoluments of directors	**1,013**	932

	Number	
Retirement benefits are accruing for the following directors under		
Defined benefit schemes	**4**	5

The aggregate emoluments of the highest paid director were £296,678 *(2006 £270,045)* 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 year was £14,521 *(2006 £13,915)* with an accrued lump sum of £10,145 *(2006 £9,878)*

8 Staff numbers and costs

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

	Number of employees 2007	2006
Management	**463**	465
Other staff	**2,242**	2,292
	2,705	2,757

Notes *(continued)*

8 Staff numbers and costs *(continued)*

The aggregate payroll costs were as follows

	2007 £000	2006 £000
Wages and salaries	86,509	83,006
Redundancy costs	438	1,724
Social security costs	7,235	6,915
Other pension costs	10,100	8,783
Other staff costs	3,320	1,772
	107,602	102,200

9 Interest receivable and similar income

	2007 £000	2006 £000
Bank interest	5,795	3,438
Other interest	42	-
	5,837	3,438

10 Interest payable and similar charges

	2007 £000	2006 £000
Amounts payable to group undertakings	2,212	2,135
Finance charges on finance leases	4	7
Other interest	17	700
	2,233	2,842

11 Dividends

	2007 £000	2006 £000
Dividends paid		
2005/06 final dividend paid in 2006/07	13,132	-
2004/05 final dividend paid in 2005/06	-	20,000
	13,132	20,000

Since the year end, the directors have paid a dividend of £34 0 million, in respect of the year ended 3 March 2007, which will be recognised in the 2007/08 financial statements

Notes *(continued)*

12 Taxation

Analysis of charge/(credit) in year

	2007		2006	
	£000	**£000**	£000	£000
UK corporation tax				
Current tax on income for the year	**5,577**		(1,566)	
Group relief	**563**		(210)	
Adjustments in respect of prior years	**-**		(1,303)	
Total current tax		**6,140**		(3,079)
Deferred tax (see note 20)				
Origination/reversal of timing differences	**(109)**		(1,188)	
Adjustments in respect of prior years	**69**		(746)	
Total deferred tax		**(40)**		(1,934)
Tax charge/(credit) on profit on ordinary activities		**6,100**		(5,013)

Factors affecting the tax charge/(credit) for the current year

The standard rate of tax for the year based on the UK standard rate of corporation tax is 30% *(2006 30%)* The actual tax charge/(credit) for the current and previous year differs from the standard rate for the reasons set out in the following reconciliation

	2007	2006
	£000	£000
Current tax reconciliation		
Profit/(loss) on ordinary activities before tax	**16,668**	(13,276)
Current tax at 30% *(2006 30%)*	**5,000**	(3,983)
Effects of		
Expenses not deductible for tax purposes	**1,031**	1,019
Depreciation for year in excess of capital allowances	**70**	1,017
Other timing differences	**39**	171
Adjustments in respect of prior years	**-**	(1,303)
Total current tax charge/(credit) (see above)	**6,140**	(3,079)

Notes *(continued)*

13 Tangible fixed assets

	Plant, equipment, fixtures and fittings £000
Cost	
At beginning of year	34,263
Additions	203
At end of year	34,466
Accumulated depreciation	
At beginning of year	30,194
Charge for year	2,604
At end of year	32,798
Net book value	
At 3 March 2007	**1,668**
At 4 March 2006	4,069

Included in the net book value is £Nil *(2006 £0 8 million)* in respect of assets held under finance leases Depreciation charged in the year on these assets amounted to £0 8 million *(2006 £0 9 million)*

14 Investments

	£000
At beginning and end of year	-

The company owns one of the 26 four pence shares in ATOC Limited, and one of the 25 four pence ordinary shares in each of Rail Settlement Plan Limited and Rail Staff Travel Limited

15 Debtors

	2007 £000	2006 £000
Amounts falling due within one year		
Trade debtors	**121,240**	93,168
Amounts owed by group undertakings	**1,453**	2,223
Other debtors	**12,450**	31,338
Deferred tax (see note 20)	**2,301**	2,300
Prepayments and accrued income	**15,382**	15,292
	152,826	144,321
Amounts falling due after more than year		
Prepayments and accrued income	**33,070**	41,381
	185,896	185,702

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

	2007 £000	2006 £000
Deferred costs		
Amounts falling due within one year	**8,310**	8,310
Amounts falling due after more than one year	**33,070**	41,381
	41,380	49,691

16 Cash at bank and in hand

At 3 March 2007, the cash at bank and in hand included £24 2 million *(2006 £23 0 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

