Registered number: 3007940

West Coast Trains Limited

Directors' report and financial statements

for the financial period ended 31 March 2013

West Coast Trains Limited

Contents

Directors' report
for the financial period ended 31 March 2013

The directors present their report and the financial statements for the 52 week period ended 31 March 2013 The previous financial statements were for the 56 week period ended 31 March 2012

Principal activities

The principal activity of the Company during the financial period was the operation of passenger rail services between London (Euston) and Birmingham, Wolverhampton, Holyhead, Chester, Liverpool, Manchester, Preston, Carlisle and Glasgow The Company operated 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 Under this agreement, the franchise was due to run until 31 March 2012 However the start of the new West Coast franchise was delayed by the Department for Transport ("DfT") until 9 December 2012 On 26 October 2011, an extension of the existing franchise from 1 April 2012 to 8 December 2012 was agreed between the DfT and the Virgin Rail Group

A bid process for the new West Coast franchise, due to start on 9 December 2012, took place during 2012 The Virgin Rail Group submitted its bid on 2 May 2012 On 15 August 2012 it was announced that the new franchise had been awarded to First Group plc Following a legal challenge by the Virgin Rail Group, on 3 October 2012, the Secretary of State for Transport announced that the competition to run the new franchise had been cancelled after the discovery, by the DfT, of significant technical flaws in the way the franchise process was conducted

The Virgin Rail Group entered into negotiations with the DfT in relation to the future operation of services on the West Coast Main Line On 5 December 2012, an Interim Franchise Agreement was signed between the Virgin Rail Group and the DfT for the operation of services from 9 December 2012 to 8 November 2014 The Interim Franchise Agreement initially operates as a management contract, with both revenue and cost risk being borne by the DfT In return the Virgin Rail Group receives a margin of 1% on revenue The Interim Franchise Agreement makes provision for the DfT and the Virgin Rail Group to agree revised commercial terms that would see the Virgin Rail Group taking on greater revenue and cost risk in the period to 8 November 2014 in return for a commercial margin

On 26 March 2013 the DfT announced a programme for letting future franchises, with the long-term West Coast franchise expected to start in April 2017 The Virgin Rail Group is in discussion with the DfT in relation to the operation of services for the interim period from 9 November 2014 to April 2017

Business review

Despite the current economic conditions, the Company has seen passenger revenue growth during the financial 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

The Company continues to experience days of significant poor infrastructure performance by Network Rail which impact its overall 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 The Company continues to press for improvements from Network Rail's performance contract to ensure that the effects of poor performance days are minimised Despite this, customer satisfaction as measured by the independent National Passenger Survey has been trending upwards and the Company has been at the top of long distance train operators, in terms of overall satisfaction scores, for the last seven bi-annual surveys

During the financial period the introduction of 106 new Pendolino carriages has successfully been completed The new carriages will mean that up to 28,000 extra seats per day can be provided

Results

The profit for the financial period, after taxation, amounted to £19,067,000 (2012 £29,786,000)

Directors' report
for the financial period ended 31 March 2013

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

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 an increase in passenger journeys year on year

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

The operations of the Company have been affected during the financial period 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 PPM The annual average was 83 6% for the financial period compared to 85 8% in the previous financial period The current level falls below that expected by the directors and the Company has engaged with Network Rail to improve the poor service experienced by customers

The latest Customer Satisfaction survey results are trending upwards This has been achieved by the Company's good value for money offerings and the dedication of staff In the Autumn 2012 National Passenger Survey the Company achieved an overall satisfaction score of 92%, its highest ever score For the financial period, customer complaints per thousand passenger journeys stood at 2 4 (2012 2 5)

Directors' report
for the financial period ended 31 March 2013

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 above In addition, the Company has procedures in place to respond to any major incident that may occur

Ongoing Network Rail performance
Reliable running of the Company's high frequency 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 revenue growth has been seen during the financial period, 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

