

Virgin Rail Group Limited

**Directors' report and financial
statements**

Registered number 3282548
For the financial year ended 6 March 2010

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Directors' report

The directors present their annual report and the audited financial statements for the financial year ended 6 March 2010. The previous financial year ended on 28 February 2009.

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.

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 year ended 6 March 2010.

The operating loss for the financial year was £0.9 million (2009: £4.4 million loss). The profit for the financial year was £67.2 million (2009: £74.4 million).

Dividends

Dividends paid during the financial year totalled £42.5 million (2009: £94.9 million).

Since the financial year end, following receipt of a dividend of £9.0 million from a subsidiary undertaking, the Company has paid a dividend of £9.0 million which will be recognised in the 2010/11 financial statements.

Directors

The directors who held office during the financial year were as follows:

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 year (2009: £Nil).

Disclosure of information to auditors

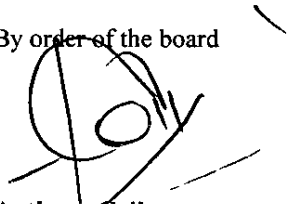
The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware, and each director has taken all the steps that they ought to have taken as a director to make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

Directors' report *(continued)*

Auditors

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be re-appointed and KPMG LLP will therefore continue in office

By order of the board



Anthony Collins
Director

The School House
50 Brook Green
London
W6 7RR

28 May 2010

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

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK 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 of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to

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

The directors are responsible for keeping 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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.



KPMG LLP
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

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

We have audited the financial statements of Virgin Rail Group Limited for the financial year ended 6 March 2010 set out on pages 6 to 16. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK 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 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 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 ("APB'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 APB's website at www.frc.org.uk/apb/scope/UKNP.

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 6 March 2010 and of its profit for the financial year then ended,
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

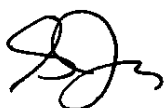
- In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent auditors' report to the members of Virgin Rail Group Limited *(continued)*

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit



S Haydn-Jones (Senior Statutory Auditor)
For and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

28 May 2010

Profit and loss account
for the financial year ended 6 March 2010

	<i>Note</i>	Financial year ended 6 March 2010 £000	Financial year ended 28 February 2009 £000
Staff costs	4	(609)	(4,070)
Other operating costs		(306)	(354)
Operating loss		(915)	(4,424)
Income from shares in group undertakings	7	67,500	75,882
Interest receivable and similar income	5	543	1,639
Interest payable and similar charges	6	(1)	-
Profit on ordinary activities before taxation	2	67,127	73,097
Tax credit on profit on ordinary activities	8	104	1,334
Profit for the financial year		67,231	74,431

The results set out above relate to continuing operations

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

There are no recognised gains or losses other than the results for the financial year and the previous financial year

Movements in reserves are set out in note 14


Balance sheet
at 6 March 2010

	<i>Note</i>	6 March 2010		28 February 2009	
		£000	£000	£000	£000
Fixed assets					
Tangible assets	9		-		-
Investments	10		4,116		4,116
			<u>4,116</u>		<u>4,116</u>
Current assets					
Debtors	11	26,919		25,607	
Cash at bank and in hand		623		1,693	
		<u>27,542</u>		<u>27,300</u>	
Creditors: Amounts falling due within one year	12	<u>(7,174)</u>		<u>(6,663)</u>	
Net current assets					
Due within one year			(632)		(363)
Debtors due after more than one year	11		21,000		21,000
			<u>20,368</u>		<u>20,637</u>
Total net current assets			<u>20,368</u>		<u>20,637</u>
Total assets less current liabilities and Net assets			<u>24,484</u>		<u>24,753</u>
Capital and reserves					
Called up share capital	13		10,077		10,027
Share premium reserve	14		12,631		12,631
Profit and loss account	14		1,776		2,095
			<u>24,484</u>		<u>24,753</u>
Shareholders' funds			<u>24,484</u>		<u>24,753</u>

These financial statements were approved by the board of directors on 28 May 2010 and were signed on its behalf by



Anthony Collins
Director



Chris Gibb
Director

Company number 3282548

Reconciliation of movements in shareholders' funds
for the financial year ended 6 March 2010

	<i>Note</i>	Financial year ended 6 March 2010 £000	Financial year ended 28 February 2009 £000
Profit for the financial year		67,231	74,431
New share capital subscribed	13	50	-
Bonus issue of preference shares issued	14	(50)	-
Distribution	14	(25,000)	-
Dividends paid	7	(42,500)	(94,882)
Net reduction in shareholders' funds		(269)	(20,451)
Opening shareholders' funds		24,753	45,204
Closing shareholders' funds		24,484	24,753

