Virgin Rail Group Holdings Limited

Directors' report and consolidated financial statements

Registered number 4196341

For the financial year ended 6 March 2010

Contents

Directors' report

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

Principal activities

The principal activity of the Group during the financial year was the operation of passenger rail services between London (Euston) and Birmingham, Wolverhampton, Holyhead, Chester, Liverpool, Manchester, Preston, Carlisle and Glasgow under the franchise operated by West Coast Trains Limited ("West Coast") The Group operates 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 The West Coast franchise runs to 31 March 2012

The Group manages the Department for Transport ("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 will order the trains and the Group will provide support throughout the design, manufacture, delivery, testing and commissioning of the new vehicles

Results for the year and business review

The profit and loss account, presented on page 9, reflects the results of the Group for the financial year ended 6 March 2010

The operating profit for the financial year was £67 5 million *(2009 £95 1 million)* The profit for the financial year was £50 4 million *(2009 £75 7 million)*

Despite the current economic conditions, the Group has seen passenger revenue growth during the financial year Volumes have been increasing, largely due to increasingly strong weekend travel and marketing campaigns, but yields remain under pressure The Group expects to remain profitable for the foreseeable future

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 During the financial year the Group has further improved on-train mobile phone signal reception giving customers more reliable use of mobile phones, Blackberry devices and 3G Data Cards, as well as improving Wi-Fi on board all Pendolino trains

The Group continues to experience days of significant poor infrastructure performance, despite the generally improving trend when looking at the 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) Despite this, the Group s National Passenger Survey results have been trending upwards and the Group now sits in the top two nationally of long distance train operators in all categories 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

The eagerly awaited West Coast high frequency and faster timetable is now fully operational, resulting in an overall increase in train services of 30 percent and journey time reductions of up to 50 minutes The key timetable improvements were an increase from two to three trains per hour to both Birmingham and Manchester from London and an hourly service from London to Glasgow and Chester The revenue and journey growth from the new timetable has ensured that the Group has bucked the trend of other long distance train operators, particularly noticeable in the current economic environment and with the poor performance by Network Rail

An impairment review of the Company's investment in Virgin Rail Group Limited, based on discounted cash flows over the remaining life of the West Coast franchise, resulted in an impairment loss of £25 1 million The impairment loss reflects the finite length of the West Coast franchise rather than any concern with underlying trading performance There is no impact on distributable reserves as the Company's merger reserve has been reduced to offset the impairment loss

Directors' report *(continued)*

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 a 16% increase in passenger journeys year on year

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

The operations of the Group have again been affected during the financial year by significant unplanned disruption on the West Coast Main Line, due to poor infrastructure reliability This is despite the route upgrade work having been completed by Network Rail

Train punctuality is measured by 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 annual average was 84 0% for the financial year compared to 80 1% in the previous financial year Although there has been an improvement, it falls far below that expected from other long distance train operators running on new infrastructure and the Group has engaged with the Office of the Rail Regulator ("ORR) for assistance to improve the poor service experienced by customers

Despite the continued disruption, the latest Customer Satisfaction survey results are trending upwards For the financial year, customer complaints per thousand passenger journeys stood at 2 8 *(2009 4 5)* This has been achieved by the Group's good value for money offerings and the dedication of staff

Safety is discussed further in the Safety section below

Principal risks and uncertainties

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 long-term performance The risks and uncertainties described below are not intended to be an exhaustive list of all possible risks and uncertainties

Major incidents/Terrorism

As with any operator of public transportation, there is a risk that the 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 below In addition the Group has procedures in place to respond to any major incident that may occur

Ongoing Network Rail performance

The Group has completed the implementation of the December 2008 timetable This has seen an increase in the frequency of services between major locations including London and Birmingham and London and Manchester Reliable running of this 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 on the sustainability of new performance targets Where the Group believes that the targets are too soft, the ORR has been asked to mediate

Economic conditions

While revenue growth has been seen during the financial year, a prolonged or double dip downturn may result in revenue reduction and potential reduction of profit In order to minimise this risk, there is a focus at all levels of the Group on cost control and efficient operation The Group also benefits from contracted protection in the ARFA against shortfalls in revenue

