

**Virgin Rail Group Limited**

**Annual report and financial statements**

**For the financial year ended 31 March 2017**

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# **Virgin Rail Group Limited**

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# **Virgin Rail Group Limited**

## **Directors' report**

### **For the financial year ended 31 March 2017**

The directors present their report and the financial statements for the financial year ended 31 March 2017.

#### **Principal activity**

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

The Company receives and pays royalties under a trademark licence agreement for use of the Virgin Trains brand.

#### **Results and dividends**

The profit for the financial year, after taxation, amounted to £47,001,000 (2016: £55,260,000).

Dividends paid during the financial year totalled £47,000,000 (2016: £55,000,000).

#### **Directors**

The directors who served during the financial year and up to the date of the Directors' report were:

Graham Leech (resigned 21 December 2016)  
Philip Whittingham  
Phillip Bearpark (resigned 21 December 2016)  
Mark Whitehouse (appointed 2 June 2016)  
Patrick McGrath (appointed 2 June 2016)  
Peter Broadley (appointed 21 December 2016)  
Sarah Copley (appointed 21 December 2016)

#### **Political contributions**

The Company made no political contributions during the financial year (2016: £Nil).

#### **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 the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the 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.

# **Virgin Rail Group Limited**

## **Directors' report (continued) For the financial year ended 31 March 2017**

### **Auditor**

Under section 487(2) of the Companies Act 2006, KPMG LLP will be deemed to have been 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 'Mark Whitehouse', with a stylized flourish at the end.

**Mark Whitehouse**  
Director

Date: 21 June 2017

The Battleship Building  
179 Harrow Road  
London  
W2 6NB

**Directors' responsibilities statement  
For the financial year ended 31 March 2017**

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 applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework'. 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 judgements 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 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 auditor's report to the members of Virgin Rail Group Limited**

We have audited the financial statements of Virgin Rail Group Limited for the year ended 31 March 2017, set out on pages 6 to 18. The financial reporting framework that has been applied in their preparation is applicable law and the United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework'.

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 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](http://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 2017 and of its profit for the 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.

#### **Emphasis of matter - Going concern**

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 1 to the financial statements concerning the Company's ability to continue as a going concern, which is dependent on the ability of its only subsidiary, West Coast Trains Limited, to agree commercial terms for the continued operation of the West Coast business, which have not yet been secured. These conditions, along with the other matters explained in note 1 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt on the Company's ability to continue as a going concern.

## **Virgin Rail Group Limited**

### **Independent auditor's report to the members of Virgin Rail Group Limited (continued)**

#### **Opinion on other matters prescribed by the Companies Act 2006**

In our opinion the information given in the Directors' report for the financial year is consistent with the financial statements.

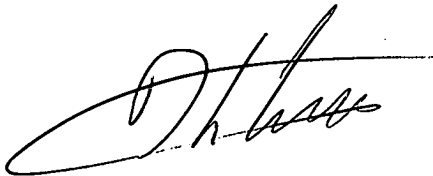
Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Directors' report:

- we have not identified material misstatements in that report; and
- in our opinion, that report has been prepared in accordance with the Companies Act 2006.

#### **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; or
- the directors were not entitled to take advantage of the small companies' exemption from the requirement to prepare a Strategic report.



Darren Turner (Senior Statutory Auditor)

for and on behalf of  
**KPMG LLP, Statutory Auditor**

Chartered Accountants  
One Snowhill  
Snow Hill Queensway  
Birmingham  
B4 6GH

Date: 21 June 2017

## Virgin Rail Group Limited

### Profit and loss account

For the financial year ended 31 March 2017

	Note	2017 £000	2016 £000
Revenue	3	-	2,731
Staff costs		-	315
Other operating expenses		2	(2,729)
<b>Operating profit</b>		<b>2</b>	<b>317</b>
Income from shares in group undertakings		47,000	55,000
Interest receivable and similar income	7	1	8
<b>Profit before tax</b>		<b>47,003</b>	<b>55,325</b>
Tax on profit	8	(2)	(65)
<b>Profit for the financial year</b>		<b>47,001</b>	<b>55,260</b>

There was no other comprehensive income for 2017 (2016: £Nil) and therefore no separate statement of other comprehensive income has been presented.

The notes on pages 9 to 18 form part of these financial statements.



