Registered number: 3007940

West Coast Trains Limited

Directors' report and financial statements

for the financial year ended 31 March 2014

West Coast Trains Limited

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West Coast Trains Limited

Strategic report
for the financial year ended 31 March 2014

Introduction

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 operated these services under the terms of the Interim Franchise Agreement, dated 5 December 2012, for the period from 9 December 2012 to 8 November 2014. The Interim Franchise Agreement operated as a management contract, with the majority of revenue and cost risk being borne by the Department for Transport ("DfT").

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. Following negotiations with the DfT, a new Franchise Agreement was signed on 18 June 2014. This supercedes the Interim Franchise Agreement and is effective for the period from 22 June 2014 to 31 March 2017, with an option for the DfT to extend it by up to one year.

The new Franchise Agreement sees the Company taking on greater revenue and cost risk in return for a commercial profit margin. It will see the Company delivering improvements to the customer experience, local communities and the environment. In addition there are plans for new direct train services from London to Blackpool and Shrewsbury.

Business review

The Company has seen strong passenger revenue and journey growth during the financial year.

The Company is focused on continually improving the customer experience and customer satisfaction levels. The selection, training, development and encouragement of staff continues to reflect this; while management is continually reviewing operations to provide the best value for money service to customers.

Customer satisfaction as measured by the independent National Passenger Survey is positive and the Company has been at the top of long distance train operators, in terms of overall satisfaction scores, for the last nine bi-annual surveys.

The Company continues to experience days of poor infrastructure performance 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 under its performance contract to ensure that the effects of poor performance delays are minimised. In addition the Company entered into an alliance with Network Rail on 5 December 2013 to focus on performance improvements and efficiency savings.

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.

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 year, economic conditions affect demand for rail services with subsequent impact on financial performance. Inflation and potentially rising interest rates will put 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.

Principal risks and uncertainties (continued)

Franchise Agreement
The new Franchise Agreement 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 its targets are met.

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.

Cyber risk
The Company, whilst maintaining adequate protection, is aware that the risks of cyber attacks are increasing. The Company, along with its suppliers, is constantly monitoring the risk to its operations.

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.

Financial key performance indicators

Financial KPIs focus on profitability and cash management. Financial results are closely monitored by management, shareholders and the DfT.

The Company has seen strong passenger revenue and journey growth year on year. Annual passenger journeys now stand at 31.9 million, a 5% increase from the previous financial year.

Other key performance indicators

Significant non-financial KPIs include train punctuality, safety, customer satisfaction and net advocacy scores. Safety is discussed further in the Safety section below.

The operations of the Company have 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 PPM. The annual average was 85.7% for the financial year compared to 83.6% in the previous financial year. The current level falls below that expected by the directors and the Company has engaged with Network Rail to improve the service experienced by customers.

The latest Customer Satisfaction survey results maintain the best in class position. This has been achieved by the Company's good value for money offerings and the dedication of staff. In the Autumn 2013 National Passenger Survey the Company achieved an overall satisfaction score of 91% (Autumn 2012: 92%). For the financial year, customer correspondence per thousand passenger journeys stood at 3.8 (2013: 2.4). Delay repay compensation commenced during the financial year.

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 accident 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.

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

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

Future developments

The directors remain confident that, under the terms of the new Franchise Agreement, the Company will remain profitable over its franchise term.

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

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

Philip Whittingham
Director

Date: 23 June 2014

Directors' report
for the financial year ended 31 March 2014

The directors present their report and the financial statements for the financial year ended 31 March 2014.

Results and dividends

The profit for the financial year, after taxation, amounted to £6,808,000 (2013: £19,067,000).

Dividends paid during the financial year totalled £9,650,000 (2013: £39,750,000).

Directors

The directors who served during the financial year were:

Anthony Collins (resigned 11 October 2013)
Christopher Gibb (resigned 11 November 2013)
Graham Leech
Philip Whittingham (appointed 1 October 2013)
Phillip Bearpark (appointed 1 October 2013)

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

Political contributions

The Company made no political contributions during the financial year (2013: £Nil).

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.

Disclosure of information to auditor

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 auditor is 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 auditor is aware of that information.

