Registered number: 3007940

West Coast Trains Limited

Directors' report and financial statements

for the financial year ended 5 March 2011

West Coast Trains Limited

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Directors' report
for the financial year ended 5 March 2011

The directors present their annual report and the audited financial statements for the financial year ended 5 March 2011. The previous financial year ended on 6 March 2010.

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 was due to run until 31 March 2012. As announced by the Secretary of State for Transport on 19 May 2011, the start of the new West Coast franchise has been delayed until 9 December 2012. The Virgin Rail Group has entered into bi-lateral negotiations with the Department for Transport ("DfT") to agree acceptable terms for the extension of the existing franchise from 1 April 2012 to 8 December 2012.

Following the expiry of the franchise, the Company will cease to trade. As the directors do not intend to acquire a replacement trade for the Company, they have not prepared the financial statements on a going concern basis. The effect of this is explained in note 1 to the financial statements.

The Virgin Rail Group has successfully pre-qualified for the new West Coast franchise and, with the support of its shareholders, is bidding for the new franchise. The bid is due to be submitted in May 2012 with the results announcement due in August 2012. If the bid is successful, the new franchise will be operated through a new legal entity.

Business review

Despite the current economic conditions, the Company has seen strong passenger revenue growth during the financial year. Volumes have been increasing largely due to increasingly strong weekend travel and marketing campaigns and there has been an improvement in yields. The Company expects to remain profitable during the remaining franchise period.

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 Wi-Fi on board all Pendolino trains.

The Company continues to experience days of significant poor infrastructure performance, despite the 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 at the top of long distance train operators. The Company continues to press for improvements from Network Rail's performance contract to ensure that the effects of poor performance days are minimised.

The high frequency and faster timetable has been fully operational since 2009. The revenue and journey growth from the new timetable has ensured that the Company has grown strongly, especially compared to other long distance train operators.

Results

The profit for the financial year, after taxation, amounted to £39,948,000 (2010: £50,632,000).

Directors' report
for the financial year ended 5 March 2011

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 DfT.

Revenue is a key driver of profitability levels and the result of improved journey times and comfort has contributed to a 11% 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 disruption on the West Coast Main Line mainly at weekends and on bank holidays under normal industry possession arrangements.

Train punctuality is measured by Public Performance Measure. The annual average was 86.6% for the financial year compared to 84.0% in the previous financial year. Although there has been an improvement, it falls below that expected by the directors and the Company has engaged with Network Rail to improve the poor service experienced by customers during extreme weather conditions.

The latest Customer Satisfaction survey results are trending upwards. For the financial year, customer complaints per thousand passenger journeys stood at 2.4 (2010: 2.8). This has been achieved by the Company'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 of performance targets.

Economic conditions
While strong revenue growth has been seen during the financial year, a prolonged economic downturn may result in revenue reduction and potential reduction of profit. Inflation remains high and potentially rising interest rates will put further pressure on discretionary spending and travel.
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.

Directors' report
for the financial year ended 5 March 2011

Principal risks and uncertainties (continued)

Amended and Restated Franchise Agreement ("ARFA")
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.

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.

Directors' report
for the financial year ended 5 March 2011

Future developments

The directors remain confident that, under the terms of the ARFA, the Company will remain profitable during the remaining franchise period.

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.

Following the expiry of the current franchise, the Company will cease to trade.

Dividends

Dividends paid during the financial year totalled £30,500,000 (2010: £67,000,000).

Since the financial year end the Company has paid a dividend of £20,000,000 which will be recognised in the 2011/12 financial statements.

Directors

The directors who served during the financial year were:

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.

Directors' report
for the financial year ended 5 March 2011

Political and charitable contributions

The Company made no political contributions during the financial year (2010: £Nil). Contributions to UK charities amounted to £12,700 (2010: £9,510).

Provision of information to auditors

Each of the persons who are directors at the time when this Directors' report is approved has confirmed that:

- so far as that director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- that director has taken all the steps that ought to have been taken as a director in order to be aware of any information needed by the Company's auditors in connection with preparing their report and to establish that the Company's auditors are aware of that information.

Auditors

Pursuant to section 487(2) of the Companies Act 2006, KPMG LLP will be deemed to be re-appointed and will therefore continue in office.