**Virgin Rail Group Limited**  
**Registered number:3282548**

**Balance sheet**  
**As at 31 March 2017**

	Note	2017 £000	2016 £000
<b>Fixed assets</b>			
Investments	9	4,116	4,116
<b>Current assets</b>			
Debtors: amounts falling due within one year	10	171	690
Cash at bank and in hand		507	106
		<u>678</u>	<u>796</u>
Creditors: amounts falling due within one year	11	(64)	(183)
<b>Net current assets</b>		<u>614</u>	<u>613</u>
<b>Total assets less current liabilities</b>		<u>4,730</u>	<u>4,729</u>
<b>Net assets</b>		<u>4,730</u>	<u>4,729</u>
<b>Capital and reserves</b>			
Called up share capital	12	60	60
Profit and loss account	13	4,670	4,669
		<u>4,730</u>	<u>4,729</u>

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



**Mark Whitehouse**  
Director

Date: 21 June 2017

The notes on pages 9 to 18 form part of these financial statements.

## Virgin Rail Group Limited

### Statement of changes in equity For the financial year ended 31 March 2017

	Called up share capital £000	Profit and loss account £000	Total equity £000
At 1 April 2015	60	4,409	4,469
Profit for the financial year	-	55,260	55,260
Dividends: Equity capital	-	(55,000)	(55,000)
At 31 March 2016 and 1 April 2016	60	4,669	4,729
Profit for the financial year	-	47,001	47,001
Dividends: Equity capital	-	(47,000)	(47,000)
At 31 March 2017	60	4,670	4,730

The notes on pages 9 to 18 form part of these financial statements.

# Virgin Rail Group Limited

## Notes to the financial statements

### For the financial year ended 31 March 2017

#### 1. Accounting policies

##### 1.1 Basis of preparation of financial statements

Virgin Rail Group Limited (the "Company") is a private company incorporated and domiciled in the UK.

The Company is itself a subsidiary company and is exempt by virtue of s400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements. These financial statements present information about the Company as an individual undertaking and not about its group.

The financial statements have been prepared under the historical cost convention and in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' ("FRS 101") and the Companies Act 2006.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with the Companies Act 2006.

In these financial statements, the Company has applied the exemptions under FRS 101 in respect of the following disclosures:

- Cash flow statement and related notes;
- Comparative period reconciliation for share capital;
- Related party disclosures in respect of wholly owned subsidiaries;
- Requirements of IFRS 7 'Financial Instruments: Disclosures';
- Disclosures in respect of compensation of key management personnel;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs.

The Company proposes to continue to adopt the reduced disclosure framework of FRS 101 in its next financial statements.

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

Judgements made by the directors in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 2.

# Virgin Rail Group Limited

## Notes to the financial statements

For the financial year ended 31 March 2017

### 1. Accounting policies (continued)

#### 1.2 Going concern

The Company acts as a holding company of West Coast Trains Limited and consequently is dependent on revenue generated by that company under the West Coast franchise agreement.

The financial statements have been prepared on the going concern basis on the assumption that West Coast Trains Limited will be able to renew its franchise agreement which currently runs to 31 March 2018, for at least another year to 31 March 2019, as explained in the following extract from the basis of preparation wording included in the financial statements of West Coast Trains Limited:

"The directors remain confident that, under the terms of the current franchise agreement, the Company will remain profitable over its current franchise term. Based on the anticipated profitable position and forecast cash flows for the remaining franchise term, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the current franchise term.

Currently the franchise agreement runs to 31 March 2018 but the planned West Coast Partnership is not due to start until April 2019. The Department for Transport ("DfT") has confirmed that it will seek to obtain a direct award with the Company for a short-term franchise agreement for the period from 1 April 2018 to 31 March 2019 with an optional extension, exercisable by the DfT, of up to one year. In the absence of agreeing terms for a franchise agreement beyond 31 March 2018 with the DfT, the Company will not be able to continue its current business operations beyond that date. However, the Company is in discussions with the DfT about the short-term franchise agreement with a view to agreeing commercial terms for the continued operation of the West Coast business through to at least March 2019. It is expected that these discussions will conclude later in the calendar year 2017."

