Registered number: 4196341

Virgin Rail Group Holdings Limited

Directors' report and financial statements

for the financial period ended 31 March 2013

Virgin Rail Group Holdings Limited

Contents

Directors' report
for the financial period ended 31 March 2013

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

Principal activities

The principal activity of the Group during the financial period was the operation of passenger rail services between London (Euston) and Birmingham, Wolverhampton, Holyhead, Chester, Liverpool, Manchester, Preston, Carlisle and Glasgow under the franchise operated by West Coast Trains Limited ("West Coast"), a member of the Group The Group operated these services under the terms of an original franchise agreement dated 19 February 1997, amended by the Amended and Restated Franchise Agreement ("ARFA"), which was entered into on 9 December 2006 Under this agreement, the West Coast franchise was due to run until 31 March 2012 However the start of the new West Coast franchise was delayed by the Department for Transport ("DfT") until 9 December 2012 On 26 October 2011, an extension of the existing franchise from 1 April 2012 to 8 December 2012 was agreed between the DfT and the Group

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

The 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 Group and the DfT for the operation of services from 9 December 2012 to 8 November 2014 The Interim Franchise Agreement initially operates as a management contract, with both revenue and cost risk being borne by the DfT In return the Group receives a margin of 1% on revenue The Interim Franchise Agreement makes provision for the DfT and the Group to agree revised commercial terms that would see the Group taking on greater revenue and cost risk in the period to 8 November 2014 in return for a commercial margin

On 26 March 2013 the DfT announced a programme for letting future franchises, with the long-term West Coast franchise expected to start in April 2017 The 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 Group managed the DfT contract for the introduction of 62 additional carriages and 4 new trains to the Pendolino fleet of the West Coast franchise Under the terms of the agreement, the DfT ordered the trains and the Group provided support throughout the design, manufacture, delivery, testing and commissioning of the new vehicles This project was completed in December 2012 when all of the new trains and carriages had entered into service

The Group is exploring other rail opportunities to diversify its portfolio and risk

Business review

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

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

The Group continues to experience days of significant poor infrastructure performance by Network Rail which impact its overall Public Performance Measure ("PPM") being the percentage of trains that arrive at their destination within 10 minutes of their scheduled arrival time having called at all scheduled stations The Group continues to press for improvements from Network Rail's performance contract to ensure that the effects of the poor performance days are minimised Despite this, customer satisfaction as measured by the independent National Passenger Survey has been trending upwards and the Group has been at the top of long distance train operators, in terms of overall satisfaction scores, for the last seven bi-annual surveys

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

Directors' report
for the financial period ended 31 March 2013

Results

The profit for the financial period, after taxation and minority interests, amounted to £25,870,000 (2012 £28,500,000)

Safety

The Group remains committed, through annual continuous improvement, to maintaining a safe and secure environment for its passengers, workforce and the general public The Group's ongoing safety strategic objectives are

- to minimise the risk of death and injury to customers and staff,
- to eliminate main line Category A 'Signals Passed At Danger',
- to support the national initiative to reduce trespass, vandalism and railway crime and disorder, and
- to encourage a rail industry partnership to raise safety standards through shared information, best practice and common safety values

These are supported by specific focus on safety targets including passenger and staff accidents levels, Signals Passed at Danger and safety related defects

Both the Pendolino and Super Voyager train fleets have a range of safety features These include (amongst others) enhanced crash protection, laminated windows, improved lighting, fire detection and fighting systems, power operated doors, CCTV and Train Management Systems These features together with improved reliability have helped to drive up safety performance trends and reduce accident figures

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

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

Key performance indicators

The Group uses a range of financial and non-financial key performance indicators ("KPIs") across its activities

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

Revenue is a key driver of profitability levels and the result of improved journey times and comfort has contributed to an increase in passenger journeys year on year

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

The operations of the Group have been affected during the financial period by disruption on the West Coast Main Line, mainly at weekends and on bank holidays under normal industry possession arrangements

Train punctuality is measured by PPM The annual average was 83 6% for the financial period compared to 85 8% in the previous financial period The current level falls below that expected by the directors and the Group has engaged with Network Rail to improve the poor service experienced by customers

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

Directors' report
for the financial period ended 31 March 2013

Principal risks and uncertainties

Like most businesses, the Group 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 Group's performance The risks and uncertainties described below are not intended to be an exhaustive list of all possible risks and uncertainties

Renewal of West Coast franchise
The West Coast Interim Franchise Agreement currently runs 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 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 There is a risk that agreement is not reached for the period beyond 8 November 2014 To address this risk, the Group is devoting appropriate management resource to the discussions with the DfT