Directors' report *(continued)*

Principal risks and uncertainties *(continued)*

Renewal of West Coast franchise

The West Coast franchise is due to expire on 31 March 2012 and there is a risk that the Group does not secure a new franchise on acceptable terms The bidding process is due to start within 12 months and in preparation for this the Group has appointed an Executive Bid Director who will lead the re-bid

West Coast Amended and Restated Franchise Agreement

The ARFA was negotiated using a range of assumptions with regard to revenue growth and cost base It is imperative that the Group takes all actions outlined in its bid to ensure that these targets are met

Breach of franchise

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

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

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

Directors' report *(continued)*

Safety *(continued)*

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

Future prospects

The directors remain confident that, under the terms of the ARFA, West Coast will move forward on a profitable basis

Based on the anticipated profitable position 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 year totalled £67 3 million *(2009 £94 6 million)*

Since the financial year end, following receipt of a dividend of £9 0 million from subsidiary undertakings, the Company has paid a dividend of £9 0 million which will be recognised in the 2010/11 financial statements

Directors

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

Patrick McCall [1]
William Whitehorn [1] (resigned 31 March 2009)
JP Moorhead [1] (appointed 31 March 2009)
Ross Paterson [1]
Martin Griffiths [1]
Anthony Collins
Graham Leech
Chris Gibb

Sir Richard Branson is president of the Company

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

[1] Non-executive director

Directors' report *(continued)*

Employees

The Group is a non-discriminatory employer operating an Equal Opportunities Policy that 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 or membership or non-membership of a trade union

The Group uses the consultative procedures agreed with its staff and elected representatives with a view to ensuring that its employees are aware of the financial and economic factors that affect the Group's performance and prospects

The Group's policy, where possible, is to continue to employ those who 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

Political and charitable donations

The Group made no political contributions during the financial year *(2009 £Nil)* Contributions to UK charities amounted to £9,510 *(2009 £10,000)*

Disclosure of information to auditors

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

Auditors

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

By order of the board

Anthony Collins
Director

The School House
50 Brook Green
London
W6 7RR

28 May 2010

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

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

Company law requires the directors to prepare financial statements for each financial year Under that law they have elected to prepare the group and parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period

In preparing each of the group and parent company financial statements, the directors are required to

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company s transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006 They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities

KPMG

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

We have audited the financial statements of Virgin Rail Group Holdings Limited for the financial year ended 6 March 2010 set out on pages 9 to 34 The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice)

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

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 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 the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's ("APB"'s) Ethical Standards for Auditors

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at

www frc org uk/apb/scope/UKNP

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the group's and the parent company's affairs as at 6 March 2010 and of the group's profit for the financial year then ended,
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept 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 forour audit

S Haydn-Jones (Senior Statutory Auditor)

For and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

28 May 2010

Consolidated profit and loss account
for the financial year ended 6 March 2010

	Note	**Financial year ended 6 March 2010**		Financial year ended 28 February 2009	
		£000	**£000**	£000	£000
Turnover	*2,3*				
Continuing operations		**721,727**		649,757	
Discontinued operations		**172**		239	
			721,899		649,996
Franchise income	*2,4*		**21,062**		26,282
Other operating income	*2 5*		**59,857**		106,177
Train operating expenditure	*2,6*		**(537,758)**		(487,200)
Staff costs	*2,9*		**(135,830)**		(131,959)
Depreciation	*2,15*		**(1,587)**		(413)
Other operating charges	*2*		**(60,169)**		(67,788)
Operating profit	*2*				
Continuing operations		**67,477**		94,403	
Discontinued operations		**(3)**		692	
			67,474		95,095
Interest receivable and similar income	*10*		**560**		5,885
Interest payable and similar charges	*11*		**(34)**		(162)
Other finance income	*27*		**1,180**		1,940
Profit on ordinary activities before taxation	*7*		**69,180**		102,758
Tax charge on profit on ordinary activities	*13*		**(18,666)**		(26,864)
Profit on ordinary activities after taxation			**50,514**		75,894
Minority interests	*24*		**(133)**		(201)
Profit for the financial year			**50,381**		75,693