Interim Franchise Agreement
The Interim Franchise Agreement was negotiated using a range of assumptions with regard to revenue growth and cost base Under the current 1% margin arrangements, this risk is minimised If revised commercial terms are agreed that see the Company taking on greater revenue and cost risk, it will be imperative that the Company takes all actions outlined in its bid to ensure that its 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

Directors' report
for the financial period ended 31 March 2013

Future developments

Based on the anticipated profitable position under the current 1% margin arrangements, 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, it is anticipated that the Company will cease to trade as any new franchise would be operated through a new legal entity

Dividends

Dividends paid during the financial period totalled £39,750,000 (2012 £26,000,000)

Since the financial period end the Company has declared and paid a dividend of £2,500,000 which will be recognised in the 2013/14 financial statements

Directors

The directors who served during the financial period 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

Political and charitable contributions

The Company made no political contributions during the financial period (2012 £Nil) Contributions to UK charities amounted to £19,190 (2012 £14,310)

West Coast Trains Limited

Directors' report
for the financial period ended 31 March 2013

Disclosure 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 relevant audit information 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 24 June 2013

The Battleship Building
179 Harrow Road
London
W2 6NB

West Coast Trains Limited

Directors' responsibilities statement for the financial period ended 31 March 2013

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 accounting 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

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 period ended 31 March 2013, set out on pages 9 to 30 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)

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 Directors' responsibilities statement, set out on page 6, 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 Financial Reporting Council's website at www frc org uk/auditscopeukprivate

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 31 March 2013 and of its profit for the financial period 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 period 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

Darren Turner (Senior Statutory Auditor)

for and on behalf of
KPMG LLP, Statutory Auditor

One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

Date 24 June 2013

West Coast Trains Limited

Profit and loss account
for the financial period ended 31 March 2013

	Note	52 weeks ended 31 March 2013 £000	56 weeks ended 31 March 2012 £000
Turnover	1,2	**895,750**	929,246
Other operating income	3	**43,290**	25,888
Train operating expenditure	4	**(612,641)**	(552,510)
Staff costs	7	**(150,259)**	(148,865)
Depreciation and amortisation	12,13	**(698)**	(2,128)
Other operating charges		**(155,072)**	(215,302)
Operating profit	5	**20,370**	36,329
Interest receivable and similar income	9	**404**	508
Interest payable and similar charges	10	**(533)**	(602)
Other finance income	27	**4,670**	4,540
Profit on ordinary activities before taxation		**24,911**	40,775
Tax on profit on ordinary activities	11	**(5,844)**	(10,989)
Profit for the financial period	21	**19,067**	29,786

All amounts relate to continuing operations

The notes on pages 12 to 30 form part of these financial statements

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

West Coast Trains Limited

Statement of total recognised gains and losses for the financial period ended 31 March 2013

	Note	**52 weeks ended 31 March 2013 £000**	56 weeks ended 31 March 2012 £000
Profit for the financial period		**19,067**	29,786
Actuarial gain/(loss) on defined benefit pension scheme	27	**20**	(700)
Taxation on actuarial gain/(loss) on defined benefit pension scheme	18	**(5)**	168
Total recognised gains and losses relating to the financial period		**19,082**	29,254

West Coast Trains Limited
Registered number: 3007940

Balance sheet
as at 31 March 2013

	Note	£000	2013 £000	£000	2012 £000
Fixed assets					
Intangible assets	12		**847**		-
Tangible assets	13		**305**		840
			1,152		840
Current assets					
Debtors amounts falling due after more than one year	15	**11**		-	
Debtors amounts falling due within one year	15	**51,333**		49,125	
Cash at bank and in hand		**71,214**		69,672	
		122,558		118,797	
Creditors amounts falling due within one year	16	**(96,265)**		(69,810)	
Net current assets			**26,293**		48,987
Total assets less current liabilities			**27,445**		49,827
Creditors: amounts falling due after more than one year	17		**(21,000)**		(21,000)
Provisions for liabilities					
Dilapidations provision	19		**(813)**		(2,679)
Net assets excluding pension liability			**5,632**		26,148
Pension liability, net of deferred tax	27		**(562)**		(410)
Net assets			**5,070**		25,738
Capital and reserves					
Called up share capital	20		**-**		-
Profit and loss account	21		**5,070**		25,738
Shareholders' funds	22		**5,070**		25,738