Directors' report
for the financial year ended 31 March 2014

Auditor

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:

P. Whitt

Philip Whittingham
Director

Date: 23 June 2014

The Battleship Building
179 Harrow Road
London
W2 6NB

Directors' responsibilities statement for the financial year ended 31 March 2014

The directors are responsible for preparing the Strategic report, 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 Accounting Standards and applicable law (United Kingdom Generally Accepted Accounting Practice). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and 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 auditor's 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 31 March 2014, 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).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an Auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

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 2014 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 Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent auditor's 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: 23 June 2014

Profit and loss account
for the financial year ended 31 March 2014

	Note	2014 £000	2013 £000
Turnover	1,2	**951,132**	895,750
Other operating income	3	**39,414**	43,290
Train operating expenditure	4	**(666,144)**	(612,641)
Staff costs	7	**(157,392)**	(150,259)
Depreciation and amortisation	12,13	**(630)**	(698)
Other operating charges		**(162,597)**	(155,072)
Operating profit	5	**3,783**	20,370
Interest receivable and similar income	9	**331**	404
Interest payable and similar charges	10	**(142)**	(533)
Other finance income	28	**5,320**	4,670
Profit on ordinary activities before taxation		**9,292**	24,911
Tax on profit on ordinary activities	11	**(2,484)**	(5,844)
Profit for the financial year	22	**6,808**	19,067

All amounts relate to continuing operations.

The notes on pages 12 to 29 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.

Statement of total recognised gains and losses for the financial year ended 31 March 2014

	Note	2014 £000	2013 £000
Profit for the financial year		**6,808**	19,067
Actuarial (loss)/gain on defined benefit pension scheme	28	**(100)**	20
Taxation on actuarial (loss)/gain on defined benefit pension scheme	19	**20**	(5)
Total recognised gains and losses relating to the financial year		**6,728**	19,082

West Coast Trains Limited
Registered number: 3007940

Balance sheet
as at 31 March 2014

	Note	£000	2014 £000	£000	2013 £000
Fixed assets					
Intangible assets	12		**320**		847
Tangible assets	13		**202**		305
			522		1,152
Current assets					
Stocks	15	**408**		-	
Debtors: amounts falling due after more than one year	16	**-**		11	
Debtors: amounts falling due within one year	16	**57,073**		51,333	
Cash at bank and in hand		**56,770**		71,214	
		114,251		122,558	
Creditors: amounts falling due within one year	17	**(90,326)**		(96,265)	
Net current assets			**23,925**		26,293
Total assets less current liabilities			**24,447**		27,445
Creditors: amounts falling due after more than one year	18		**(21,000)**		(21,000)
Provisions for liabilities					
Dilapidations provision	20		**(835)**		(813)
Net assets excluding pension liability			**2,612**		5,632
Pension liability, net of deferred tax	28		**(464)**		(562)
Net assets			**2,148**		5,070
Capital and reserves					
Called up share capital	21		**-**		-
Profit and loss account	22		**2,148**		5,070
Shareholders' funds	23		**2,148**		5,070

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

P. Whitt

Philip Whittingham
Director

Date: 23 June 2014

Notes to the financial statements for the financial year ended 31 March 2014

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 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 year, 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 and car parking. 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 year ended 31 March 2014

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 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 Stocks

Stocks are valued at the lower of cost and net realisable value after making due allowance for obsolete and slow-moving stocks.

1.11 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 thc point at which thc ncw trains camc into operation until the earlier of the end of the relevant lease agreement or the franchise term.

Notes to the financial statements for the financial year ended 31 March 2014

1. Accounting policies (continued)

1.12 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 undertook 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.

1.13 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.

1.14 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.

1.15 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 year ended 31 March 2014

1. Accounting policies (continued)

1.16 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.

1.17 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 year ended 31 March 2014

2. Turnover

	2014	2013
	£000	£000
Passenger turnover	**906,692**	851,062
Catering income	**11,415**	10,748
Other trading income	**33,025**	33,940
	951,132	895,750

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 and car parking.

3. Other operating income

	2014	2013
	£000	£000
Network change compensation and performance regime	**36,392**	40,373
Property income	**3,022**	2,917
	39,414	43,290

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.

4. Train operating expenditure

	2014	2013
	£000	£000
Rolling stock costs	**318,792**	302,333
Track access costs	**186,222**	156,215
Station and depot access costs	**13,884**	13,246
Power costs	**66,985**	65,129
Other operating expenditure	**80,261**	75,718
	666,144	612,641

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 31 March 2014

5. Operating profit

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

	2014 £000	2013 £000
Amortisation of intangible fixed assets	527	163
Depreciation of tangible fixed assets:		
- owned by the company	103	535
Operating lease rentals:		
- hire of plant and machinery	119,409	112,156
- other operating leases	10,511	10,239
Rental income received on properties	(3,022)	(2,917)
Franchise expense (see below)	97,472	103,755

	2014 £000	2013 £000
Franchise expense/(income)		
Interim Franchise Agreement payments	97,472	24,313
Payments under ARFA (Amended and Restated Franchise Agreement)	-	107,053
Revenue support adjustment under ARFA	-	(27,611)
	97,472	103,755

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

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.