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

Movements in reserves are set out in note 23

Consolidated balance sheet
at 6 March 2010

	Note	6 March 2010		28 February 2009	
		£000	£000	£000	£000
Fixed assets					
Intangible assets – negative goodwill	*14*		-		-
Tangible assets	*15*		**5,275**		2,823
			5,275		2,823
Current assets					
Debtors	*17*	**118,384**		360,038	
Cash at bank and in hand	*18*	**77,448**		135,927	
		195,832		495,965	
Creditors: Amounts falling due within one year	*19*	**(159,106)**		(438,583)	
Net current assets					
Due within one year			**28,588**		40,933
Debtors due after more than one year	*17*		**8,138**		16,449
Total net current assets			**36,726**		57,382
Total assets less current liabilities			**42,001**		60,205
Provisions for liabilities	*20*		**(4,638)**		(4,668)
Net assets excluding pension liability			**37,363**		55,537
Pension liability, net of deferred tax	*27*		**(2,246)**		(3,715)
Net assets including pension liability			**35,117**		51,822
Capital and reserves					
Called up share capital	*22*		**3**		3
Merger reserve	*23*		**22,533**		22,533
Profit and loss account	*23*		**12,451**		29,110
Shareholders' funds			**34,987**		51,646
Minority interests	*24*		**130**		176
Total equity			**35,117**		51,822

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

Anthony Collins
Director

Chris Gibb
Director

Company number 4196341

Company balance sheet
at 6 March 2010

	Note	6 March 2010		28 February 2009	
		£000	£000	£000	£000
Fixed assets					
Investments	16		**81,130**		106,247
Current assets					
Debtors	17	**307**		308	
Cash at bank		**60**		60	
		367		368	
Creditors: Amounts falling due within one year	19	**(31)**		(113)	
Net current assets			**336**		255
Net assets			**81,466**		106,502
Capital and reserves					
Called up share capital	22		**3**		3
Merger reserve	23		**81,127**		106,244
Profit and loss account	23		**336**		255
Shareholders' funds			**81,466**		106,502

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

Anthony Collins
Director

Chris Gibb
Director

Company number 4196341

Consolidated statement of total recognised gains and losses
for the financial year ended 6 March 2010

	Financial year ended 6 March 2010 £000	Financial year ended 28 February 2009 £000
Profit for the financial year	**50,381**	75,693
Actuarial gain on defined benefit pension scheme (see note 27)	**390**	5,830
Taxation charge on actuarial gain on defined benefit pension scheme	**(109)**	(1,632)
Total recognised gains relating to the financial year	**50,662**	79,891

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

	Financial year ended 6 March 2010		Financial year ended 28 February 2009	
	Group £000	**Company £000**	Group £000	Company £000
Profit for the financial year	**50,381**	**42,285**	75,693	31,813
Dividends paid (see note 12)	**(67,321)**	**(67,321)**	(94,631)	(94,631)
Actuarial gain recognised on pension scheme (see note 27)	**390**	-	5,830	-
Deferred taxation on actuarial gain on pension scheme	**(109)**	-	(1,632)	-
Net reduction in shareholders' funds	**(16,659)**	**(25,036)**	(14,740)	(62,818)
Opening shareholders' funds	**51,646**	**106,502**	66,386	169,320
Closing shareholders' funds	**34,987**	**81,466**	51,646	106,502

Consolidated cash flow statement
for the financial year ended 6 March 2010

	Note	**Financial year ended 6 March 2010 £000**	Financial year ended 28 February 2009 £000
Net cash inflow from operating activities	*28*	**36,456**	77,440
Return on investments and servicing of finance	*29*	**466**	5,423
Taxation		**(24,041)**	(25,796)
Capital expenditure	*29*	**(4,039)**	(1,997)
Dividends paid on shares classified in shareholders' funds	*12*	**(67,321)**	(94,631)
Net cash outflow before management of liquid resources		**(58,479)**	(39,561)
Management of liquid resources	*29*	**4,616**	12,618
Decrease in cash	*30*	**(53,863)**	(26,943)

Notes
(forming part of the financial statements)

1 Accounting policies

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

Basis of preparation

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

Basis of consolidation

The Group s financial statements consolidate those of the Company and all its subsidiary undertakings detailed in note 16

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

Amortisation of negative goodwill is credited to the profit and loss account on a straight line basis over the relevant franchise period

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 23 to these financial statements

Turnover

Turnover represents amounts receivable, excluding VAT, for services and goods supplied to external customers, primarily in respect of passenger transportation Turnover originates wholly in the United Kingdom

Passenger revenue 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, car parking and the hire out of train crew and rolling stock Other trading income and catering income are recognised as the income is earned