Major incidents/Terrorism
As with any operator of public transportation, there is a risk that the Group is involved in a major incident which could result in injury to customers or staff The potential impact on the Group includes damage to the Group's reputation and possible claims against the Group The Group's focus on its safety environment is detailed in the Safety section above In addition, the Group has procedures in place to respond to any major incident that may occur

Ongoing Network Rail performance
Reliable running of the high frequency West Coast timetable depends on the ability of Network Rail to maintain a fully operational network Failure to do so impacts the Group's operational performance In order to manage the risk, there is close monitoring by management of performance targets

Economic conditions
While revenue growth has been seen during the financial period, a prolonged economic downturn may result in revenue reduction and potential reduction of profit Inflation remains high and potentially rising interest rates will put further pressure on discretionary spending and travel In order to minimise this risk, there is a focus at all levels of the Group on cost control and efficient operation

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

Breach of franchise
The Group is required to comply with certain conditions as part of its West Coast rail franchise agreement If it fails to comply with these conditions, it may be liable to penalties or the potential termination of the franchise Compliance with franchise conditions are closely managed and monitored and procedures are in place to minimise the risk of non-compliance

Failure of critical suppliers
The Group 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 Group The Group has made contingency plans for each key supplier if this eventuality occurs

Financial risk management

The Group's activities expose it to a variety of financial risks It is the Group'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 Group seeks to maximise finance income from short term deposits via the monitoring of cash balances and working capital requirements

Directors' report
for the financial period ended 31 March 2013

Future developments

Based on the anticipated profitable position under the current 1% margin arrangements for West Coast, and forecast cash flows of West Coast, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the current West Coast franchise term

Dividends

Dividends paid during the financial period totalled £40,396,000 (2012 £29,027,000)

Since the financial period end, following receipt of a dividend of £4,488,000 from subsidiary undertakings, the Company has declared and paid a dividend of £9,488,000 which will be recognised in the 2013/14 financial statements

Directors

The directors who served during the financial period were

Patrick McCall
JP Moorhead
Martin Griffiths
Ross Paterson
Anthony Collins
Chris Gibb
Graham Leech

The first four directors listed above are non-executive directors

Sir Richard Branson is president of the Group

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

Employees

The Group is a non-discriminatory employer operating an Equal Opportunities Policy which aims to eliminate unfair discrimination, harassment, victimisation and bullying The Group 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 Group 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 Group's performance and prospects

The Group'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

Directors' report
for the financial period ended 31 March 2013

Political and charitable contributions

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

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 and the Group'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 and the Group's auditors are aware of that information

Auditors

Pursuant to section 487(2) of the Companies Act 2006, KPMG LLP will be deemed to be re-appointed and will therefore continue in office

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

Anthony Collins
Director

Date 24 June 2013

The Battleship Building
179 Harrow Road
London
W2 6NB

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 Company and the Group 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 the Group and of the profit or loss of the Group 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 and the Group 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 Group 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 the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

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

We have audited the financial statements of Virgin Rail Group Holdings Limited for the financial period ended 31 March 2013, set out on pages 9 to 37 The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

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

Respective responsibilities of directors and auditors

As explained more fully in the Directors' responsibilities statement, set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www frc org uk/auditscopeukprivate

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Group's and the parent Company's affairs as at 31 March 2013 and of the Group's profit for the financial period then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' report for the financial period for which the financial statements are prepared is consistent with the financial statements

Independent auditors' report to the shareholders of Virgin Rail Group Holdings 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 by the parent Company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent Company 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

Consolidated profit and loss account
for the financial period ended 31 March 2013

	Note	52 weeks ended 31 March 2013 £000	56 weeks ended 31 March 2012 £000
Turnover	1,2	**897,750**	938,180
Other operating income	3	**43,925**	27,422
Train operating expenditure	4	**(612,641)**	(552,510)
Staff costs	7	**(150,804)**	(148,287)
Depreciation and amortisation	13,14	**(698)**	(2,128)
Other operating charges		**(159,927)**	(228,331)
Operating profit before exceptional items	5	**17,605**	34,346
Exceptional items			
Other exceptional items	11	**11,290**	-
Operating profit after exceptional items and profit on ordinary activities before interest		**28,895**	34,346
Interest receivable and similar income	9	**405**	509
Interest payable and similar charges	10	**-**	(14)
Other finance income	29	**4,670**	4,540
Profit on ordinary activities before taxation		**33,970**	39,381
Tax on profit on ordinary activities	12	**(8,044)**	(10,795)
Profit on ordinary activities after taxation		**25,926**	28,586
Minority interests	24	**(56)**	(86)
Profit for the financial period	21	**25,870**	28,500