	2007 £000	2006 £000
Trade creditors	**170,988**	137,475
Amounts owed to group undertakings	**13,769**	12,138
Corporation tax	**4,282**	8,851
Group relief	**563**	884
Other taxes and social security costs	**2,664**	2,541
Other creditors	**22,628**	5,874
Finance lease obligations	**-**	270
Accruals and other deferred income	**27,992**	23,271
Deferred season ticket income	**3,000**	2,501
	245,886	193,805

18 Creditors: Amounts falling due after more than one year

	2007 £000	2006 £000
Amounts owed to group undertakings	**21,000**	21,000

Notes *(continued)*

18 Creditors: Amounts falling due after more than one year *(continued)*

The maturity of obligations under finance leases, net of finance charges, is as follows

	2007	2006
	£000	£000
Within one year	-	270

19 Provisions for liabilities

	Dilapidations provision
	£000
At beginning of year	-
Charge to the profit and loss account	4,794
At end of year	**4,794**

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 between 2008 and 31 March 2012, the ARFA expiry date

20 Deferred tax

The deferred tax asset, which has been provided for at 30% *(2006 30%)*, is set out below

	2007	2006
	£000	£000
At beginning of year	**8,867**	6,537
Credit to profit and loss account	**40**	1,934
(Charge)/credit to statement of total recognised gains and losses	**(3,375)**	396
At end of year	**5,532**	8,867
Disclosed as		
Debtors – deferred tax asset (see note 15)	**2,301**	2,300
Pension liability (see note 25)	**3,231**	6,567
Net deferred tax asset	**5,532**	8,867

The elements of deferred taxation are as follows

	£000	£000
Accelerated capital allowances	**2,301**	2,300
Other timing differences	**3,231**	6,567
	5,532	8,867

Notes *(continued)*

21 Called up share capital

	2007 £	2006 £
Authorised		
10,000 ordinary shares of £1 each	**10,000**	10,000
Allotted, called up and fully paid:		
1 ordinary share of £1	**1**	1

22 Reserves

	Profit and loss account £000
At beginning of year	28,996
Profit for the financial year	10,568
Dividends paid	(13,132)
Actuarial gain on pension scheme (see note 25(iii))	11,250
Deferred tax on actuarial gain on pension scheme	(3,375)
At end of year	**34,307**

Under the Supplemental Letter there was a restriction as to the level of dividends that the Company could pay out of the distributable reserves based on a calculation agreed within the Supplemental Letter This restriction ceased on 9 December 2006

23 Reconciliation of movements in shareholders' funds

	2007 £000	2006 £000
Profit/(loss) for the financial year	**10,568**	(8,263)
Dividends paid	**(13,132)**	(20,000)
Actuarial gain/(loss) on pension scheme (see note 25(iii))	**11,250**	(1,320)
Deferred taxation on actuarial gain/(loss) on pension scheme	**(3,375)**	396
Net addition to/(reduction in) shareholders' funds	**5,311**	(29,187)
Opening shareholders' funds	**28,996**	58,183
Closing shareholders' funds	**34,307**	28,996

Notes *(continued)*

24 Commitments

(a) The Company had capital commitments of £Nil at 3 March 2007 *(2006 £Nil)*

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

	Land and buildings		Other operating leases	
	2007	2006	**2007**	2006
	£000	£000	**£000**	£000
In the second to fifth years inclusive	**-**	-	**928**	999
After five years	**14,322**	13,833	**67,794**	67,709
	14,322	13,833	**68,722**	68,708

(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, together with new 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

25 Pension scheme

Prior to acquisition by Virgin Rail Group Limited, the Company was participating in the British Rail shared cost section of the Railways Pension Scheme ("RPS") Since acquisition the Company has participated in its own separate shared cost section of the RPS The RPS is a funded scheme and provides benefits based on final pensionable pay The assets of RPS are held separately from those of the Company

The latest actuarial valuation of the Company's sections of the RPS was undertaken at 31 December 2004 using the projected unit method These valuations have been updated to 3 March 2007 by a qualified independent actuary, using revised assumptions that are consistent with the requirements of FRS 17 Present and future pensions were assumed to increase at 3 0% per annum The assets of the sections were taken at their market value, which at 3 March 2007 amounted to £275,500,000 *(2006 £245,232,000)*

The Company has no rights or obligations in respect of sections of the RPS following expiry of the related franchise Therefore, the liabilities recognised for the relevant sections of the RPS only represent that part of the net deficit of each section that the employer is obliged to fund over the life of the franchise to which the section relates The restriction on the liabilities to show the impact of this "franchise adjustment" is shown below