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

Anthony Collins
Director

Date 24 June 2013

Notes to the financial statements for the financial period ended 31 March 2013

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 wholly owned subsidiaries 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 Virgin Rail Group Holdings Limited owns 99 74% of the Company Related party transactions within the group have not been disclosed on the basis that the Company is assumed in substance to be 100% owned

1.2 Going concern

The Interim Franchise Agreement is currently due to run until 8 November 2014 On 26 March 2013 the DfT announced a programme for letting future franchises, with the long-term West Coast franchise expected to start in April 2017 The Virgin Rail Group is in discussion with the DfT in relation to the operation of services for the interim period from 9 November 2014 to April 2017

The financial statements have been prepared on the going concern basis which assumes the Company will continue in operational existence for the foreseeable future The directors have reviewed the cash flow forecasts of the company for the foreseeable future The forecasts demonstrate the Company expects to meet its liabilities as they fall due for the foreseeable future The directors therefore believe it is appropriate for the financial statements to be prepared on the going concern basis

1.3 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'

1.4 Turnover

Turnover comprises revenue recognised by the Company in respect of goods and services supplied during the financial period, exclusive of Value Added Tax

Passenger turnover 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 receivable, 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

Turnover is recognised when all performance conditions associated with the turnover have been met

Notes to the financial statements
for the financial period ended 31 March 2013

1 Accounting policies (continued)

1.5 Franchise expense/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 period to which they relate

1 6 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 within 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

1.7 Intangible fixed assets and amortisation

Where the conditions relating to the award of a franchise require the Company to assume legal responsibility for any pension liability that exists at that point in time, the Company recognises an asset or liability representing the fair value of the related net pension surplus or deficit that the Company expects to fund during the franchise term When a pension deficit exists at the start of the franchise, a corresponding intangible asset is recognised, reflecting a cost in acquiring the right to operate the franchise

Intangible assets with a finite life, such as intangible assets recognised on commencement of a rail franchise, are amortised annually over their expected useful lives Amortisation is calculated on a straight-line basis to write off the cost of the asset over the remaining duration of the franchise

1.8 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

1.9 Fixed asset investments

Fixed asset investments are shown at cost less provision for impairment

1 10 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. Accounting policies (continued)

1.11 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

1.12 Leases

Where the Company enters into a lease, as a lessee, 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

1.13 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

1.14 Taxation

The charge for taxation is based on the result for the financial period 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

Notes to the financial statements for the financial period ended 31 March 2013

1. Accounting policies (continued)

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

1 16 Dividends

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

Notes to the financial statements for the financial period ended 31 March 2013

2. Turnover

	52 weeks ended 31 March 2013 £000	56 weeks ended 31 March 2012 £000
Passenger turnover	**851,062**	882,038
Catering income	**10,748**	11,433
Other trading income	**33,940**	35,775
	895,750	929,246

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

3. Other operating income

	52 weeks ended 31 March 2013 £000	56 weeks ended 31 March 2012 £000
Network change compensation and performance regime	**40,373**	22,922
Property income	**2,917**	2,966
	43,290	25,888

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 period

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

4 Train operating expenditure

	52 weeks ended 31 March 2013 £000	56 weeks ended 31 March 2012 £000
Rolling stock costs	**302,333**	236,283
Track access costs	**156,215**	161,175
Station and depot access costs	**13,246**	13,137
Power costs	**65,129**	56,403
Other operating expenditure	**75,718**	85,512
	612,641	552,510