This report was approved by the board and signed on its behalf by:

Anthony Collins
Director

Date: 3 June 2011

The School House
50 Brook Green
London
W6 7RR

Statement of directors' responsibilities for the financial year ended 5 March 2011

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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business. As explained in note 1 to the financial statements, the directors do not believe that it is appropriate to prepare the financial statements on a going concern basis.

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 are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

We have audited the financial statements of West Coast Trains Limited for the financial year ended 5 March 2011, set out on pages 9 to 29. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). These financial statements have not been prepared on the going concern basis for the reason set out in note 1 to the financial statements.

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 Auditors' 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 Statement of directors' responsibilities, 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 and express an opinion on 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 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 Auditing Practices Board's website at www.frc.org.uk/apb/scope/private.cfm.

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 5 March 2011 and of its profit for the financial year then ended;
- have been properly prepared in accordance with United Kingdom 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 shareholders of West Coast Trains Limited

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the 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

One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

Date: 3 June 2011

Profit and loss account
for the financial year ended 5 March 2011

	Note	**Financial year ended 5 March 2011 £000**	Financial year ended 6 March 2010 £000
Turnover	1,2	**797,246**	720,944
Other operating (expense)/income	3	**(75,802)**	79,954
Train operating expenditure	4	**(486,382)**	(537,758)
Staff costs	7	**(129,098)**	(134,904)
Depreciation	12	**(2,665)**	(1,587)
Other operating charges		**(50,730)**	(58,367)
Operating profit	5	**52,569**	68,282
Interest receivable and similar income	9	**438**	551
Interest payable and similar charges	10	**(565)**	(573)
Other finance income	27	**3,270**	1,180
Profit on ordinary activities before taxation		**55,712**	69,440
Tax on profit on ordinary activities	11	**(15,764)**	(18,808)
Profit for the financial year	21	**39,948**	50,632

All amounts 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.

The notes on pages 12 to 29 form part of these financial statements.

Statement of total recognised gains and losses for the financial year ended 5 March 2011

	Note	**Financial year ended 5 March 2011 £000**	Financial year ended 6 March 2010 £000
Profit for the financial year		**39,948**	50,632
Actuarial (loss)/gain on defined benefit pension scheme	27	**(1,370)**	390
Taxation on actuarial (loss)/gain on defined benefit pension scheme		**370**	(109)
Total recognised gains and losses relating to the financial year		**38,948**	50,913

West Coast Trains Limited
Registered number: 3007940

Balance sheet
as at 5 March 2011

	Note	£000	5 March 2011 £000	£000	6 March 2010 £000
Fixed assets					
Tangible assets	12		**2,948**		5,275
Current assets					
Debtors: amounts falling due after more than one year	14	**601**		8,138	
Debtors: amounts falling due within one year	14	**82,629**		106,989	
Cash at bank and in hand	15	**55,882**		75,815	
		139,112		190,942	
Creditors: amounts falling due within one year	16	**(92,828)**		(154,297)	
Net current assets			**46,284**		36,645
Total assets less current liabilities			**49,232**		41,920
Creditors: amounts falling due after more than one year	17		**(21,000)**		(21,000)
Provisions for liabilities					
Dilapidations provision	19		**(3,522)**		(4,638)
Net assets excluding pension liability			**24,710**		16,282
Pension liability, net of deferred tax	27		**(2,226)**		(2,246)
Net assets			**22,484**		14,036
Capital and reserves					
Called up share capital	20		**-**		-
Profit and loss account	21		**22,484**		14,036
Shareholders' funds	22		**22,484**		14,036

The financial statements were approved and authorised for issue by the board and were signed on its behalf by:

Anthony Collins
Director

Chris Gibb
Director

Date: 3 June 2011

Notes to the financial statements
for the financial year ended 5 March 2011

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.

1.1 Basis of preparation of financial statements

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

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.

The franchise is scheduled to expire on 31 March 2012. As announced by the Secretary of State for Transport on 19 May 2011, the start of the new West Coast franchise has been delayed until 9 December 2012. The Virgin Rail Group has entered into bi-lateral negotiations with the Department for Transport to agree acceptable terms for the extension of the existing franchise from 1 April 2012 to 8 December 2012.

Following the expiry of the franchise, the Company will cease to trade. As the directors do not intend to acquire a replacement trade for the Company, they have not prepared the financial statements on a going concern basis. No adjustments were necessary to the amounts at which the net assets are included in these financial statements compared with the values at which they would have been stated had the going concern basis of accounting been adopted. Based on industry practice certain assets, rights and liabilities of the Company associated with the operations of the franchise will transfer to the new franchise operator on the franchise termination date.