Based on the above, the directors of Virgin Rail Group Limited believe that it remains appropriate to prepare the financial statements on a going concern basis. However, there can be no certainty in relation to this matter, and given the Company's dependence on the extension of the West Coast franchise agreement there exists a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern. The Company may therefore be unable to continue realising its assets and discharging its liabilities in the normal course of business.

#### 1.3 Revenue

Royalty revenue is receivable under trademark licence agreements entered into with companies using the Virgin Trains brand (licensees), exclusive of VAT and trade discounts. Royalties receivable are recognised as earned typically based on a percentage of the revenue of the licensees.

# Virgin Rail Group Limited

## Notes to the financial statements For the financial year ended 31 March 2017

### 1. Accounting policies (continued)

#### 1.4 Fixed asset investments

Fixed asset investments are shown at cost less provision for impairment. The Company's impairment review is principally 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 Financial instruments

##### *Non-derivative financial assets*

Non-derivative financial assets are deemed to be assets which have no fixed or determinable payments that are not quoted in an active market and would therefore be classified as "loans and receivables". Such non-derivative financial assets are measured at amortised cost using the effective interest method, less any impairment and include trade and other receivables.

##### *Non-derivative financial liabilities*

Non-derivative financial liabilities are initially recorded at fair value less directly attributable transaction costs, and subsequently at amortised cost, and include trade and other payables.

#### 1.6 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each balance sheet date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets and it is the intention to settle these on a net basis.

#### 1.7 Dividends

Dividends are recorded in the Company's financial statements in the period in which they are declared and are approved by the Company's shareholders.

## Virgin Rail Group Limited

### Notes to the financial statements For the financial year ended 31 March 2017

#### 2. Accounting estimates and judgements

The preparation of the financial statements in conformity with FRS 101 requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from the estimates calculated.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

There are no accounting policies that are considered to be critical, because they either require a significant amount of management judgement or the results are material to the Company's financial statements.

#### 3. Turnover

	2017 £000	2016 £000
Royalty income	-	2,706
Other income	-	25
	<u>-</u>	<u>2,731</u>

All turnover arose within the UK.

#### 4. Auditor's remuneration

The company paid the following amounts to its auditor in respect of the audit of the financial statements:

	2017 £000	2016 £000
Fees for the audit of the Company	<u>6</u>	<u>6</u>

Amounts receivable by the Company's auditor and its associates 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 Rail Group Holdings Limited, the parent undertaking of the smallest 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 year ended 31 March 2017

#### 5. Staff costs

Staff costs were as follows:

	2017 £000	2016 £000
Wages and salaries	-	(277)
Social security costs	-	(38)
	<u>-</u>	<u>(315)</u>

The Company has no employees other than the directors, who did not receive any remuneration (2016: £Nil).

Wages and salaries in the prior financial year 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 was run by Virgin Rail Group Limited, however payments of the scheme were made through West Coast Trains Limited. The staff costs figure for the prior year represents the release of prior year scheme accruals in relation to leavers and to payments made by West Coast Trains Limited.

#### 6. Directors' remuneration

	2017 £000	2016 £000
Amounts paid to third parties in respect of directors' services	-	150
	<u>-</u>	<u>150</u>

#### 7. Interest receivable and similar income

	2017 £000	2016 £000
Interest receivable from group companies	1	2
Bank interest receivable	-	6
	<u>1</u>	<u>8</u>

# Virgin Rail Group Limited

## Notes to the financial statements For the financial year ended 31 March 2017

### 8. Taxation

Recognised in the profit or loss account:

	2017 £000	2016 £000
<b>Current tax</b>		
Current tax on income for the year	1	2
Adjustments in respect of prior years	1	-
<b>Total current tax</b>	<b>2</b>	<b>2</b>
<b>Deferred tax</b>		
Origination and reversal of temporary differences	-	63
<b>Total deferred tax</b>	<b>-</b>	<b>63</b>
<b>Tax on profit</b>	<b>2</b>	<b>65</b>

There is no tax recognised in other comprehensive income or equity.

#### Factors affecting tax charge for the financial year

The actual tax charge for the financial year differs from that computed by applying the standard tax rate to the profit before tax as reconciled below:

	2017 £000	2016 £000
Profit before tax	47,003	55,325
Tax at UK corporation tax rate of 20% (2016: 20%)	9,401	11,065
<b>Effects of:</b>		
Adjustments in respect of prior years	1	-
Non-taxable income	(9,400)	(11,000)
<b>Tax on profit</b>	<b>2</b>	<b>65</b>

#### Factors that may affect future tax charges

Reductions in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) and to 18% (effective from 1 April 2020) were substantively enacted on 26 October 2015. An additional reduction to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the Company's future current tax charge accordingly.