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements, except as noted below

Basis of preparation

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

Under FRS 1 'Cash flow statements' the Company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the Company in its own published consolidated financial statements

Under FRS 8 'Related party disclosures', the Company is exempt from the requirement to disclose transactions with related parties, which are part of the group, on the grounds that it is a wholly owned subsidiary undertaking of Virgin Rail Group Holdings Limited and the Company's results are consolidated in its parent company financial statements

These financial statements present information about the Company as an individual undertaking and not about its group. The Company is exempt under Section 400 of the Companies Act 2006 from the obligation to prepare group financial statements, being a subsidiary undertaking of Virgin Rail Group Holdings Limited

Fixed assets and depreciation

Fixed assets are stated at cost less depreciation. Depreciation is provided to write off the cost less estimated residual value on a straight-line basis over the estimated useful economic lives of the assets and commences from the date on which the assets are ready for use. The lives used for the major categories of assets are

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

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 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

Taxation

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

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

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 (continued)

2 Profit on ordinary activities before taxation

	2010 £000	2009 £000
<i>Profit on ordinary activities before taxation is stated after charging</i>		
Bid costs for Pendolino extension project	-	398
Operating lease rentals		
Other operating leases	734	660
	<u>734</u>	<u>660</u>
<i>Auditors' remuneration</i>		
Audit of these financial statements	10	10
	<u>10</u>	<u>10</u>

During the prior financial year the Company took part in a tender for the contract to manage the introduction of additional carriages and trains to the Pendolino fleet of West Coast. On 15 September 2008 the Department for Transport ("DfT") awarded the contract to Virgin Rail Projects Limited. The bid costs incurred by the Company amounted to £398,000.

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.

3 Remuneration of directors

	2010 £000	2009 £000
Aggregate emoluments of directors	808	843
Amounts receivable under long term incentive schemes	1,254	2,169
Amounts paid to third parties in respect of non-executive directors' services	150	150
	<u>2,212</u>	<u>3,162</u>

The aggregate 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.

Notes (continued)

4 Staff numbers and costs

The average number of persons employed by the Company (including directors) during the financial year was Nil (2009 Nil)

The aggregate payroll costs were as follows

	2010 £000	2009 £000
Wages and salaries	531	3,655
Social security costs	78	415
	<u>609</u>	<u>4,070</u>

Wages and salaries in both financial years include the provision for amounts payable under a long term incentive scheme

In addition wages and salaries include recharges for group employees working on the Pendolino extension project bid in the prior financial year

5 Interest receivable and similar income

	2010 £000	2009 £000
Amounts receivable from group undertakings	541	1,333
Bank interest receivable	-	306
Other interest receivable	2	-
	<u>543</u>	<u>1,639</u>

6 Interest payable and similar charges

	2010 £000	2009 £000
Other interest payable	1	-
	<u>1</u>	<u>-</u>

7 Dividends

	2010 £000	2009 £000
Dividends received	67,500	75,882
Dividends paid	<u>(42,500)</u>	<u>(94,882)</u>

Since the financial year end, following receipt of a dividend of £9.0 million from a subsidiary undertaking, the Company paid a dividend of £9.0 million which will be recognised in the 2010/11 financial statements

Notes (continued)

8 Taxation

Analysis of credit in financial year

	2010	2009
	£000	£000
<i>UK corporation tax</i>		
Current tax on income for the financial year	49	331
Adjustments in respect of prior financial years	-	11
Total current tax	49	342
<i>Deferred tax (see note 11)</i>		
Origination/reversal of timing differences	(153)	(1,108)
Adjustments in respect of prior financial years	-	(568)
Total deferred tax	(153)	(1,676)
Tax credit on profit on ordinary activities	(104)	(1,334)

Factors affecting the tax charge for the current financial year

The standard rate of tax for the financial year based on the UK standard rate of corporation tax is 28% (2009 28%)
 The current tax charge for the current and previous financial year differs from the standard rate for the reasons set out in the following reconciliation

	2010	2009
	£000	£000
<i>Current tax reconciliation</i>		
Profit on ordinary activities before tax	67,127	73,097
Current tax at 28% (2009 28%)	18,796	20,467
<i>Effects of</i>		
Expenses not deductible for tax purposes	-	1
Capital allowances for financial year in excess of depreciation	(15)	(4)
Non taxable income	(18,900)	(21,247)
Other timing differences	168	1,112
Effect of decreased tax rate	-	2
Adjustments in respect of prior financial years	-	11
Total current tax charge (see above)	49	342