Franchise income

Revenue grants receivable in respect of the operation of the rail franchises are taken to the profit and loss account in the financial year to which they relate

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 disruption and the net amount is shown within other operating income

Notes *(continued)*

1 Accounting policies *(continued)*

Compensation for service disruption (continued)

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

Fixed assets and depreciation

Fixed assets are stated at cost less depreciation and any provision for impairment as set out in note 15

Depreciation is provided to write off the cost less estimated residual value on a straight-line basis over the shorter of the useful economic life of the assets or the remaining duration of the franchise and commences from the date on which the assets are ready for use

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 based on discounted cash flows over the 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

New train service arrangement costs

Under the original franchise agreements, 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 new trains came into operation until the earlier of the end of the relevant lease agreements or the franchise terms

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 create 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

Fuel costs

Fuel costs represent the commodity spot price ruling at the date of the transaction or, if appropriate, the commodity price under the related fuel hedging contract

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

Notes *(continued)*

1 Accounting policies *(continued)*

Leases (continued)

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

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

Pensions and other post-retirement benefits

West Coast 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 franchises Therefore, the liabilities recognised for the relevant sections of RPS only represent that part of the net deficit of each 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 schemes 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 year, together with differences arising from changes in assumptions, are recognised in the statement of total recognised gains and losses in the financial year 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 Details of the pension scheme are provided in note 27

Taxation

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

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

Dividends

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

Notes *(continued)*

2 Analysis of continuing and discontinued operations

	2010			2009		
	Continuing £000	**Discontinued £000**	**Total £000**	Continuing £000	Discontinued £000	Total £000
Turnover	**721,727**	**172**	**721,899**	649,757	239	649,996
Franchise income	**20,097**	**965**	**21,062**	24,118	2,164	26,282
Other operating income	**59,857**	**-**	**59,857**	106,177	-	106,177
Train operating expenditure	**(537,758)**	**-**	**(537,758)**	(485,435)	(1,765)	(487,200)
Staff costs	**(135,830)**	**-**	**(135,830)**	(131,959)	-	(131,959)
Depreciation	**(1,587)**	**-**	**(1,587)**	(413)	-	(413)
Other operating charges	**(59,029)**	**(1,140)**	**(60,169)**	(67,842)	54	(67,788)
Operating profit/(loss)	67,477	(3)	67,474	94,403	692	95,095

Discontinued operations relate to residual costs and income from the CrossCountry franchise which was terminated on 10 November 2007

3 Turnover

	2010 £000	2009 £000
Passenger revenue	**679,206**	611,194
Catering income	**10,503**	10,262
Other trading income	**32,190**	28,540
	721,899	649,996

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

4 Franchise income

	2010 £000	2009 £000
(Payments)/receipts under ARFA (Amended and Restated Franchise Agreement)	**(48,023)**	28,627
Revenue support/(share) adjustment	**68,120**	(4,509)
Adjustments under the Supplemental Letter	**965**	1,314
Receipts outside of Supplemental Letter	**-**	850
	21,062	26,282

Notes *(continued)*

4 Franchise income *(continued)*

The ARFA allows for adjustment to franchise payments under a number of circumstances, the more routine circumstances being for revenue share and revenue support These provisions apply when actual revenues exceed or fall short of that anticipated as set out in the National Rail Franchise Terms

In CrossCountry franchise income arose under the original Franchise Agreement as supplemented by the July 2002 Arrangement and the Supplemental Letter These arrangements were on the basis of CrossCountry receiving a pre-tax profit margin equivalent to 1% and remain in place following the termination of the CrossCountry franchise to cover any residual costs and income

During the prior financial year the Group received £850,000 from the DfT, being an agreed payment, outside of the CrossCountry Letter Agreement, in relation to the Group's requirement to correct a funding shortfall on the pension scheme as a result of the franchise re-mapping in 2007

5 Other operating income

	2010	2009
	£000	£000
Network change compensation and performance regime	**57,421**	103,827
Property income	**2,436**	2,350
	59,857	106,177

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

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

6 Train operating expenditure

	2010	2009
	£000	£000
Rolling stock costs	**215,608**	211,897
Track access costs	**170,552**	152,752
Station and depot access costs	**10,966**	13,443
Power costs	**60,147**	31,966
Other operating expenditure	**80,485**	77,142
	537,758	487,200