1.2 Cash flow

The Company, being a subsidiary undertaking where 90% or more of the voting rights are controlled within the group whose consolidated financial statements are publicly available, is exempt from the requirement to draw up a cash flow statement in accordance with FRS 1 'Cash flow statements'.

1.3 Turnover

Turnover comprises revenue recognised by the Company in respect of goods and services supplied, exclusive of Value Added Tax and trade discounts.

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.

Revenue is recognised when all performance conditions associated with the revenue have been met.

1.4 Franchise income

Revenue grants receivable/payable 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.

Notes to the financial statements for the financial year ended 5 March 2011

1. Accounting policies (continued)

1.5 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.

1.6 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided to write off the cost of fixed assets, less their 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.

1.7 Fixed asset investments

Fixed asset investments are shown at cost less provision for impairment.

1.8 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 the new trains came into operation until the earlier of the end of the relevant lease agreement or the franchise term.

1.9 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 created. 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.

1.10 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.

Notes to the financial statements
for the financial year ended 5 March 2011

1. Accounting policies (continued)

1.11 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.

1.12 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.

1.13 Pensions

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.

Notes to the financial statements
for the financial year ended 5 March 2011

1. Accounting policies (continued)

1.14 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.

1.15 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.

2. Turnover

	2011	2010
	£000	£000
Passenger revenue	**753,723**	679,034
Catering income	**10,645**	10,503
Other trading income	**32,878**	31,407
	797,246	720,944

All turnover arose within the United Kingdom.

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.

Notes to the financial statements for the financial year ended 5 March 2011

3. Other operating (expense)/income

	2011 £000	2010 £000
Network change compensation and performance regime	**32,042**	57,421
Property income	**2,635**	2,436
Franchise (expense)/income (see below)	**(110,479)**	20,097
	(75,802)	79,954

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.

	2011 £000	2010 £000
Franchise (expense)/income		
Payments under ARFA (Amended and Restated Franchise Agreement)	**(155,270)**	(48,023)
Revenue support adjustment	**44,791**	68,120
	(110,479)	20,097

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. Train operating expenditure

	2011 £000	2010 £000
Rolling stock costs	**215,345**	215,608
Track access costs	**136,700**	170,552
Station and depot access costs	**11,400**	10,966
Power costs	**44,277**	60,147
Other operating expenditure	**78,660**	80,485
	486,382	537,758

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

Notes to the financial statements
for the financial year ended 5 March 2011

5. Operating profit

The operating profit is stated after charging/(crediting):

	2011 £000	2010 £000
Depreciation of tangible fixed assets:		
- owned by the company	**2,665**	1,587
Operating lease rentals:		
- hire of plant and machinery	**81,055**	82,773
- other operating leases	**9,631**	9,078
Loss on disposal of tangible fixed assets	**41**	-
Rental income received on properties	**(2,635)**	(2,436)

6. Auditors' remuneration

	2011 £000	2010 £000
Fees payable to the Company's auditor for the audit of these financial statements	**70**	70

7. Staff numbers and costs

Staff costs, including directors' remuneration, were as follows:

	2011 £000	2010 £000
Wages and salaries	**108,299**	115,266
Social security costs	**8,839**	9,438
Other pension costs	**11,960**	10,200
	129,098	134,904

The average number of employees employed by the Company, including the directors, during the financial year was as follows:

	2011 No.	2010 No.
Management	**460**	503
Other staff	**2,452**	2,492
	2,912	2,995

Notes to the financial statements
for the financial year ended 5 March 2011

8. Directors' remuneration

	2011 £000	2010 £000
Emoluments	**857**	808

During the financial year retirement benefits were accruing to 3 directors (2010: 3) in respect of defined benefit pension schemes.

The highest paid director received remuneration of £322,000 (2010: £309,000).

The total accrued pension provision of the highest paid director at 5 March 2011 amounted to £42,000 (2010: £38,000).

The amount of the accrued lump sum in respect of the highest paid director at 5 March 2011 amounted to £23,000 (2010: £21,000).

