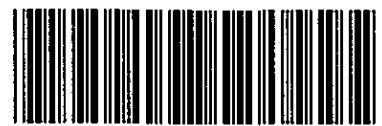


Virgin Rail Group Limited

**Directors' report and financial statements
for the financial period ended 31 March 2013**

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Virgin Rail Group Limited

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Virgin Rail Group Limited

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 Company is an intermediate holding company which owns the West Coast Trains Limited ("West Coast") franchise that operates passenger rail services in England, Scotland and Wales.

The West Coast franchise was due to run until 8 December 2012. A bid process for the new West Coast franchise took place during 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 Department for Transport ("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. 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.

Results for the year and business review

The profit and loss account, presented on page 6, reflects the results of the Company for the financial period ended 31 March 2013.

The profit for the financial period, after taxation, amounted to £41,802,000 (2012: £28,976,000).

Dividends

Dividends paid during the financial period totalled £39,750,000 (2012: £28,750,000).

Since the financial period end, following receipt of a dividend of £2,525,000 from subsidiary undertakings, the Company has declared and paid a dividend of £4,500,000 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.

Political and charitable contributions

The Company made no political or charitable contributions during the financial period (2012: £Nil).

Virgin Rail Group 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

A handwritten signature in black ink, appearing to read 'A Collins', with a large circular flourish at the start.

Anthony Collins
Director

Date 24 June 2013

The Battleship Building
179 Harrow Road
London
W2 6NB

Virgin Rail Group 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.

Virgin Rail Group Limited

Independent auditors' report to the shareholders of Virgin Rail Group Limited

We have audited the financial statements of Virgin Rail Group Limited for the financial period ended 31 March 2013, set out on pages 6 to 15. 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 3, 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.

Virgin Rail Group Limited

Independent auditors' report to the shareholders of Virgin Rail Group 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

Virgin Rail Group Limited

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

		52 weeks ended 31 March 2013 £000	56 weeks ended 31 March 2012 £000
	Note		
Staff costs	4	2,228	3,394
Other operating charges		(25)	(64)
Operating profit	2	2,203	3,330
Income from shares in group undertakings		39,750	26,250
Interest receivable and similar income	6	533	588
Profit on ordinary activities before taxation		42,486	30,168
Tax on profit on ordinary activities	7	(684)	(1,192)
Profit for the financial period	13	41,802	28,976

All amounts relate to continuing operations

There were no recognised gains and losses for 2013 or 2012 other than those included in the profit and loss account

The notes on pages 8 to 15 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

Virgin Rail Group Limited
Registered number: 3282548

Balance sheet
as at 31 March 2013

	Note	£000	2013 £000	£000	2012 £000
Fixed assets					
Investments	8		4,116		4,116
Current assets					
Debtors amounts falling due after more than one year	9	21,000		21,000	
Debtors amounts falling due within one year	9	3,515		3,713	
Cash at bank and in hand		228		215	
		<u>24,743</u>		<u>24,928</u>	
Creditors: amounts falling due within one year	10	<u>(2,825)</u>		<u>(5,062)</u>	
Net current assets			<u>21,918</u>		<u>19,866</u>
Total assets less current liabilities and net assets			<u>26,034</u>		<u>23,982</u>
Capital and reserves					
Called up share capital	12		10,077		10,077
Share premium account	13		12,631		12,631
Profit and loss account	13		3,326		1,274
Shareholders' funds	14		<u>26,034</u>		<u>23,982</u>

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

Virgin Rail Group Limited

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

The Company is itself a subsidiary company and is exempt from the requirement to prepare group accounts by virtue of section 400 of the Companies Act 2006. These financial statements therefore present information about the Company as an individual undertaking and not about its group.

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 West Coast franchise 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 Fixed asset investments

Fixed asset investments are shown at cost less provision for impairment. The Company's impairment review is based on discounted cash flows over the remaining life of the West Coast Trains Limited franchise using a discount rate that reflects current market assessments of the time value of money and the risks specific to the investment.

1.5 Operating leases

Rentals under operating leases are charged to the profit and loss account on a straight line basis over the lease term.

Virgin Rail Group Limited

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

1 Accounting policies (continued)

1.6 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.

1.7 Dividends

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

2. Operating profit

The operating profit is stated after charging

	52 weeks ended 31 March 2013 £000	56 weeks ended 31 March 2012 £000
Operating lease rentals		
Other operating leases	715	797

3. 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	6	6

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.

Virgin Rail Group Limited

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

4 Staff numbers and costs

Staff costs were as follows

	52 weeks ended 31 March 2013 £000	56 weeks ended 31 March 2012 £000
Wages and salaries	(1,958)	(3,014)
Social security costs	(270)	(380)
	<u>(2,228)</u>	<u>(3,394)</u>

The average number of employees employed by the Company, including the directors, during the financial period was Nil (2012 Nil)

Wages and salaries in both financial periods relate to amounts payable under a long term incentive scheme for members of senior management of the Virgin Rail Group who are employed directly by West Coast Trains Limited. The scheme is run by Virgin Rail Group Limited, however payments of the scheme are made through West Coast Trains Limited. The staff costs figure for each period represents the net of current year scheme accruals and the release of prior year scheme accruals in relation to payments made by West Coast Trains Limited.