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

Notes *(continued)*

7 Profit on ordinary activities before taxation

	2010 £000	2009 £000
Profit on ordinary activities before taxation is stated after charging/(crediting)		
Depreciation	**1,587**	413
Operating lease rentals		
Hire of plant and machinery	**82,773**	78,527
Other operating leases	**9,812**	19,003
Bid costs for Pendolino extension project	**-**	398
Rental income received on properties	**(2,436)**	(2,350)
Auditors remuneration		
Audit of these financial statements	**20**	21

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

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

8 Remuneration of directors

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

	Number	
Retirement benefits are accruing for the following directors under		
Defined benefit schemes	**3**	3

The aggregate emoluments and amounts receivable under long term incentive schemes of the highest paid director were £846,113 *(2009 £1,251,691)* The director is a member of the defined benefit scheme under which the accrued pension to which the director would be entitled from normal retirement if the director were to retire at the end of the financial year was £38 322 *(2009 £32,922)* with an accrued lump sum of £20 628 *(2009 £18,293)*

Notes *(continued)*

9 Staff numbers and costs

Group

The average number of persons employed by the Group (including directors) during the financial year was as follows

	Number of employees	
	2010	2009
Management	**503**	541
Other staff	**2,492**	2,507
	2,995	3,048

The aggregate payroll costs were as follows

	£000	£000
Wages and salaries	**114,467**	111,431
Redundancy costs	**1,616**	479
Social security costs	**9,547**	9,369
Other pension costs	**10,200**	10,680
	135,830	131,959

Company

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

10 Interest receivable and similar income

	2010	2009
	£000	£000
Bank interest receivable	**548**	5,736
Other interest receivable	**12**	149
	560	5,885

11 Interest payable and similar charges

	2010	2009
	£000	£000
Other interest payable	**34**	162

Notes *(continued)*

12 Dividends

	2010 £000	2009 £000
Dividends paid	**67,321**	94,631

Since the financial year end, following receipt of a dividend of £9 0 million from subsidiary undertakings, the Company has paid a dividend of £9 0 million which will be recognised in the 2010/11 financial statements

13 - Taxation

Analysis of charge in financial year

	2010 £000	2010 £000	2009 £000	2009 £000
UK corporation tax				
Current tax on income for the financial year	**19,014**		30,110	
Adjustments in respect of prior financial years	**(848)**		(1,699)	
Total current tax		**18,166**		28,411
Deferred tax (see note 21)				
Origination/reversal of timing differences	**450**		(731)	
Adjustments in respect of prior financial years	**50**		(816)	
Total deferred tax		**500**		(1,547)
Tax charge on profit on ordinary activities		**18,666**		26,864

Factors affecting the tax charge for the current financial year

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

	2010 £000	2009 £000
Current tax reconciliation		
Profit on ordinary activities before tax	**69,180**	102,758
Current tax at 28% *(2009 28%)*	**19,371**	28,772
Effects of		
Expenses not deductible for tax purposes	**92**	382
(Capital allowances in excess of depreciation)/depreciation in excess of capital allowances	**(156)**	92
UK tax losses not utilised or not recognised	**1**	44
Other timing differences	**(294)**	639
Effect of decreased tax rate	**-**	181
Adjustments in respect of prior financial years	**(848)**	(1,699)
Total current tax charge (see above)	**18,166**	28,411

Notes *(continued)*

14 Intangible assets

Group

	Negative goodwill £000
Cost	
At beginning and end of financial year	(5,548)
Amortisation	
At beginning and end of financial year	5,548
Net book value	
At beginning and end of financial year	-

15 Tangible assets

Group

	Plant, equipment, fixtures and fittings £000
Cost	
At beginning of financial year	37,099
Additions	4,039
Disposals	(640)
At end of financial year	40,498
Depreciation	
At beginning of financial year	34,276
Charge for financial year	1,587
On disposals	(640)
At end of financial year	35,223
Net book value	
At 6 March 2010	**5,275**
At 28 February 2009	2,823

16 Fixed asset investments

Group

	£000
At beginning and end of year	-

West Coast Trains 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

Notes *(continued)*

16 Fixed asset investments *(continued)*

Company

	£000
Cost	
At beginning and end of financial year	348,629
Impairment provision	
At beginning of financial year	242,382
Impairment loss	25,117
At end of financial year	267,499
Net book value	
At 6 March 2010	**81,130**
At 28 February 2009	106,247