Notes *(continued)*

9 Tangible fixed assets

	Plant, equipment, fixtures and fittings £000
<i>Cost</i>	
At beginning of financial year	640
Disposals	(640)
	<hr/>
At end of financial year	-
	<hr/>
<i>Depreciation</i>	
At beginning of financial year	640
On disposals	(640)
	<hr/>
At end of financial year	-
	<hr/>
<i>Net book value</i>	
At beginning and end of financial year	-
	<hr/>

10 Fixed asset investments

	£000
<i>Cost</i>	
At beginning and end of financial year	5,261
	<hr/>
<i>Provision</i>	
At beginning and end of financial year	1,145
	<hr/>
<i>Net book value</i>	
At beginning and end of financial year	4,116
	<hr/>

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

Notes (continued)

11 Debtors

	2010 £000	2009 £000
Amounts falling due within one year		
Amounts owed by group undertakings	3,838	2,069
Other debtors	1	35
Group relief	-	563
Prepayments and accrued income	232	245
Deferred tax	1,848	1,695
	<u>5,919</u>	<u>4,607</u>
Amounts falling due after more than year		
Amounts owed by group undertakings	21,000	21,000
	<u>26,919</u>	<u>25,607</u>

The deferred tax asset, which has been recognised at 28% (2009 28%), is set out below

	2010 £000	2009 £000
At beginning of financial year	1,695	19
Credit to profit and loss account	153	1,676
	<u>1,848</u>	<u>1,695</u>
At end of financial year		

The elements of deferred taxation are as follows

	£000	£000
Excess of capital allowances over depreciation	-	15
Other timing differences	1,848	1,680
	<u>1,848</u>	<u>1,695</u>

12 Creditors Amounts falling due within one year

	2010 £000	2009 £000
Trade creditors	40	-
Amounts owed to group undertakings	307	274
Corporation tax	37	194
Accruals and deferred income	6,790	6,195
	<u>7,174</u>	<u>6,663</u>

Notes (continued)

13 Called up share capital

	2010 £000	2009 £000
<i>Allotted, called up and fully paid</i>		
265,305 employee non-voting ordinary shares of 10p	27	27
100,000,000 ordinary shares of 10p	10,000	10,000
50,133 preference shares of £1	50	-
	<u>10,077</u>	<u>10,027</u>

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

As detailed in Note 14, on 4 December 2009, the Company authorised and made a pro rata bonus issue of 50,133 preference shares of £1 each to its ordinary shareholders and employee non-voting ordinary shareholders

14 Reserves

	Share premium £000	Profit and loss account £000
At beginning of financial year	12,631	2,095
Profit for the year	-	67,231
Bonus issue of preference shares	-	(50)
Distribution	-	(25,000)
Dividends paid (see note 7)	-	(42,500)
	<u>12,631</u>	<u>1,776</u>
At end of financial year	12,631	1,776

On 4 December 2009, the Company authorised and made a pro rata bonus issue of 50,133 preference shares of £1 each to its ordinary shareholders and employee non-voting ordinary shareholders. The non-discretionary dividend attaching to these shares was economically equivalent to, and payable out of distributable profits equal in amount to, 100% of the principal amount of the financial assets comprising the Company's bank deposits with Lloyds Bank plc entered into on 30 November 2009 and whose fair value at the time of issuance of the preference shares was £25.0 million. In accordance with the derecognition rules in FRS5, the fair value of the bank deposit principal, amounting to £25.0m was derecognised.

Holders of the preference shares were entitled to direct the Company to demand repayment of the Company's bank deposits and were entitled to a dividend equal to the final principal amounts received on maturity of the deposits, exclusive of any associated tax credit available to shareholders. The Company was not entitled to sell or pledge the bank principal deposits until repayment. The dividend was payable on the second business day following receipt and if not paid would have become a debt due in priority to any other dividend.

Notes (continued)

15 Commitments

- (a) The Company had capital commitments of £Nil at 6 March 2010 (2009 £Nil)
- (b) Annual commitments under non-cancellable operating leases are as follows

	Land and buildings	
	2010	2009
	£000	£000
In the second to fifth years inclusive	544	540
After five years	236	236
	780	776

- (c) Under the Amended and Restated Franchise Agreement for West Coast, there is a requirement for the Company and West Coast to comply with certain performance and other obligations

16 Contingent liabilities

In accordance with the Amended and Restated 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 Insurance S A NV up to £21.0 million (2009 £21.0 million)

17 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 6 March 2010 the ultimate parent company is Virgin Group Holdings Limited, a company registered in the British Virgin Islands.