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 period ended 31 March 2013

5 Operating profit

The operating profit is stated after charging/(crediting)

	52 weeks ended 31 March 2013 £000	56 weeks ended 31 March 2012 £000
Amortisation of intangible fixed assets	**163**	-
Depreciation of tangible fixed assets		
- owned by the company	**535**	2,128
Operating lease rentals		
- hire of plant and machinery	**112,156**	85,979
- other operating leases	**10,239**	10,519
Rental income received on properties	**(2,917)**	(2,966)
Franchise expense (see below)	**103,755**	167,984

	52 weeks ended 31 March 2013 £000	56 weeks ended 31 March 2012 £000
Franchise expense/(income)		
Payments under ARFA (Amended and Restated Franchise Agreement)	**107,053**	214,320
Revenue support adjustment under ARFA	**(27,611)**	(46,336)
Interim Franchise Agreement payments	**24,313**	-
	103,755	167,984

The ARFA, applicable up to 8 December 2012, allowed for adjustment to franchise payments under a number of circumstances, the more routine circumstances being for revenue share and revenue support These provisions applied when actual revenues exceeded or fell short of that anticipated as set out in the National Rail Franchise Terms

The Interim Franchise Agreement, applicable from 9 December 2012, allows for the Company receiving a pre-tax profit margin equivalent to 1% of revenue

6 Auditors' remuneration

	52 weeks ended 31 March 2013 £000	56 weeks ended 31 March 2012 £000
Fees payable to the Company's auditor for the audit of these financial statements	**79**	78

Notes to the financial statements
for the financial period ended 31 March 2013

7. Staff numbers and costs

Staff costs, including directors' remuneration, were as follows

	52 weeks ended 31 March 2013 £000	56 weeks ended 31 March 2012 £000
Wages and salaries	**124,325**	125,128
Social security costs	**11,154**	11,197
Other pension costs	**14,780**	12,540
	150,259	148,865

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

	52 weeks ended 31 March 2013 No.	56 weeks ended 31 March 2012 No
Management	**468**	448
Other staff	**2,447**	2,438
	2,915	2,886

8 Directors' remuneration

	52 weeks ended 31 March 2013 £000	56 weeks ended 31 March 2012 £000
Remuneration	**995**	902

During the financial period retirement benefits were accruing to 3 directors (2012 3) in respect of defined benefit pension schemes

The highest paid director received remuneration of £374,000 (2012 £338,000)

The total accrued pension provision of the highest paid director at 31 March 2013 amounted to £54,000 (2012 £48,000)

The amount of the accrued lump sum in respect of the highest paid director at 31 March 2013 amounted to £29,000 (2012 £26,000)

Notes to the financial statements for the financial period ended 31 March 2013

9. Interest receivable

	52 weeks ended 31 March 2013 £000	56 weeks ended 31 March 2012 £000
Bank interest receivable	**393**	459
Other interest receivable	**11**	49
	404	508

10. Interest payable

	52 weeks ended 31 March 2013 £000	56 weeks ended 31 March 2012 £000
Amounts payable to group undertakings	**533**	588
Other interest payable	**-**	14
	533	602

11. Taxation

	52 weeks ended 31 March 2013 £000	56 weeks ended 31 March 2012 £000
Analysis of tax charge in the financial period		
Current tax		
UK corporation tax charge on income for the financial period	**5,751**	8,797
Adjustments in respect of prior financial periods	**49**	(111)
UK group relief	**-**	1,239
Total current tax	**5,800**	9,925
Deferred tax		
Origination and reversal of timing differences	**20**	672
Effect of change in tax rate	**60**	258
Adjustments in respect of prior financial periods	**(36)**	134
Total deferred tax (see note 18)	**44**	1,064
Tax on profit on ordinary activities	**5,844**	10,989

Notes to the financial statements for the financial period ended 31 March 2013

11. Taxation (continued)

Factors affecting tax charge for the financial period

The tax assessed for the financial period is lower than (2012 lower than) the standard rate of corporation tax in the UK of 24% (2012 26%) The differences are explained below