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

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

Virgin Rail Group Holdings Limited owns 100% of the allotted share capital of Virgin Rail Projects Limited, a project management 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 6 March 2010 This impairment review was based on discounted cash flows over the life of the West Coast franchise using a discount rate of 9 5% The impairment loss arising has been offset by a reduction in the Company's merger reserve (see note 23)

17 Debtors

Group

	2010 £000	2009 £000
Amounts falling due within one year		
Trade debtors	**40,213**	288,941
Other debtors	**46,350**	25,756
Deferred tax (see note 21)	**3,273**	3,311
Prepayments and accrued income	**20,410**	25,581
	110,246	343,589
Amounts falling due after more than year		
Prepayments and accrued income	**8,138**	16,449
	118,384	360,038

Notes *(continued)*

17 Debtors *(continued)*

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

	2010 £000	2009 £000
Deferred costs		
Amounts falling due within one year	**8,310**	8,310
Amounts falling due after more than one year	**8,138**	16,449
	16,448	24,759

Company

	2010 £000	2009 £000
Amounts falling due within one year		
Amounts owed by group undertakings	**307**	308

18 Cash at bank and in hand

At 6 March 2010, the balance of cash at bank and in hand for the Group included £16 3 million (2009 £20 9 million) in a separate escalating rental reserve account, in relation to the leasing of the West Coast Pendolino trains under the terms of the ARFA

19 Creditors Amounts falling due within one year

Group

	2010 £000	2009 £000
Trade creditors	**60,639**	359,994
Corporation tax	**13,141**	19,016
Other taxes and social security costs	**4,642**	5,365
Other creditors	**51,983**	20,286
Accruals and other deferred income	**24,342**	29,879
Deferred season ticket income	**4,359**	4,043
	159,106	438,583

Company

	2010 £000	2009 £000
Corporation tax	**31**	1
Other creditors	**-**	112
	31	113

Notes *(continued)*

20 Provisions for liabilities

Group

	Dilapidations provision £000
At beginning of financial year	4,668
Utilised during the financial year	(30)
At end of financial year	**4,638**

The dilapidations provision relates to costs required to be incurred at the 17 stations managed by West Coast in accordance with the standards for station conditions required by the National Station Access Conditions (1996) (Annex 1) These costs are expected to be incurred by 31 March 2012, the West Coast ARFA expiry date

21 Deferred tax

Group

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

	2010 £000	2009 £000
At beginning of financial year	**4,756**	4,841
(Charge)/credit to profit and loss account	**(500)**	1,547
Charge to statement of total recognised gains and losses	**(109)**	(1,632)
At end of financial year	**4,147**	4,756
Disclosed as		
Debtors – deferred tax asset (see note 17)	**3,273**	3,311
Pension liability (see note 27)	**874**	1,445
Net deferred tax asset	**4,147**	4,756

The elements of deferred taxation are as follows

	£000	£000
Excess of capital allowances over depreciation	**1,425**	1,631
Other timing differences	**2,722**	3,125
	4,147	4,756

There is an unrecognised deferred tax asset of £47,000 *(2009 £46,000)* which relates to tax losses carried forward

Notes *(continued)*

22 Called up share capital

	2010	2009
	£	£
Allotted, called up and fully paid		
17,738 "A" ordinary shares of 10p	**1,774**	1,774
17,042 "B" ordinary shares of 10p	**1,704**	1,704
Employee non-voting ordinary shares of 10p	**-**	-
	3,478	3,478

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

23 Reserves

Group

	Merger reserve £000	**Profit and loss account £000**
At beginning of financial year	22,533	29,110
Profit for the financial year	-	50,381
Dividends paid (see note 12)	-	(67,321)
Actuarial gain on pension scheme (see note 27)	-	390
Deferred tax on actuarial gain on pension scheme	-	(109)
At end of financial year	**22,533**	**12,451**

Company

	Merger reserve £000	**Profit and loss account £000**
At beginning of financial year	106,244	255
Profit for the financial year	-	42,285
Dividend paid (see note 12)	-	(67,321)
Transfers (see note 16)	(25,117)	25,117
At end of financial year	**81,127**	**336**