9. Interest receivable

	2011 £000	2010 £000
Bank interest receivable	**393**	541
Other interest receivable	**45**	10
	438	551

10. Interest payable

	2011 £000	2010 £000
Amounts payable to group undertakings	**565**	541
Other interest payable	**-**	32
	565	573

Notes to the financial statements
for the financial year ended 5 March 2011

11. Taxation

	2011	2010
	£000	£000
Analysis of tax charge in the financial year		
Current tax		
UK corporation tax charge on income for the financial year	**15,354**	18,932
Adjustments in respect of prior financial years	**(274)**	(777)
UK group relief	**340**	-
Total current tax	**15,420**	18,155
Deferred tax		
Origination and reversal of timing differences	**38**	603
Effect of decreased tax rate	**82**	-
Adjustments in respect of prior financial years	**224**	50
Total deferred tax (see note 18)	**344**	653
Tax on profit on ordinary activities	**15,764**	18,808

Factors affecting tax charge for the financial year

The tax assessed for the financial year is lower than (2010: lower than) the standard rate of corporation tax in the UK of 28% (2010: 28%). The differences are explained below:

	2011	2010
	£000	£000
Profit on ordinary activities before tax	**55,712**	69,440
Current tax at 28% (2010: 28%)	**15,599**	19,443
Effects of:		
Expenses not deductible for tax purposes	**134**	92
Depreciation in excess of capital allowances/(capital allowances in excess of depreciation)	**364**	(141)
Adjustments in respect of prior financial years	**(274)**	(777)
Other timing differences	**(403)**	(462)
Total current tax charge (see above)	**15,420**	18,155

Notes to the financial statements
for the financial year ended 5 March 2011

11. Taxation (continued)

Factors that may affect future tax charges

The Emergency Budget on 22 June 2010 announced that the UK corporation tax rate was to reduce from 28% to 24% over a period of four years from 2011. The first reduction in the UK corporation tax rate from 28% to 27% was enacted on 27 July 2010 and was to be effective from 1 April 2011. The Budget on 23 March 2011 announced further measures to reduce the UK corporation tax rate by an additional 1% from 27% to 26% with effect from 1 April 2011, and to 23% by 2014.

These changes will reduce the Company's future current tax charge accordingly. The measurement of deferred tax is based upon the expected change in rate to 27% as enacted at the balance sheet date. This had the effect of reducing the deferred tax asset recognised at the balance sheet date by £82,080. If the rate change to 26% had been substantively enacted on or before the balance sheet date it would have had the effect of reducing the deferred tax asset recognised at that date by a further £86,100.

The full anticipated effect of the announced further 3% rate reduction has not yet been quantified, although this will further reduce the Company's future current tax charge and reduce the Company's deferred tax asset accordingly.

12. Tangible fixed assets

	Fixtures & fittings £000
Cost	
At beginning of financial year	**40,498**
Additions	**379**
Disposals	**(41)**
At end of financial year	**40,836**
Depreciation	
At beginning of financial year	**35,223**
Charge for financial year	**2,665**
At end of financial year	**37,888**
Net book value	
At 5 March 2011	**2,948**
At 6 March 2010	5,275

13. Investments

At the beginning and end of the financial year, the Company owned 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.

Notes to the financial statements
for the financial year ended 5 March 2011

14. Debtors

	5 March 2011 £000	6 March 2010 £000
Due after more than one year		
Prepayments and accrued income	**601**	8,138

	5 March 2011 £000	6 March 2010 £000
Due within one year		
Trade debtors	**45,495**	39,038
Amounts owed by group undertakings	**1,900**	39
Other debtors	**13,706**	46,347
Deferred tax asset (see note 18)	**1,501**	1,425
Prepayments and accrued income	**20,027**	20,140
	82,629	106,989

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

	2011 £000	2010 £000
Deferred costs:		
Amounts falling due within one year	**7,808**	8,310
Amounts falling due after more than one year	**601**	8,138
Total	**8,409**	16,448

15. Cash at bank and in hand

At 5 March 2011, the cash at bank and in hand included £9,630,000 (2010: £16,303,000) in a separate escalating rental reserve account, in relation to the leasing of the Pendolino trains under the terms of the ARFA.