All amounts relate to continuing operations

The notes on pages 14 to 37 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 Holdings Limited

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

	Note	**52 weeks ended 31 March 2013 £000**	56 weeks ended 31 March 2012 £000
Profit for the financial period		**25,870**	28,500
Actuarial gain/(loss) on defined benefit pension scheme	29	**20**	(700)
Taxation on actuarial gain/(loss) on defined benefit pension scheme	18	**(5)**	168
Total recognised gains and losses relating to the financial period		**25,885**	27,968

Virgin Rail Group Holdings Limited
Registered number: 4196341

Consolidated balance sheet
as at 31 March 2013

	Note	£000	2013 £000	£000	2012 £000
Fixed assets					
Intangible assets	13		847		-
Tangible assets	14		305		840
			1,152		840
Current assets					
Debtors amounts falling due after more than one year	16	11		-	
Debtors amounts falling due within one year	16	52,680		50,780	
Cash at bank and in hand		77,372		71,900	
		130,063		122,680	
Creditors: amounts falling due within one year	17	(97,375)		(73,406)	
Net current assets			32,688		49,274
Total assets less current liabilities			33,840		50,114
Provisions for liabilities					
Dilapidations provision	19		(813)		(2,679)
Net assets excluding pension liability			33,027		47,435
Pension liability, net of deferred tax	29		(562)		(410)
Net assets			32,465		47,025
Capital and reserves					
Called up share capital	20		3		3
Merger reserve	21		22,533		22,533
Profit and loss account	21		9,815		24,326
Shareholders' funds	22		32,351		46,862
Minority interests	24		114		163
			32,465		47,025

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 Holdings Limited
Registered number: 4196341

Company balance sheet
as at 31 March 2013

	Note	£000	2013 £000	£000	2012 £000
Fixed assets					
Investments	15		**33,477**		53,298
Current assets					
Debtors	16	**1,100**		2,040	
Cash at bank		**5,485**		44	
		6,585		2,084	
Creditors: amounts falling due within one year	17	**(1,182)**		(1,300)	
Net current assets			**5,403**		784
Total assets less current liabilities and net assets			**38,880**		54,082
Capital and Reserves					
Called up share capital	20		**3**		3
Merger reserve	21		**33,474**		53,295
Profit and loss account	21		**5,403**		784
Shareholders' funds	22		**38,880**		54,082

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

Consolidated cash flow statement for the financial period ended 31 March 2013

	Note	52 weeks ended 31 March 2013 £000	56 weeks ended 31 March 2012 £000
Net cash flow from operating activities	30	**50,586**	53,664
Returns on investments and servicing of finance	31	**326**	402
Taxation		**(5,044)**	(16,768)
Capital expenditure	31	-	(20)
Equity dividends paid		**(40,396)**	(29,027)
Cash inflow before management of liquid resources		**5,472**	8,251
Management of liquid resources	31	-	9,630
Increase in cash in the financial period	32	**5,472**	17,881

Reconciliation of net cash flow to movement in net funds for the financial period ended 31 March 2013

	52 weeks ended 31 March 2013 £000	56 weeks ended 31 March 2012 £000
Movement in cash in the financial period	**5,472**	17,881
Movement in cash deposits	-	(9,630)
Movement in net funds in the financial period	**5,472**	8,251
Net funds at beginning of financial period	**71,900**	63,649
Net funds at end of financial period	**77,372**	71,900

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

1.2 Going concern

The West Coast Interim Franchise Agreement is currently due to run until 8 November 2014 On 26 March 2013 the DfT announced a programme for letting future franchises, with the long-term West Coast franchise expected to start in April 2017 The 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 Group will continue in operational existence for the foreseeable future The directors have reviewed the cash flow forecasts of the Group for the foreseeable future The forecasts demonstrate the Group 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 Basis of consolidation

The financial statements consolidate the accounts of Virgin Rail Group Holdings Limited and all of its subsidiary undertakings ('subsidiaries')

On 1 March 2002 the Company acquired the entire share capital of Virgin Rail Group Limited with the consideration being satisfied by the issue of ordinary shares in the Company In accordance with UK Accounting Standards the combination was accounted for as a Group reconstruction using the principles of merger accounting