	52 weeks ended 31 March 2013 £000	56 weeks ended 31 March 2012 £000
Profit on ordinary activities before tax	**24,911**	40,775
Current tax at 24% (2012 26%)	**5,979**	10,602
Effects of:		
Expenses not deductible for tax purposes	**35**	102
(Capital allowances in excess of depreciation)/depreciation in excess of capital allowances	**(74)**	107
Adjustments in respect of prior financial periods	**49**	(111)
Other timing differences	**(189)**	(835)
Tax rate change	**-**	60
Total current tax charge (see above)	**5,800**	9,925

Factors that may affect future tax charges

A reduction in the corporation tax rate from 24% to 23% (effective from 1 April 2013) was substantively enacted on 3 July 2012 A rate of 23% has been used within the deferred tax calculations within these financial statements

Further reductions to the main rate are proposed to reduce the rate to 21% by 1 April 2014 and to 20% by 1 April 2015 Neither of these expected rate reductions had been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements

Notes to the financial statements for the financial period ended 31 March 2013

12. Intangible fixed assets

	Rail franchise £000
Cost	
At beginning of financial period	-
Additions	1,010
At end of finanical period	1,010
Amortisation	
At beginning of financial period	-
Charge for the financial period	163
At end of financial period	163
Net book value	
At 31 March 2013	847
At 31 March 2012	-

The rail franchise intangible asset relates to the pension deficit in existence at the start of the Interim Franchise Agreement, for which a corresponding intangible asset is recognised, reflecting a cost in acquiring the right to operate the franchise for the period to 8 November 2014

13 Tangible fixed assets

	Fixtures & fittings £000
Cost	
At beginning and end of financial period	40,856
Depreciation	
At beginning of financial period	40,016
Charge for the financial period	535
At end of financial period	40,551
Net book value	
At 31 March 2013	305
At 31 March 2012	840

14. Investments

At the beginning and end of the financial period, 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 period ended 31 March 2013

15 Debtors

	2013 £000	2012 £000
Due after more than one year		
Prepayments and accrued income	**11**	-

	2013 £000	2012 £000
Due within one year		
Trade debtors	**38,295**	25,930
Amounts owed by group undertakings	**51**	1,303
Other debtors	**8,601**	16,360
Deferred tax asset (see note 18)	**1,212**	1,299
Prepayments and accrued income	**3,174**	4,233
	51,333	49,125

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

	2013 £000	2012 £000
Deferred costs		
Amounts falling due within one year	**17**	2,075
Amounts falling due after more than one year	**11**	-
	28	2,075

16 Creditors: Amounts falling due within one year

	2013 £000	2012 £000
Trade creditors	**54,987**	40,485
Amounts owed to group undertakings	**2,285**	2,105
Group relief	**1,056**	1,239
Corporation tax	**9,438**	8,734
Other taxation and social security	**3,822**	3,585
Deferred season ticket income	**5,064**	4,941
Other creditors	**18,775**	7,212
Accruals and other deferred income	**838**	1,509
	96,265	69,810

Notes to the financial statements
for the financial period ended 31 March 2013

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

	2013 £000	2012 £000
Amounts owed to group undertakings	**21,000**	21,000

18. Deferred tax

The deferred tax asset, which has been recognised at 23% (2012 24%), is set out below

	2013 £000	2012 £000
At beginning of financial period	**1,429**	2,325
Charge to profit and loss account	**(44)**	(1,064)
(Charge)/credit to statement of total recognised gains and losses	**(5)**	168
At end of financial period	**1,380**	1,429

	2013 £000	2012 £000
Disclosed as		
Debtors - deferred tax asset (see note 15)	**1,212**	1,299
Pension liability (see note 27)	**168**	130
Net deferred tax asset	**1,380**	1,429