Notes to the financial statements
for the financial year ended 5 March 2011

16. Creditors: Amounts falling due within one year

	5 March 2011 £000	6 March 2010 £000
Trade creditors	**45,729**	58,989
Amounts owed to group undertakings	**4,433**	3,905
Corporation tax	**16,815**	13,076
Group relief	**340**	-
Social security and other taxes	**3,303**	4,642
Other creditors	**7,060**	51,945
Accruals and other deferred income	**9,999**	17,381
Deferred season ticket income	**5,149**	4,359
	92,828	154,297

17. Creditors: Amounts falling due after more than one year

	5 March 2011 £000	6 March 2010 £000
Amounts owed to group undertakings	**21,000**	21,000

18. Deferred tax

The deferred tax asset, which has been recognised at 27% (2010: 28%), is set out below:

	2011 £000	2010 £000
At beginning of financial year	**2,299**	3,061
Charge to profit and loss account	**(344)**	(653)
Credit/(charge) to statement of total recognised gains and losses	**370**	(109)
At end of financial year	**2,325**	2,299

	2011 £000	2010 £000
Disclosed as:		
Debtors - deferred tax asset (see note 14)	**1,501**	1,425
Pension liability (see note 27)	**824**	874
Net deferred tax asset	**2,325**	2,299

Notes to the financial statements
for the financial year ended 5 March 2011

18. Deferred tax (continued)

The elements of deferred taxation are as follows:

	2011 £000	2010 £000
Excess of capital allowances over depreciation	**1,501**	1,425
Other timing differences	**824**	874
	2,325	2,299

19. Provisions

	Dilapidations provision £000
At beginning of financial year	**4,638**
Utilised during financial year	**(1,116)**
At end of financial year	**3,522**

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 the end of the franchise.

20. Share capital

	5 March 2011 £	6 March 2010 £
Allotted, called up and fully paid		
1 ordinary share of £1	**1**	1

21. Reserves

	Profit and loss account £000
At beginning of financial year	**14,036**
Profit for the financial year	**39,948**
Dividends paid (see note 23)	**(30,500)**
Actuarial loss on pension scheme, net of deferred tax	**(1,000)**
At end of financial year	**22,484**

Notes to the financial statements
for the financial year ended 5 March 2011

22. Reconciliation of movement in shareholders' funds

	5 March 2011 £000	6 March 2010 £000
Opening shareholders' funds	**14,036**	30,123
Profit for the financial year	**39,948**	50,632
Dividends paid (see note 23)	**(30,500)**	(67,000)
Actuarial loss on pension scheme, net of deferred tax	**(1,000)**	281
Closing shareholders' funds	**22,484**	14,036

23. Dividends

	2011 £000	2010 £000
Dividends paid	**30,500**	67,000

Since the financial year end, the Company has paid a dividend of £20,000,000 which will be recognised in the 2011/12 financial statements.

24. Capital commitments

The Company had capital commitments of £Nil at 5 March 2011 (2010: £Nil).

25. Operating lease commitments

At 5 March 2011 the Company had annual commitments under non-cancellable operating leases as follows:

	Plant and machinery		Other operating leases	
	2011 £000	2010 £000	**2011 £000**	2010 £000
Expiry date:				
Between 2 and 5 years	**87,771**	87,481	**9,587**	8,934

The Company's operating leases will expire in line with the end of the franchise.

26. Other financial commitments

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.

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

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 5 March 2011 was £3,787,000 (2010: £2,518,000).

Notes to the financial statements for the financial year ended 5 March 2011

27. 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 5 March 2011 by a qualified independent actuary, using revised assumptions that are consistent with the requirements of FRS 17.

	2011	2010
	£000	£000
Net pension liability		
Present value of funded defined benefit obligations	**(385,210)**	(386,770)
Fair value of section assets	**326,550**	293,540
Deficit in section	**(58,660)**	(93,230)
Members share of section	**23,460**	37,290
Franchise adjustment	**32,150**	52,820
Deficit recognised by Company	**(3,050)**	(3,120)
Related deferred tax asset	**824**	874
Net pension liability	**(2,226)**	(2,246)

	2011	2010
	£000	£000
Movements in present value of defined benefit obligation		
At beginning of financial year	**386,770**	298,060
Employer share of current service cost	**11,870**	10,000
Members share of current service cost	**7,460**	6,190
Past service cost	**90**	200
Interest cost	**22,680**	19,250
Benefits paid	**(10,980)**	(10,950)
Actuarial (gains)/losses	**(32,680)**	64,020
At end of financial year	**385,210**	386,770

Notes to the financial statements
for the financial year ended 5 March 2011

27. Pensions (continued)

	2011	2010
	£000	£000
Movements in fair value of section assets		
At beginning of financial year	**293,540**	211,200
Expected return on section assets	**23,040**	16,200
Contributions by employer	**10,130**	10,670
Contributions by members	**6,240**	6,310
Benefits paid	**(10,980)**	(10,950)
Actuarial gains	**4,580**	60,110
At end of financial year	**326,550**	293,540