All other acquisitions have been accounted for using the principles of acquisition accounting Under this method the results and cash flows of the subsidiary companies are included in the Group profit and loss account and the Group cash flow statement respectively from the dates of acquisition Fair values are attributed to the Group's share of the identifiable net assets acquired

The Company has taken advantage of Section 408 of the Companies Act 2006 and has not presented its own profit and loss account The result for the financial period dealt with in the financial statements of the Company is disclosed in note 21 to these financial statements

1.4 Turnover

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

Passenger turnover represents principally amounts attributed to the Group by the Railway Settlement Plan (which administers the income allocation system within the UK rail industry) for each financial period Income is attributed based on models of certain aspects of passenger behaviour and to a lesser extent from allocations agreed for specific revenue flows The attributed share of season ticket income is deferred within creditors and released to the profit and loss account over the life of the relevant season ticket

Other trading income consists principally of the provision of station facilities to other train operators, retail commissions receivable, car parking, hire out of train crew and rolling stock and the performance of project management services Other trading income and catering income are recognised as the income is earned

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

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

1 Accounting policies (continued)

1.5 Franchise expense/income

Revenue grants receivable/payable in respect of the operation of rail franchises 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 agreements with Network Rail is recognised over the period of expected 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 Group to assume legal responsibility for any pension liability that exists at that point in time, the Group recognises an asset or liability representing the fair value of the related net pension surplus or deficit that the Group 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 to use

1.9 Fixed asset investments

Fixed asset investments are shown at cost less provision for impairment

In the Company's accounts investments in subsidiary undertakings 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 ("West Coast") franchise using a discount rate that reflects current market assessments of the time value of money and the risks specific to the investment

1.10 New train service arrangement costs

Under the original franchise agreement, the Group 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 Group incurred direct costs on behalf of the lessor associated with developing the contracted new train service arrangements These costs are an integral part of the operating lease expense, and therefore were recorded within prepayments when incurred and are being charged to the profit and loss account on a straight line basis from the point at which the new trains came into operation until the earlier of the end of the relevant lease agreements or the franchise term

1. **Accounting policies (continued)**

1.11 Track access costs

Track access costs are charged to the profit and loss account in the period to which they relate, based on the terms of the contract

Network Rail has undertaken a programme of infrastructure works to upgrade the West Coast Main Line to enable trains to run at higher speeds and frequencies Under a series of supplemental track access agreements, the Group 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 Group 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 Group benefits from the additional track capacity, additional payments made prior to September 2004 were recorded within prepayments and are being charged to the profit and loss account on a straight line basis from September 2004 to the end of the franchise term

1.12 Leases

Where the Group enters into a lease as a lessee, which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a finance lease The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated over its estimated useful life or the term of the lease, whichever is shorter Future instalments under such leases, net of finance charges, are included within creditors Rentals payable are apportioned between the finance element, which is charged to the profit and loss account, and the capital element, which reduces the outstanding obligation for future instalments

All other leases are accounted for as operating leases and the rental charges are charged to the profit and loss account on a straight-line basis over the life of the lease

1.13 Provisions

Provisions are recognised where the Group has a present obligation as a result of a past event and it is probable that the Group will be required to settle that obligation The amounts recognised are the best estimate of the expenditure that will be required to meet the Group's obligation

1 14 Taxation

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

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

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

1 Accounting policies (continued)

1.15 Pensions

West Coast Trains Limited 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 Group 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 Group 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 Group's contributions to the scheme are paid in accordance with the scheme rules and the recommendation of the actuary The charge to operating profit reflects the current service costs of such obligations The expected return on scheme assets, the interest cost on scheme liabilities and the unwinding of the discount on the franchise adjustment are included within other finance income (net) in the profit and loss account

Differences between the actual and expected returns on assets and experience gains/(losses) arising on the scheme liabilities during the financial period, together with differences arising from changes in assumptions, are recognised in the statement of total recognised gains and losses in the financial period The resulting defined benefit asset/liability, net of the franchise adjustment and any deferred tax, is presented separately after other net assets on the face of the balance sheet

Pension scheme assets are measured using market values For quoted securities the current bid-price is taken as market value Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return

1.16 Dividends

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

2 Turnover

	52 weeks ended 31 March 2013 £000	56 weeks ended 31 March 2012 £000
Passenger turnover	**851,893**	883,098
Catering income	**10,748**	11,433
Other trading income	**35,109**	43,649
	897,750	938,180

All turnover arose within the United Kingdom

Other trading income consists primarily of the provision of station facilities to other train operators, retail commissions receivable, car parking, hire out of train crew and rolling stock and the performance of project management services