The elements of deferred taxation are as follows

	2013 £000	2012 £000
Excess of capital allowances over depreciation	**1,210**	1,299
Other timing differences	**170**	130
	1,380	1,429

Based on the anticipated profitable position of the Company during the remaining franchise period, the deferred tax asset has been recognised

Notes to the financial statements for the financial period ended 31 March 2013

19. Provisions

	Dilapidations provision £000
At beginning of financial period	2,679
Utilised during financial period	(1,530)
Amounts released during financial period	(336)
At end of financial period	813

The dilapidations provision relates to costs required to be incurred at properties leased by the Company in accordance with lease obligations These costs are expected to be incurred by the end of the franchise as extended by the Interim Franchise Agreement

20 Share capital

	2013 £	2012 £
Allotted, called up and fully paid		
1 ordinary share of £1	1	1

21. Reserves

	Profit and loss account £000
At beginning of financial period	25,738
Profit for the financial period	19,067
Dividends paid (see note 23)	(39,750)
Actuarial gain on pension scheme, net of deferred tax	15
At end of financial period	5,070

22. Reconciliation of movement in shareholders' funds

	2013 £000	2012 £000
Opening shareholders' funds	25,738	22,484
Profit for the financial period	19,067	29,786
Dividends paid (see note 23)	(39,750)	(26,000)
Actuarial gain/(loss) on pension scheme, net of deferred tax	15	(532)
Closing shareholders' funds	5,070	25,738

Notes to the financial statements
for the financial period ended 31 March 2013

23. Dividends

	52 weeks ended 31 March 2013 £000	56 weeks ended 31 March 2012 £000
Dividends paid	**39,750**	26,000

Since the financial period end, the Company has declared and paid a dividend of £2,500,000 which will be recognised in the 2013/14 financial statements

24. Capital commitments

The Company had no capital commitments at 31 March 2013 (2012 £Nil)

25 Operating lease commitments

At 31 March 2013 the Company had annual commitments under non-cancellable operating leases as follows

	Plant and machinery		Other operating leases	
	2013	2012	**2013**	2012
	£000	£000	**£000**	£000
Expiry date:				
Within 1 year	-	88,810	-	9,799
Between 2 and 5 years	**118,937**	-	**10,550**	-

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 Interim Franchise Agreement, there is a requirement for the Company to comply with certain performance and other obligations

Notes to the financial statements for the financial period ended 31 March 2013

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 2010 using the projected unit method This valuation has been updated to 31 March 2013 by a qualified independent actuary, using revised assumptions that are consistent with the requirements of FRS 17

	2013	2012
	£000	£000
Net pension liability		
Present value of funded defined benefit obligations	**(553,270)**	(477,880)
Fair value of section assets	**383,150**	346,910
Deficit in section	**(170,120)**	(130,970)
Members share of section	**68,050**	52,390
Franchise adjustment	**101,340**	78,040
Deficit recognised by Company	**(730)**	(540)
Related deferred tax asset	**168**	130
Net pension liability	**(562)**	(410)

	2013	2012
	£000	£000
Movements in present value of defined benefit obligation		
At beginning of financial period	**477,880**	385,210
Employer share of current service cost	**14,780**	12,470
Members share of current service cost	**9,410**	7,890
Past service cost	**-**	70
Interest cost	**23,450**	23,440
Benefits paid	**(12,880)**	(11,210)
Actuarial losses	**40,630**	60,010
At end of financial period	**553,270**	477,880

Notes to the financial statements for the financial period ended 31 March 2013

27 Pensions (continued)

	2013 £000	2012 £000
Movements in fair value of section assets		
At beginning of financial period	**346,910**	326,550
Expected return on section assets	**24,940**	27,790
Contributions by employer	**10,910**	11,210
Contributions by members	**6,820**	7,000
Benefits paid	**(12,880)**	(11,210)
Actuarial gains/(losses)	**6,450**	(14,430)
At end of financial period	**383,150**	346,910