	2011	2010
	£000	£000
Expense recognised in the profit and loss account		
Current service cost	**11,870**	10,000
Past service cost	**90**	200
Expected return on section assets	**(13,820)**	(9,720)
Interest on section liabilities	**13,610**	11,550
Interest credit on franchise adjustment	**(3,060)**	(3,010)
	8,690	9,020

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

	2011	2010
	£000	£000
Staff costs	**11,960**	10,200
Other finance income	**(3,270)**	(1,180)
	8,690	9,020

Amounts recognised in the statement of total recognised gains and losses

The total amount recognised in the statement of total recognised gains and losses in respect of actuarial gains and losses is £1,370,000 loss (2010: £390,000 gain).

Cumulative actuarial gains/losses reported in the statement of total recognised gains and losses since 1 March 2004 are £940,000 gain (2010: £2,310,000 gain).

Notes to the financial statements
for the financial year ended 5 March 2011

27. Pensions (continued)

	2011 £000	2010 £000
Movement in deficit recognised by Company		
At beginning of financial year	**(3,120)**	(5,160)
Current service cost	**(11,870)**	(10,000)
Past service cost	**(90)**	(200)
Contributions	**10,130**	10,670
Other finance income	**3,270**	1,180
Actuarial (loss)/gain	**(1,370)**	390
At end of financial year	**(3,050)**	(3,120)

	2011 £000	2010 £000
Fair value of section assets		
Equities	**188,890**	196,710
Bonds	**41,780**	29,950
Property	**28,210**	24,380
Other	**67,670**	42,500
	326,550	293,540
Actual return on section assets	**27,620**	76,310

Future contributions

The Company currently expects to pay contributions of £10,400,000 over the period of the 2011/12 financial statements.

Notes to the financial statements
for the financial year ended 5 March 2011

27. Pensions (continued)

Actuarial assumptions

Principal actuarial assumptions at the balance sheet date were as follows:

	2011	2010
	%	%
Rate of increase in salaries	**4.4**	4.4
Rate of increase in pensions in payment and deferred pensions	**2.6**	3.4
Discount rate	**5.6**	5.8
RPI inflation assumption	**3.4**	3.4
CPI inflation assumption	**2.6**	n/a
Long term rate of return expected on		
- Equities	**8.5**	8.2
- Bonds	**5.3**	5.3
- Property	**8.0**	7.9
- Other	**7.5**	7.5
- Overall	**7.8**	7.8

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)

The inflation assumptions for certain benefits are now based on the Consumer Price Index ("CPI") rather than the Retail Price Index ("RPI") following the change announced by the UK Government in 2010.

History of section

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

	2011	2010	2009	2008	2007
	£000	£000	£000	£000	£000
Balance sheet					
Present value of section liabilities	**(385,210)**	(386,770)	(298,060)	(318,910)	(293,450)
Fair value of section assets	**326,550**	293,540	211,200	299,190	275,500
Deficit in section	**(58,660)**	(93,230)	(86,860)	(19,720)	(17,950)
Members share of section	**23,460**	37,290	34,740	7,890	7,180
Franchise adjustment	**32,150**	52,820	46,960	**-**	-
Deficit recognised by Company	**(3,050)**	(3,120)	(5,160)	(11,830)	(10,770)

Notes to the financial statements
for the financial year ended 5 March 2011

27. Pensions (continued)

	2011 £000	2010 £000	2009 £000	2008 £000	2007 £000
Experience adjustments					
Experience adjustments on section assets:					
amount (£000)	**2,750**	36,070	(66,920)	(12,040)	4,530
percentage of section assets	**1%**	12%	(32%)	(4%)	2%
Experience adjustments on section liabilities:					
amount (£000)	**970**	(2,510)	(1,860)	(1,220)	100
percentage of present value of section liabilities	**-**	(1%)	(1%)	-	-

28. Post balance sheet events

On 19 May 2011, the Secretary of State for Transport announced that the start of the new West Coast franchise has been delayed from 1 April 2012 to 9 December 2012.

The Virgin Rail Group has entered into bi-lateral negotiations with the DfT to agree acceptable terms for the extension of the existing franchise for the period from 1 April 2012 to 8 December 2012.

29. 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 5 March 2011 the ultimate parent company is Virgin Group Holdings Limited, a company registered in the British Virgin Islands.