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

3 Other operating income

	52 weeks ended 31 March 2013 £000	56 weeks ended 31 March 2012 £000
Network change compensation and performance regime	**40,373**	22,922
Property income	**2,917**	2,966
Other income	**635**	1,534
	43,925	27,422

Network change compensation is receivable in respect of lost revenue and incremental costs incurred due to Network Rail's alterations of the track and infrastructure during the financial period

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

Other income relates to an ongoing claim for recovery of costs in connection with a train derailment that occurred in September 2006 in CrossCountry Trains Limited

4. Train operating expenditure

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

Other operating expenditure consists primarily of retail commissions payable, catering supplies, British Transport Police and the National Rail Enquiry Scheme charges

5. Operatıng profit

The operatıng profit ıs stated after chargıng/(credıtıng)

	52 weeks ended 31 March 2013 £000	56 weeks ended 31 March 2012 £000
Amortısatıon of ıntangıble fixed assets	**163**	-
Deprecıatıon of tangıble fixed assets		
- owned by the group	**535**	2,128
Operatıng lease rentals		
- hıre of plant and machınery	**112,156**	85,979
- other operatıng leases	**10,954**	11,316
Rental ıncome receıved on propertıes	**(2,917)**	(2,966)
Franchıse expense (see below)	**104,373**	169,521

	52 weeks ended 31 March 2013 £000	56 weeks ended 31 March 2012 £000
Franchıse expense/(income)		
Payments under ARFA (Amended and Restated Franchıse Agreement)	**107,053**	214,320
Revenue support adjustment under ARFA	**(27,611)**	(46,336)
Interım Franchıse Agreement payments	**24,313**	-
Adjustments under the Supplemental Letter	**618**	1,537
	104,373	169,521

The West Coast ARFA, applıcable up to 8 December 2012, allowed for adjustment to franchıse payments under a number of cırcumstances, the more routıne cırcumstances beıng for revenue share and revenue support These provısıons applıed when actual revenues exceeded or fell short of that antıcıpated as set out ın the Natıonal Raıl Franchıse Terms

The Interım Franchıse Agreement, applıcable from 9 December 2012, allows for West Coast receıvıng a pre-tax profit margın equıvalent to 1% of revenue

CrossCountry Traıns Lımıted ("CrossCountry"), a subsıdıary company of the Group, operated passenger raıl servıces untıl 10 November 2007 and ıs stıll ıncurrıng resıdual costs and ıncome In CrossCountry, franchıse expense/(ıncome) arıses under the orıgınal Franchıse Agreement between the DfT and CrossCountry as supplemented by the July 2002 Arrangement and the Supplemental Letter These arrangements were on the basıs of CrossCountry receıvıng a pre-tax profit margın equıvalent to 1% of revenue and remaın ın place followıng the termınatıon of the CrossCountry franchıse to cover any resıdual costs and ıncome

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

6. Auditors' remuneration

	52 weeks ended 31 March 2013 £000	56 weeks ended 31 March 2012 £000
Fees payable to the Company's auditor for the audit of these financial statements	**23**	22

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

7. Staff costs

Staff costs, including directors' remuneration, were as follows

	52 weeks ended 31 March 2013 £000	56 weeks ended 31 March 2012 £000
Wages and salaries	**124,894**	124,685
Social security costs	**11,130**	11,062
Other pension costs	**14,780**	12,540
	150,804	148,287

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

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

Company

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

8. Directors' remuneration

	52 weeks ended 31 March 2013 £000	56 weeks ended 31 March 2012 £000
Remuneration	**995**	902
Amounts receivable under long-term incentive schemes	**246**	470
Amounts paid to third parties for directors' remuneration services	**150**	162

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

The highest paid director received remuneration of £479,000 (2012 £540,000)

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

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

9. Interest receivable

	52 weeks ended 31 March 2013 £000	56 weeks ended 31 March 2012 £000
Bank interest receivable	**394**	461
Other interest receivable	**11**	48
	405	509

10. Interest payable

	52 weeks ended 31 March 2013 £000	56 weeks ended 31 March 2012 £000
Other interest payable	**-**	14

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

11. Exceptional items

	52 weeks ended 31 March 2013 £000	56 weeks ended 31 March 2012 £000
Bid costs refund	**11,290**	-

Following the cancellation of the bid for the West Coast franchise, as explained in the Directors' report, the DfT announced that it would reimburse the bid costs incurred The bid costs refund is in respect of amounts received during the financial period