	2007	2006	2005
	%	%	%
Rate of increase in salaries	**4.5**	4 4	*4 3
Rate of increase in pensions in payment and deferred pensions	**3 0**	2 9	2 8
Discount rate	**5.1**	4 8	5 4
Inflation assumption	**3.0**	2 9	2 8

* plus 0 75% pa promotional salary scale

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

Notes *(continued)*

25 Pension scheme *(continued)*

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

	2007		2006		2005	
	Expected rate of return % pa	**Fair value £000**	Expected rate of return % pa	Fair value £000	Expected rate of return % pa	Fair value £000
Fair value of assets						
Equities	**8.5**	**191,170**	7 7	175,990	8 5	153,900
Bonds	**5.1**	**33,360**	4 7	34,783	5 3	28,700
Property	**7.5**	**27,540**	7 0	21,835	7 5	16,200
Other	**6.5**	**23,430**	4 5	12,624	4 7	-
Total market value of assets	**7.8**	**275,500**	7 1	245,232	8 0	198,800
Present value of section liabilities		**(286,270)**		(267,122)		(218,800)
Deficit in the section		**(10,770)**		(21,890)		(20,000)
Franchise adjustment		**-**		-		-
Deficit recognised by company		**(10,770)**		(21,890)		(20,000)
Related deferred tax asset at 30%		**3,231**		6,567		6,000
Net pension liability		**(7,539)**		(15,323)		(14,000)

The amounts included in the financial statements are as follows

(i) Analysis of the amount charged to operating profit

	2007 £000	2006 £000
Current service cost	**10,100**	8,783
Total charged to operating profit	**10,100**	8,783

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

	2007 £000	2006 £000
Interest on section liabilities	**(8,240)**	(7,613)
Expected return on section assets	**10,480**	9,562
Net credit to other finance income	**2,240**	1,949

Notes *(continued)*

25 Pension scheme *(continued)*

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

	2007 £000	2006 £000
Actual return less expected return on section assets	**4,530**	16,941
Experience gain arising on section liabilities	**100**	8,045
Changes in assumptions underlying the present value of section liabilities	**6,620**	(26,306)
Actuarial gain/(loss) recognised in statement of total recognised gains and losses	**11,250**	(1,320)

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

	2007 £000	2006 £000
Deficit at beginning of year	**(21,890)**	(20,000)
Current service cost	**(10,100)**	(8,783)
Contributions paid	**7,730**	6,264
Other finance income	**2,240**	1,949
Actuarial gain/(loss)	**11,250**	(1,320)
Deficit at end of year	**(10,770)**	(21,890)

(v) Experience gains and losses

	2007	2006	2005	2004	2003
Difference between actual and expected return on section assets					
amount (£000)	**4,530**	16,941	5,500	16,700	(28,200)
percentage of section assets	**2%**	7%	3%	10%	(3%)
Experience gain/(loss) on section liabilities					
amount (£000)	**100**	8,045	(10,440)	(8,500)	(8,700)
percentage of present value of section liabilities	**-**	3%	(5%)	(1%)	(6%)
Total actuarial gain/(loss) recognised in statement of total recognised gains and losses					
amount (£000)	**11,250**	(1,320)	(10,440)	(1,900)	(38,000)
percentage of present value of section liabilities	**4%**	-	(5%)	(4%)	(25%)

Notes *(continued)*

26 Events after the balance sheet date

On 2 April 2007 the Company paid a dividend of £34 0 million in respect of the year ended 3 March 2007 This will be accounted for in the profit and loss reserves in the year ended 1 March 2008

It has been announced in the recent Budget that the corporation tax rate applicable to the Company is expected to change from 30% to 28% from 1 April 2008 The deferred tax asset has been calculated at the current UK corporation tax rate of 30% in accordance with FRS 19 Any timing differences which reverse before 1 April 2008 will be charged/credited at 30%, any timing differences which exist at 1 April 2008 will reverse at 28% The estimated financial impact of this change is £369,000

It has also been announced in the recent Budget that Industrial Building Allowances ("IBAs") claimed by the Company are expected to be phased out and abolished from 2011 onwards The deferred tax asset includes the full balance for IBAs as the Finance Bill has not yet received Royal Assent If the legislation for the abolition of IBAs had been in place at 3 March 2007 then a deferred tax asset of £693,000 in respect of IBAs would have been reversed in full

27 Parent undertaking

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

Copies of the Virgin Rail Group Holdings Limited and Virgin Wings Limited consolidated financial statements are available to the public and may be obtained from the Registrar of Companies, Companies House, Crown Way, Cardiff, CF4 3HZ

As at 3 March 2007, the ultimate parent company is Virgin Group Holdings Limited, a company registered in the British Virgin Islands