# Virgin Rail Group Limited

## Notes to the financial statements For the financial year ended 31 March 2017

### 9. Fixed asset investments

	Investments in subsidiary companies £000
<b>Cost</b>	
At 1 April 2016	5,261
At 31 March 2017	5,261
<b>Impairment</b>	
At 1 April 2016	1,145
At 31 March 2017	1,145
<b>Net book value</b>	
At 31 March 2017	4,116
At 31 March 2016	4,116

The Company owns all of the ordinary share capital of West Coast Trains Limited, which operates passenger rail services. West Coast Trains Limited is registered in England and Wales.

### 10. Debtors

	2017 £000	2016 £000
Amounts owed by group undertakings	93	609
Other debtors	14	15
Prepayments and accrued income	64	65
Corporation tax	-	1
	171	690

## Virgin Rail Group Limited

### Notes to the financial statements

For the financial year ended 31 March 2017

#### 11. Creditors: Amounts falling due within one year

	2017 £000	2016 £000
Trade creditors	54	54
Amounts owed to group undertakings	-	2
Corporation tax	1	-
Accruals and deferred income	9	127
	<u>64</u>	<u>183</u>

#### 12. Share capital

	2017 £000	2016 £000
<b>Shares classified as equity</b>		
<b>Allotted, called up and fully paid</b>		
53,061 employee non-voting ordinary shares of £0.0005 each	-	-
20,000,000 ordinary shares of £0.0005 each	10	10
50,133 preference shares of £1 each	50	50
	<u>60</u>	<u>60</u>

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

The preference shares are classified as equity as they do not carry a right to a fixed dividend payment.

#### 13. Reserves

A reconciliation of the movements in each reserve is shown in the Statement of changes in equity.

The balance held in the profit and loss account reserve is the accumulated retained profits of the Company.

# Virgin Rail Group Limited

## Notes to the financial statements For the financial year ended 31 March 2017

### 14. Dividends

	<b>2017</b>	2016
	<b>£000</b>	£000
Dividends paid	<b>47,000</b>	55,000

### 15. Other financial commitments

Under the Franchise Agreement for West Coast there is a requirement for the Company and West Coast to comply with certain performance and other obligations. Failure to comply with these obligations may result in penalties or the potential termination of the West Coast franchise.

### 16. Contingent liabilities

In accordance with the Franchise Agreement for West Coast, the Company has procured a performance bond in favour of the Department for Transport for West Coast.

This performance bond has been issued by Chubb European Group Limited (formerly ACE European Group Limited) up to £21,000,000 (2016: £21,000,000).

### 17. Related party transactions

At 31 March 2017 and 31 March 2016, the Company's ultimate parent undertaking was Virgin Group Holdings Limited, whose sole shareholder is Sir Richard Branson.

The shareholder of Virgin Group Holdings Limited has interests directly or indirectly in certain other companies which are considered to give rise to related party disclosures under International Accounting Standard 24: Related Party Disclosures.

During the financial year, the Company entered into the following transactions with related parties:

	<b>2017</b>	2016
	<b>£000</b>	£000
<b>Companies related by virtue of common control or ownership</b>		
Revenue	-	2,731
Purchases	(7)	(2,780)
<b>Companies related by virtue of direct/indirect ownership</b>		
Purchases	(15)	(123)

Related party revenue is principally in respect of royalties received. Related party purchases are principally in respect of management services and royalty fees.

At 31 March 2017 there were no amounts payable or receivable with related parties (2016: £Nil).

## **Virgin Rail Group Limited**

### **Notes to the financial statements**

#### **For the financial year ended 31 March 2017**

##### **18. Ultimate parent company and parent undertaking of larger group**

The parent undertaking of the smallest group of undertakings, including the Company, for which consolidated 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 consolidated financial statements are drawn up is Virgin UK Holdings Limited.

Copies of the Virgin Rail Group Holdings Limited and Virgin UK Holdings 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 2017 the ultimate parent company is Virgin Group Holdings Limited, a company registered in the British Virgin Islands.