12. Taxation

	52 weeks ended 31 March 2013 £000	56 weeks ended 31 March 2012 £000
Analysis of tax charge in the financial period		
Current tax		
UK corporation tax charge on income for the financial period	**7,392**	8,797
Adjustments in respect of prior financial periods	**46**	(111)
Total current tax	**7,438**	8,686
Deferred tax		
Origination and reversal of timing differences	**534**	1,476
Effect of change in tax rate	**107**	499
Adjustments in respect of prior financial periods	**(35)**	134
Total deferred tax (see note 18)	**606**	2,109
Tax on profit on ordinary activities	**8,044**	10,795

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

12. Taxation (continued)

Factors affectıng tax charge for the financıal perıod

The tax assessed for the financial penod ıs lower than (2012 lower than) the standard rate of corporatıon tax ın the UK of 24% (2012 26%) The dıfferences are explaıned below

	52 weeks ended 31 March 2013 £000	56 weeks ended 31 March 2012 £000
Profit on ordınary actıvıtıes before tax	**33,970**	39,381
Current tax at 24% (2012 26%)	**8,153**	10,239
Effects of:		
Expenses not deductıble for tax purposes	**39**	103
(Capıtal allowances ın excess of depreciatıon)/depreciatıon ın excess of capıtal allowances	**(76)**	118
Adjustments ın respect of prior financıal periods	**46**	(111)
Tax rate change	**-**	54
Other tımıng dıfferences	**(724)**	(1,717)
Total current tax charge (see above)	**7,438**	8,686

Factors that may affect future tax charges

A reductıon ın the corporatıon tax rate from 24% to 23% (effectıve from 1 Apnl 2013) was substantıvely enacted on 3 July 2012 A rate of 23% has been used wıthın the deferred tax calculatıons wıthın these financıal statements

Further reductıons to the maın rate are proposed to reduce the rate to 21% by 1 Apnl 2014 and to 20% by 1 Apnl 2015 Neıther of these expected rate reductıons had been substantıvely enacted at the balance sheet date and, therefore, are not ıncluded ın these financıal statements

13. Intangible fixed assets

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

The rail franchise intangible asset relates to the pension deficit in existence at the start of the West Coast 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

14 Tangible fixed assets

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

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

15. Fixed asset investments

Group

West Coast Trains Limited, a subsidiary of Virgin Rail Group Holdings Limited, owns 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

Company	**Investments in subsidiary companies £000**
Cost	
At beginning and end of financial period	**348,629**
Impairment	
At beginning of financial period	**295,331**
Charge for the financial period	**19,821**
At end of financial period	**315,152**
Net book value	
At 31 March 2013	**33,477**
At 31 March 2012	53,298

The Company owns 99 74% of the allotted share capital of Virgin Rail Group Limited

Virgin Rail Group Limited owns 100% of the allotted share capital of West Coast Trains Limited, which operates passenger rail services, and 100% of the allotted share capital of CrossCountry Trains Limited, which operated passenger rail services until 10 November 2007

The Company owns 100% of the allotted share capital of Virgin Rail Projects Limited, a project management company, 100% of the alloted share capital of Virgin Trains Sales Limited, a train hire company and 100% of Virgin Trains Limited, a dormant company

All of these companies are included within the consolidated financial statements and are registered in England and Wales

An impairment review of the Company's investment in Virgin Rail Group Limited was undertaken at 31 March 2013 This impairment review was principally based on discounted cash flows over the life of the West Coast franchise using a discount rate of 6 4% The impairment loss arising has been offset by a reduction in the Company's merger reserve (see note 21)

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

16 Debtors

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

	Group		Company	
	2013	2012	**2013**	2012
	£000	£000	**£000**	£000
Due within one year				
Trade debtors	**38,425**	26,716	**34**	-
Group relief	-	-	**1,056**	2,026
Other debtors	**8,645**	16,495	-	-
Prepayments and accrued income	**3,841**	5,151	-	-
Deferred tax asset (see note 18)	**1,769**	2,418	**10**	14
	52,680	50,780	**1,100**	2,040

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

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

17. Creditors: Amounts falling due within one year

	Group		Company	
	2013	2012	**2013**	2012
	£000	£000	**£000**	£000
Trade creditors	**55,314**	42,303	-	-
Amounts owed to group undertakings	-	-	**5**	1,269
Corporation tax	**10,888**	8,741	**1,172**	31
Other taxation and social security	**3,822**	3,585	-	-
Deferred season ticket income	**5,064**	4,941	-	-
Other creditors	**18,777**	7,241	-	-
Accruals and other deferred income	**3,510**	6,595	**5**	-
	97,375	73,406	**1,182**	1,300