	2013 £000	2012 £000
Expense recognised in the profit and loss account		
Current service cost	**14,780**	12,470
Past service cost	**-**	70
Expected return on section assets	**(14,960)**	(16,670)
Interest on section liabilities	**14,070**	14,060
Interest credit on franchise adjustment	**(3,780)**	(1,930)
	10,110	8,000

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

	2013 £000	2012 £000
Staff costs	**14,780**	12,540
Other finance income	**(4,670)**	(4,540)
	10,110	8,000

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 £20,000 gain (2012 £700,000 loss)

Cumulative actuarial gains/losses reported in the statement of total recognised gains and losses since 1 March 2004 are £260,000 gain (2012 £240,000 gain)

Notes to the financial statements for the financial period ended 31 March 2013

27. Pensions (continued)

	2013 £000	2012 £000
Movement in deficit recognised by Company		
At beginning of financial period	**(540)**	(3,050)
Current service cost	**(14,780)**	(12,470)
Past service cost	**-**	(70)
Contributions	**10,910**	11,210
Other finance income	**4,670**	4,540
Actuarial gain/(loss)	**20**	(700)
Deficit at start of Interim Franchise Agreement (see note 12)	**(1,010)**	-
At end of financial period	**(730)**	(540)

	2013 £000	2012 £000
Fair value of section assets		
Equities	**162,050**	179,970
Bonds	**61,860**	54,470
Property	**36,210**	42,380
Other	**123,030**	70,090
	383,150	346,910
Actual return on section assets	**31,390**	13,360

Future contributions

The Company currently expects to pay contributions of £11,200,000 over the period of the 2013/14 financial statements

Notes to the financial statements for the financial period ended 31 March 2013

27. Pensions (continued)

Actuarial assumptions

Principal actuarial assumptions at the balance sheet date were as follows

	2013 %	2012 %
Rate of increase in salaries	**4.3**	4 3
Rate of increase in pensions in payment and deferred pensions	**2.3**	2 3
Discount rate	**4.6**	4 85
RPI inflation assumption	**3.3**	3 3
CPI inflation assumption	**2.3**	2 3
Long term rate of return expected on		
- Equities	**8.0**	7 75
- Bonds	**3.9**	4 7
- Property	**7 5**	7 5
- Other	**7 0**	7 25
- Overall	**7 0**	7 1

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) 26 years (male), 28½ years (female)

Member aged 40 (life expectancy from age 60) 28½ years (male), 31 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 periods is as follows

	31 March 2013 £000	31 March 2012 £000	5 March 2011 £000	6 March 2010 £000	28 February 2009 £000
Balance sheet					
Present value of section liabilities	**(553,270)**	(477,880)	(385,210)	(386,770)	(298,060)
Fair value of section assets	**383,150**	346,910	326,550	293,540	211,200
Deficit in section	**(170,120)**	(130,970)	(58,660)	(93,230)	(86,860)
Members share of section	**68,050**	52,390	23,460	37,290	34,740
Franchise adjustment	**101,340**	78,040	32,150	52,820	46,960
Deficit recognised by Company	**(730)**	(540)	(3,050)	(3,120)	(5,160)

Notes to the financial statements for the financial period ended 31 March 2013

27. Pensions (continued)

	31 March 2013 £000	31 March 2012 £000	5 March 2011 £000	6 March 2010 £000	28 February 2009 £000
Experience adjustments					
Experience adjustments on section assets					
amount (£000)	**3,870**	(8,660)	2,750	36,070	(66,920)
percentage of section assets	**1%**	(3%)	1%	12%	(32%)
Experience adjustments on section liabilities					
amount (£000)	**(8,220)**	(6,070)	970	(2,510)	(1,860)
percentage of present value of section liabilities	**(1%)**	(1%)	-	(1%)	(1%)

28. 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 31 March 2013 the ultimate parent company is Virgin Group Holdings Limited, a company registered in the British Virgin Islands