6. Auditors' remuneration

	2014 £000	2013 £000
Fees payable to the Company's auditor for the audit of these financial statements	84	79

Amounts receivable by the Company's auditor in respect of services to the Company and its associates, other than the audit of the Company's financial statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis in the consolidated financial statements of Virgin Wings Limited, the parent undertaking of the largest group of undertakings, including the Company, for which consolidated financial statements are drawn up.

Notes to the financial statements
for the financial year ended 31 March 2014

7. Staff numbers and costs

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

	2014 £000	2013 £000
Wages and salaries	**129,259**	124,325
Social security costs	**11,633**	11,154
Other pension costs	**16,500**	14,780
	157,392	150,259

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

	2014 No.	2013 No.
Management	**444**	468
Other staff	**2,529**	2,447
	2,973	2,915

8. Directors' remuneration

	2014 £000	2013 £000
Remuneration	**939**	995
Compensation for loss of office	**255**	-

During the financial year retirement benefits were accruing to 3 directors (2013: 3) in respect of defined benefit pension schemes.

The highest paid director, currently in office, received remuneration of £324,000 (2013: £374,000).

The total accrued pension provision of the highest paid director at 31 March 2014 amounted to £75,000 (2013: £54,000).

The amount of the accrued lump sum in respect of the highest paid director at 31 March 2014 amounted to £55,000 (2013: £29,000).

9. Interest receivable

	2014 £000	2013 £000
Bank interest receivable	**326**	393
Other interest receivable	**5**	11
	331	404

Notes to the financial statements for the financial year ended 31 March 2014

10. Interest payable

	2014 £000	2013 £000
Amounts payable to group undertakings	**140**	533
Other interest payable	**2**	-
	142	533

11. Taxation

	2014 £000	2013 £000
Analysis of tax charge in the financial year		
Current tax		
UK corporation tax charge on profit for the financial year	**2,906**	5,751
Adjustments in respect of prior financial years	**(50)**	49
Total current tax	**2,856**	5,800
Deferred tax (see note 19)		
Origination and reversal of timing differences	**(585)**	20
Effect of change in tax rate	**180**	60
Adjustments in respect of prior financial years	**33**	(36)
Total deferred tax	**(372)**	44
Tax on profit on ordinary activities	**2,484**	5,844

Factors affecting tax charge for the financial year

The tax assessed for the financial year is higher than (2013: lower than) the standard rate of corporation tax in the UK of 23% (2013: 24%). The differences are explained below:

	2014 £000	2013 £000
Profit on ordinary activities before tax	**9,292**	24,911
Current tax at 23% (2013: 24%)	**2,137**	5,979
Effects of:		
Expenses not deductible for tax purposes	**95**	35
Depreciation in excess of capital allowances/(capital allowances in excess of depreciation)	**731**	(74)
Adjustments in respect of prior financial years	**(50)**	49
Other timing differences	**(57)**	(189)
Total current tax charge (see above)	**2,856**	5,800

Notes to the financial statements for the financial year ended 31 March 2014

11. Taxation (continued)

Factors that may affect future tax charges

Reductions in the corporation tax rate from 23% to 21% (effective from 1 April 2014) and from 21% to 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. A rate of 20% has been used within the deferred tax calculations within these financial statements.

12. Intangible fixed assets

	Rail franchise £000
Cost	
At 1 April 2013 and 31 March 2014	**1,010**
Amortisation	
At 1 April 2013	**163**
Charge for the financial year	**527**
At 31 March 2014	**690**
Net book value	
At 31 March 2014	**320**
At 31 March 2013	847

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 1 April 2013 and 31 March 2014	**40,856**
Depreciation	
At 1 April 2013	**40,551**
Charge for the financial year	**103**
At 31 March 2014	**40,654**
Net book value	
At 31 March 2014	**202**
At 31 March 2013	305

Notes to the financial statements for the financial year ended 31 March 2014

14. 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.