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

18. Deferred tax

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

	Group		Company	
	2013	2012	**2013**	2012
	£000	£000	**£000**	£000
At beginning of financial period	**2,548**	4,489	**14**	4
(Charge)/credit to profit and loss account	**(606)**	(2,109)	**(4)**	10
(Charge)/credit to statement of total recognised gains and losses	**(5)**	168	-	-
At end of financial period	**1,937**	2,548	**10**	14

	Group		Company	
	2013	2012	**2013**	2012
	£000	£000	**£000**	£000
Disclosed as				
Debtors - deferred tax asset (see note 16)	**1,769**	2,418	**10**	14
Pension liability (see note 29)	**168**	130	-	-
Net deferred tax asset	**1,937**	2,548	**10**	14

The elements of deferred taxation are as follows

	Group		Company	
	2013	2012	**2013**	2012
	£000	£000	**£000**	£000
Excess of capital allowances over depreciation	**1,220**	1,313	**10**	14
Other timing differences	**717**	1,235	-	-
	1,937	2,548	**10**	14

There is an unrecognised deferred tax asset of £40,000 (2012 £41,000) which relates to tax losses carried forward

19 Provisions

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

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

The Company has no provisions

20. Share capital

	2013 £	2012 £
Allotted, called up and fully paid		
17,738 "A" ordinary shares shares of £0 10 each	1,774	1,774
17,042 "B" ordinary shares shares of £0 10 each	1,704	1,704
	3,478	3,478

The "A" and "B" ordinary shares rank pari passu with each other in all respects

21. Reserves

Group	Merger reserve £000	Profit and loss account £000
At beginning of financial period	22,533	24,326
Profit for the financial period	-	25,870
Dividends paid (see note 23)	-	(40,396)
Actuarial gain on pension scheme, net of deferred tax	-	15
At end of financial period	22,533	9,815

21. Reserves (continued)

Company	Merger reserve £000	Profit and loss account £000
At beginning of financial period	53,295	784
Profit for the financial period	-	25,194
Dividends paid (see note 23)	-	(40,396)
Transfers (see note 15)	(19,821)	19,821
At end of financial period	33,474	5,403

22 Reconciliation of movement in shareholders' funds

Group	2013 £000	2012 £000
Opening shareholders' funds	46,862	47,921
Profit for the financial period	25,870	28,500
Dividends paid (see note 23)	(40,396)	(29,027)
Actuarial gain/(loss) on pension scheme, net of deferred tax	15	(532)
Closing shareholders' funds	32,351	46,862

Company	2013 £000	2012 £000
Opening shareholders' funds	54,082	70,817
Profit for the financial period	25,194	12,292
Dividends paid (see note 23)	(40,396)	(29,027)
Closing shareholders' funds	38,880	54,082

The Company has taken advantage of the exemption contained within section 408 of the Companies Act 2006 not to present its own profit and loss account

23. Dividends

	52 weeks ended 31 March 2013 £000	56 weeks ended 31 March 2012 £000
Dividends paid	40,396	29,027

Since the financial period end, following receipt of a dividend of £4,488,000 from subsidiary undertakings, the Company has declared and paid a dividend of £9,488,000 which will be recognised in the 2013/14 financial statements

24. Minority interests

	£000
At beginning of financial period	163
Share of profit for the financial period	56
Dividends paid	(105)
At end of financial period	114

25. Capital commitments

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

26. Operating lease commitments

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

	Plant and machinery		Other operating leases	
	2013	2012	2013	2012
Group	£000	£000	£000	£000
Expiry date:				
Within 1 year	-	88,810	-	10,599
Between 2 and 5 years	118,937	-	11,437	-
Total	118,937	88,810	11,437	10,599

The Company did not have any commitments under non-cancellable leases at 31 March 2013 (2012 £Nil)

27. Other financial commitments

The Group has, in the normal course of 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 for West Coast, there is a requirement for Virgin Rail Group Limited and West Coast to comply with certain performance and other obligations

28. Contingent liabilities

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

The West Coast bond has been issued by ACE European Group Limited up to £21,000,000 (2012 £21,000,000)

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

29 Pension scheme

West Coast 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 West Coast 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 Group 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 West Coast's section of the RPS was undertaken at 31 December 2010 using the projected unit method This valuation has been updated to 31 March 2013 by a qualified independent actuary, using revised assumptions that are consistent with the requirements of FRS 17