Notes *(continued)*

24 Minority interests

	£000
At beginning of financial year	176
Share of profit for the financial year	133
Dividend paid	(179)
At end of financial year	**130**

25 Commitments

Group

(a) The Group had capital commitments of £Nil at 6 March 2010 *(2009 £Nil)*

(b) Annual commitments under non-cancellable operating leases are as follows

	Plant and machinery		Other operating leases	
	2010	2009	**2010**	2009
	£000	£000	**£000**	£000
Operating leases which expire				
In the second to fifth years inclusive	**87,481**	87,626	**9,478**	18,628
After five years	-	-	**236**	236
	87,481	87,626	**9,714**	18,864

(c) 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

(d) Under the Amended and Restated 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

(e) During the financial year, the Group entered into fuel hedging arrangements to fix a proportion of its fuel costs The fuel hedges are in place until 31 March 2012 The fair value of these arrangements as at 6 March 2010 was £2 5 million

Company

(a) The Company did not have any commitments under non-cancellable operating leases at 6 March 2010 *(2009 £Nil)*

26 Contingent liabilities

In accordance with the Amended and Restated 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 Insurance S A NV up to £21 0 million *(2009 £21 0 million)*

Notes *(continued)*

27 Pension schemes

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

On 10 November 2008, the CrossCountry franchise termination date, pursuant to a statutory transfer scheme, all staff transferred out of CrossCountry At the point of transfer the deficit on the section relevant to CrossCountry was £Nil The gross assets and liabilities of the section transferred out in line with the transfer of the re-mapped franchise

The latest actuarial valuation of West Coast's section of the RPS was undertaken at 31 December 2007 using the projected unit method This valuation has been updated to 6 March 2010 by a qualified independent actuary, using revised assumptions that are consistent with the requirements of FRS 17

Net pension liability

	2010 £000	2009 £000
Present value of defined benefit obligations	**(386,770)**	(298,060)
Fair value of section assets	**293,540**	211,200
Deficit in section	**(93,230)**	(86,860)
Members share of section	**37,290**	34,740
Franchise adjustment	**52,820**	46,960
Deficit recognised by Group	**(3,120)**	(5,160)
Related deferred tax asset	**874**	1,445
Net pension liability	**(2,246)**	(3,715)

Movements in present value of defined benefit obligation

	2010 £000	2009 £000
At beginning of financial year	**298,060**	318,910
Employer share of current service cost	**10,000**	10,680
Members share of current service cost	**6,190**	6,630
Past service cost	**200**	-
Interest cost	**19,250**	19,550
Benefits paid	**(10,950)**	(14,800)
Actuarial losses/(gains)	**64,020**	(42,910)
At end of financial year	**386,770**	298,060

Notes *(continued)*

27 Pension schemes *(continued)*

Movements in fair value of section assets

	2010 £000	2009 £000
At beginning of financial year	**211,200**	299,190
Expected return on section assets	**16,200**	22,780
Contributions by employer	**10,670**	9,580
Contributions by members	**6,310**	5,980
Benefits paid	**(10,950)**	(14,800)
Actuarial gains/(losses)	**60,110**	(111,530)
At end of financial year	**293,540**	211,200

Expense recognised in the profit and loss account

	2010 £000	2009 £000
Current service cost	**10,000**	10,680
Past service cost	**200**	-
Expected return on section assets	**(9,720)**	(13,670)
Interest on section liabilities	**11,550**	11,730
Interest credit on franchise adjustment	**(3,010)**	-
	9,020	8,740

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

	2010 £000	2009 £000
Staff costs	**10,200**	10,680
Other finance income	**(1,180)**	(1,940)
	9,020	8,740

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 £390,000 gain *(2009 £5,830,000 gain)*

Cumulative actuarial gains/losses reported in the consolidated statement of total recognised gains and losses since 1 March 2004 are £4,121,000 gain *(2009 £3,731,000 gain)*

Notes *(continued)*

27 Pension schemes *(continued)*

Movement in deficit recognised by Group

	2010 £000	2009 £000
At beginning of financial year	**(5,160)**	(11,830)
Current service cost	**(10,000)**	(10,680)
Past service cost	**(200)**	-
Contributions	**10,670**	9,580
Other finance income	**1,180**	1,940
Actuarial gain	**390**	5,830
At end of financial year	**(3,120)**	(5,160)