15. Stocks

	2014 £000	2013 £000
Raw materials and consumables	**408**	-

16. Debtors

	2014 £000	2013 £000
Due after more than one year		
Prepayments and accrued income	-	11

	2014 £000	2013 £000
Due within one year		
Trade debtors	**41,257**	38,295
Amounts owed by group undertakings	**244**	51
Other debtors	**9,515**	8,601
Prepayments and accrued income	**4,401**	3,174
Deferred tax asset (see note 19)	**1,656**	1,212
	57,073	51,333

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

	2014 £000	2013 £000
Deferred costs:		
Amounts falling due within one year	**11**	17
Amounts falling due after more than one year	-	11
	11	28

Notes to the financial statements for the financial year ended 31 March 2014

17. Creditors: Amounts falling due within one year

	2014 £000	2013 £000
Trade creditors	**59,475**	54,987
Amounts owed to group undertakings	**344**	2,285
Group relief	**656**	1,056
Corporation tax	**8,803**	9,438
Other taxation and social security	**4,084**	3,822
Deferred season ticket income	**5,595**	5,064
Other creditors	**10,565**	18,775
Accruals and other deferred income	**804**	838
	90,326	96,265

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

	2014 £000	2013 £000
Amounts owed to group undertakings	**21,000**	21,000

19. Deferred tax

The deferred tax asset, which has been recognised at 20% (2013: 23%), is set out below:

	2014 £000	2013 £000
At 1 April 2013	**1,380**	1,429
Credit/(charge) to profit and loss account	**372**	(44)
Credit/(charge) to statement of total recognised gains and losses	**20**	(5)
At 31 March 2014	**1,772**	1,380

	2014 £000	2013 £000
Disclosed as:		
Debtors - deferred tax asset (see note 16)	**1,656**	1,212
Pension liability (see note 28)	**116**	168
Net deferred tax asset	**1,772**	1,380

Notes to the financial statements for the financial year ended 31 March 2014

19. Deferred tax (continued)

The elements of deferred taxation are as follows:

	2014 £000	2013 £000
Excess of capital allowances over depreciation	**1,654**	1,210
Other timing differences	**118**	170
	1,772	1,380

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

20. Provisions

	Dilapidations provision £000
At 1 April 2013	**813**
Utilised during financial year	**(48)**
Charge to profit and loss account	**70**
At 31 March 2014	**835**

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.

21. Share capital

	2014 £	2013 £
Allotted, called up and fully paid		
1 ordinary share of £1	**1**	1

22. Reserves

	Profit and loss account £000
At 1 April 2013	**5,070**
Profit for the financial year	**6,808**
Dividends paid (see note 24)	**(9,650)**
Actuarial loss on pension scheme, net of deferred tax	**(80)**
At 31 March 2014	**2,148**

Notes to the financial statements for the financial year ended 31 March 2014

23. Reconciliation of movement in shareholders' funds

	2014 £000	2013 £000
Opening shareholders' funds	**5,070**	25,738
Profit for the financial year	**6,808**	19,067
Dividends paid (see note 24)	**(9,650)**	(39,750)
Actuarial (loss)/gain on pension scheme, net of deferred tax	**(80)**	15
Closing shareholders' funds	**2,148**	5,070

24. Dividends

	2014 £000	2013 £000
Dividends paid	**9,650**	39,750

25. Capital commitments

The Company had no capital commitments at 31 March 2014 (2013: £Nil).

26. Operating lease commitments

At 31 March 2014 the Company had annual commitments under non-cancellable operating leases as follows:

	Plant and machinery		Other operating leases	
	2014 £000	2013 £000	**2014 £000**	2013 £000
Expiry date:				
Between 2 and 5 years	**119,641**	118,937	**11,616**	10,550

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

27. 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 year ended 31 March 2014

28. 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 2014 by a qualified independent actuary, using revised assumptions that are consistent with the requirements of FRS 17.

	2014	2013
	£000	£000
Net pension liability		
Present value of funded defined benefit obligations	**(579,570)**	(553,270)
Fair value of section assets	**407,030**	383,150
Deficit in section	**(172,540)**	(170,120)
Members share of section	**69,020**	68,050
Franchise adjustment	**102,940**	101,340
Deficit recognised by Company	**(580)**	(730)
Related deferred tax asset	**116**	168
Net pension liability	**(464)**	(562)

	2014	2013
	£000	£000
Movements in present value of defined benefit obligation		
At 1 April 2013	**553,270**	477,880
Employer share of current service cost	**16,450**	14,780
Members share of current service cost	**10,600**	9,410
Past service cost	**50**	-
Interest cost	**25,730**	23,450
Benefits paid	**(15,110)**	(12,880)
Actuarial (gains)/losses	**(11,420)**	40,630
At 31 March 2014	**579,570**	553,270