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

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

29 Pensions (continued)

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

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

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

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

Amounts recognised in the statement of total recognised gains and losses

The total amount recognised in the consolidated statement of total recognised gains and losses in respect of actuarial gains and losses is £20,000 gain (2012 £700,000 loss)

Cumulative actuarial gains/losses reported in the consolidated statement of total recognised gains and losses since 1 March 2004 are £2,071,000 gain (2012 £2,051,000 gain)

29. Pensions (continued)

	2013 £000	2012 £000
Movement in deficit recognised by Group		
At beginning of financial period	**(540)**	(3,050)
Current service cost	**(14,780)**	(12,470)
Past service cost	**-**	(70)
Contributions	**10,910**	11,210
Other finance income	**4,670**	4,540
Actuarial gain/(loss)	**20**	(700)
Deficit at start of Interim Franchise Agreement (see note 13)	**(1,010)**	-
At end of financial period	**(730)**	(540)

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

Future contributions

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

29. Pensions (continued)

Actuarial assumptions

Principal actuarial assumptions at the balance sheet date were as follows

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

The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity The assumptions are as follows

Member aged 60 (current life expectancy) 26 years (male), 28½ years (female)

Member aged 40 (life expectancy from age 60) 28½ years (male), 31 years (female)

The inflation assumptions for certain benefits are now based on the Consumer Price Index ("CPI") rather than the Retail Price Index ("RPI") following the change announced by the UK Government in 2010

History of section

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

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

29. Pensions (continued)

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

30. Net cash flow from operating activities

	52 weeks ended 31 March 2013 £000	56 weeks ended 31 March 2012 £000
Operating profit	**17,605**	34,346
Exceptional items	**11,290**	-
Amortisation of intangible fixed assets	**163**	-
Depreciation of tangible fixed assets	**535**	2,128
(Increase)/decrease in debtors	**(2,588)**	33,141
Increase/(decrease) in creditors	**21,577**	(16,438)
Decrease in provisions	**(1,866)**	(843)
Difference between employer pension contributions and amounts recognised in the profit and loss account	**3,870**	1,330
Net cash inflow from operating activities	**50,586**	53,664

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

31 Analysis of cash flows for headings netted in cash flow statement

	52 weeks ended 31 March 2013 £000	56 weeks ended 31 March 2012 £000
Returns on investments and servicing of finance		
Interest received	431	492
Interest paid	-	(14)
Dividends paid to minority interests	(105)	(76)
Net cash inflow from returns on investments and servicing of finance	326	402

	52 weeks ended 31 March 2013 £000	56 weeks ended 31 March 2012 £000
Capital expenditure and financial investment		
Purchase of tangible fixed assets	-	(20)

	52 weeks ended 31 March 2013 £000	56 weeks ended 31 March 2012 £000
Management of liquid resources		
Payments from leasing reserve account	-	9,630

32 Analysis of changes in net funds

	1 April 2012 £000	Cash flow £000	Other non-cash changes £000	31 March 2013 £000
Cash at bank and in hand	71,900	5,472	-	77,372
Net funds	71,900	5,472	-	77,372

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

33 Related party transactions

At 31 March 2013 and 31 March 2012, certain of the Company's shareholders were trusts, or companies owned by the trusts (together the 'trust shareholders'), the principal beneficiaries of which were Sir Richard Branson and his immediate family None of the trust shareholders individually has a controlling interest in the Company The trust shareholders have interests directly and indirectly in certain other companies which are considered to give rise to related party disclosures under Financial Reporting Standard 8 'Related Party Disclosures'

During the financial period, the following costs were incurred by the Group in respect of management services, royalty fees, commission, marketing services and West Coast franchise bid support provided by

	52 weeks ended 31 March 2013 £000	56 weeks ended 31 March 2012 £000
Virgin Atlantic Airways Limited	**880**	1,043
Virgin Enterprises Limited	**325**	325
Virgin Management Limited	**104**	274
Virgin Insight Limited	**63**	336
Virgin Holdings Limited	**1,172**	-
Stagecoach Group plc	**1,580**	65
Other	**61**	30
	4,185	2,073

During the financial period, the Group made sales of £165,000 (2012 £247,000) to and purchases of £51,000 (2012 £1,000) from East Midlands Trains Limited in relation to train operating services

At 31 March 2013 aggregate amounts of £2,419,000 were payable to related parties (2012 £29,000 payable)

Stagecoach Group plc holds a 49% interest in the Company East Midlands Trains Limited is a subsidiary undertaking of Stagecoach Group plc

All other related party transactions are between entities within the Group

34. 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 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 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