5 Directors' remuneration

	52 weeks ended 31 March 2013 £000	56 weeks ended 31 March 2012 £000
Amounts receivable under long-term incentive schemes	<u>246</u>	<u>470</u>
Amounts paid to third parties for directors' remuneration services	<u>150</u>	<u>162</u>

The emoluments and amounts receivable under long term incentive schemes of the highest paid director are disclosed in the financial statements of Virgin Rail Group Holdings Limited, the immediate parent company of the Company.

6. Interest receivable

	52 weeks ended 31 March 2013 £000	56 weeks ended 31 March 2012 £000
Amounts receivable from group undertakings	<u>533</u>	<u>588</u>

Virgin Rail Group Limited

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

7. 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 profit for the financial period	126	-
UK group relief	-	137
Total current tax	126	137
Deferred tax		
Origination and reversal of timing differences	512	815
Effect of change in tax rate	46	240
Total deferred tax (see note 11)	558	1,055
Tax on profit on ordinary activities	684	1,192

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	42,486	30,168
Current tax at 24% (2012 26%)	10,197	7,844
Effects of		
Expenses not deductible for tax purposes	3	-
Other timing differences	(534)	(882)
Non-taxable income	(9,540)	(6,825)
Total current tax charge (see above)	126	137

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.

Virgin Rail Group Limited

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

8. Fixed asset investments

	Investments in subsidiary companies £000
Cost	
At beginning and end of financial period	5,261
Provision	
At beginning and end of financial period	1,145
Net book value	
At 31 March 2013	4,116
At 31 March 2012	4,116

The Company owns all of the ordinary shares of West Coast Trains Limited, which operates passenger rail services, and all of the ordinary shares of CrossCountry Trains Limited, which operated passenger rail services until 10 November 2007

Both of these companies are registered in England and Wales

9 Debtors

	2013 £000	2012 £000
Due after more than one year		
Amounts owed by group undertakings	21,000	21,000
Due within one year		
Amounts owed by group undertakings	2,272	2,051
Corporation tax	-	19
Other debtors	45	28
Prepayments and accrued income	651	510
Deferred tax asset (see note 11)	547	1,105
	3,515	3,713

Virgin Rail Group Limited

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

10 Creditors: Amounts falling due within one year

	2013 £000	2012 £000
Trade creditors	273	167
Group relief	-	137
Corporation tax	46	-
Accruals and deferred income	2,506	4,758
	<u>2,825</u>	<u>5,062</u>

Included within accruals and deferred income is the provision for amounts payable under a long term incentive scheme (see note 4)

11 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	1,105	2,160
Charge to profit and loss account	(558)	(1,055)
	<u>547</u>	<u>1,105</u>

The deferred tax asset is made up as follows

	2013 £000	2012 £000
Other timing differences	<u>547</u>	<u>1,105</u>

12. Share capital

	2013 £000	2012 £000
Allotted, called up and fully paid		
265,305 employee non-voting ordinary shares of £0.10 each	27	27
100,000,000 ordinary shares of £0.10 each	10,000	10,000
50,133 preference shares of £1 each	50	50
	<u>10,077</u>	<u>10,077</u>

Except for voting rights, the ordinary shares and the employee non-voting ordinary shares rank pari passu with each other in all respects

Virgin Rail Group Limited

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

13 Reserves

	Share premium account £000	Profit and loss account £000
At beginning of financial period	12,631	1,274
Profit for the financial period	-	41,802
Dividends paid (see note 15)	-	(39,750)
	<hr/>	<hr/>
At end of financial period	12,631	3,326
	<hr/>	<hr/>

14. Reconciliation of movement in shareholders' funds

	2013 £000	2012 £000
Opening shareholders' funds	23,982	23,756
Profit for the financial period	41,802	28,976
Dividends paid (see note 15)	(39,750)	(28,750)
	<hr/>	<hr/>
Closing shareholders' funds	26,034	23,982
	<hr/>	<hr/>

15. Dividends

	52 weeks ended 31 March 2013 £000	56 weeks ended 31 March 2012 £000
Dividends paid	39,750	28,750
	<hr/>	<hr/>

Since the financial period end, following receipt of a dividend of £2,525,000 from subsidiary undertakings, the Company has declared and paid a dividend of £4,500,000 which will be recognised in the 2013/14 financial statements

16 Operating lease commitments

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

	Land and buildings 2013 £000	2012 £000
Expiry date:		
Within 1 year	-	800
Between 2 and 5 years	887	-
	<hr/>	<hr/>
	887	800
	<hr/>	<hr/>

Virgin Rail Group Limited

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

17. Other financial commitments

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

18. Contingent liabilities

In accordance with the Interim Franchise Agreement for West Coast, the Company has procured a performance bond in favour of the DfT for West Coast

This performance bond has been issued by ACE European Group Limited up to £21,000,000 (2012 £21,000,000)

19. 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.