Notes to the financial statements
for the financial year ended 31 March 2014

28. Pensions (continued)

	2014 £000	2013 £000
Movements in fair value of section assets		
At 1 April 2013	**383,150**	346,910
Expected return on section assets	**26,830**	24,940
Contributions by employer	**11,430**	10,910
Contributions by members	**7,220**	6,820
Benefits paid	**(15,110)**	(12,880)
Actuarial (losses)/gains	**(6,490)**	6,450
At 31 March 2014	**407,030**	383,150

	2014 £000	2013 £000
Expense recognised in the profit and loss account		
Current service cost	**16,450**	14,780
Past service cost	**50**	-
Expected return on section assets	**(16,100)**	(14,960)
Interest on section liabilities	**15,440**	14,070
Interest credit on franchise adjustment	**(4,660)**	(3,780)
	11,180	10,110

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

	2014 £000	2013 £000
Staff costs	**16,500**	14,780
Other finance income	**(5,320)**	(4,670)
	11,180	10,110

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 £100,000 loss (2013: £20,000 gain).

Cumulative actuarial gains/losses reported in the statement of total recognised gains and losses since 1 March 2004 are £160,000 gain (2013: £260,000 gain).

Notes to the financial statements for the financial year ended 31 March 2014

28. Pensions (continued)

	2014 £000	2013 £000
Movement in deficit recognised by Company		
At 1 April 2013	**(730)**	(540)
Current service cost	**(16,450)**	(14,780)
Past service cost	**(50)**	-
Contributions	**11,430**	10,910
Other finance income	**5,320**	4,670
Actuarial (loss)/gain	**(100)**	20
Deficit at start of Interim Franchise Agreement (see note 12)	-	(1,010)
At 31 March 2014	**(580)**	(730)

	2014 £000	2013 £000
Fair value of section assets		
Equities	**170,570**	162,050
Bonds	**66,380**	61,860
Property	**38,970**	36,210
Other	**131,110**	123,030
	407,030	383,150
Actual return on section assets	**20,340**	31,390

Future contributions

Following the signing of the new Franchise Agreement, as explained in note 29, the Company currently expects to pay contributions of £12,000,000 over the period of the 2014/15 financial year.

Notes to the financial statements for the financial year ended 31 March 2014

28. Pensions (continued)

Actuarial assumptions

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

	2014	2013
	%	%
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	**4.5**	4.6
RPI inflation assumption	**3.3**	3.3
CPI inflation assumption	**2.3**	2.3
Long term rate of return expected on		
- Equities	**8.0**	8.0
- Bonds	**4.3**	3.9
- Property	**7.5**	7.5
- Other	**7.0**	7.0
- Overall	**7.0**	7.0

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)

History of section

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

	31 March 2014 £000	31 March 2013 £000	31 March 2012 £000	5 March 2011 £000	6 March 2010 £000
Balance sheet					
Present value of section liabilities	**(579,570)**	(553,270)	(477,880)	(385,210)	(386,770)
Fair value of section assets	**407,030**	383,150	346,910	326,550	293,540
Deficit in section	**(172,540)**	(170,120)	(130,970)	(58,660)	(93,230)
Members share of section	**69,020**	68,050	52,390	23,460	37,290
Franchise adjustment	**102,940**	101,340	78,040	32,150	52,820
Deficit recognised by Company	**(580)**	(730)	(540)	(3,050)	(3,120)

Notes to the financial statements for the financial year ended 31 March 2014

28. Pensions (continued)

	31 March 2014 £000	31 March 2013 £000	31 March 2012 £000	5 March 2011 £000	6 March 2010 £000
Experience adjustments					
Experience adjustments on section assets:					
amount (£000)	**(3,890)**	3,870	(8,660)	2,750	36,070
percentage of section assets	**(1%)**	1%	(3%)	1%	12%
Experience adjustments on section liabilities:					
amount (£000)	**2,880**	(8,220)	(6,070)	970	(2,510)
percentage of present value of section liabilities	**-**	(1%)	(1%)	-	(1%)

29. Post balance sheet events

On 18 June 2014, the new Franchise Agreement was signed. It is effective for the period from 22 June 2014 to 31 March 2017. It supercedes the Interim Franchise Agreement which was due to run until 8 November 2014.

30. 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 2014 the ultimate parent company is Virgin Group Holdings Limited, a company registered in the British Virgin Islands.