Fair value of section assets

	2010 £000	2009 £000
Equities	**196,710**	132,510
Bonds	**29,950**	22,000
Property	**24,380**	23,390
Other	**42,500**	33,300
	293,540	211,200
Actual return on section assets	**76,310**	(88,750)

Future contributions

The Group currently expects to pay contributions of £10 4 million over the period of the 2010/11 financial statements

Actuarial assumptions

Principal actuarial assumptions at the balance sheet date were as follows

	2010 %	2009 %
Rate of increase in salaries	**4.4**	4 1
Rate of increase in pensions in payment and deferred pensions	**3 4**	3 1
Discount rate	**5 8**	6 4
Inflation assumption	**3 4**	3 1
Long term rate of return expected on		
- Equities	**8 2**	8 1
- Bonds	**5 3**	6 0
- Property	**7 9**	7 5
- Other	**7 5**	6 5
- Overall	**7 8**	7 6

Notes *(continued)*

27 Pension schemes *(continued)*

Actuarial assumptions *(continued)*

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) 25½ years (male), 27 years (female)

Member aged 40 (life expectancy from age 60) 27½ years (male), 28½ years (female)

History of sections

The history of the sections for the current and prior financial years is as follows

Balance sheet	2010 £000	2009 £000	2008 £000	2007 £000	2006 £000
Present value of section liabilities	**(386,770)**	(298,060)	(318,910)	(447,080)	(427,370)
Fair value of section assets	**293,540**	211,200	299,190	410,480	362,570
Deficit in section	**(93,230)**	(86,860)	(19,720)	(36,600)	(64,800)
Members share of section	**37,290**	34,740	7,890	14,640	25,920
Franchise adjustment	**52,820**	46,960	-	10,240	16,500
Deficit recognised by Group	**(3,120)**	(5,160)	(11,830)	(11,720)	(22,380)

Experience adjustments

	2010	2009	2008	2007	2006
Experience adjustments on section assets					
amount (£000)	**36,070**	(66,920)	(12,040)	6,940	25,131
percentage of section assets	**12%**	(32%)	(4%)	2%	7%
Experience adjustments on section liabilities					
amount (£000)	**(2,510)**	(1,860)	(1,220)	140	7,575
percentage of present value of section liabilities	**(1%)**	(1%)	-	-	2%

28 Reconciliation of operating profit to operating cash flow

	2010 £000	2009 £000
Operating profit	**67,474**	95,095
Depreciation charge	**1,587**	413
Decrease/(increase) in debtors	**241,497**	(263,606)
(Decrease)/increase in creditors	**(274,102)**	245,538
Net cash inflow from operating activities	**36,456**	77,440

Notes *(continued)*

29 Analysis of cash flows

	2010 **£000**	2009 £000
Returns on investment and servicing of finance		
Interest received	**679**	5,836
Interest paid	**(34)**	(162)
Dividends paid to minority interest	**(179)**	(251)
Net cash inflow for returns on investments and servicing of finance	**466**	5,423
Capital expenditure		
Purchase of tangible fixed assets	**(4,039)**	(1,997)
Net cash outflow for capital expenditure	**(4,039)**	(1,997)
Management of liquid resources		
Payments from leasing reserve account	**4,616**	2,618
Cash withdrawn from deposit	**-**	10,000
	4,616	12,618

30 Analysis of net funds

	2009 £000	Cash flow £000	**2010** **£000**
Cash at bank	115,008	(53,863)	**61,145**
Cash deposits (see note 18)	20,919	(4,616)	**16,303**
Net funds	135,927	(58,479)	**77,448**

Reconciliation of net cash flow to movement in net funds

	2010 **£000**	2009 £000
Movement in cash deposits	**(4,616)**	(12,618)
Movement in cash in the financial year	**(53,863)**	(26,943)
Movement in net funds in financial year	**(58,479)**	(39,561)
Net funds at beginning of financial year	**135,927**	175,488
Net funds at end of financial year	**77,448**	135,927

Notes *(continued)*

31 Related party transactions

At 6 March 2010 and 28 February 2009, 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 year, the following costs were incurred by the Group in respect of management services, royalty fees and recharges provided by

	2010	2009
	£000	£000
Virgin Enterprises Limited	300	240
Virgin Management Limited	166	172
Other	400	12
	866	424

At 6 March 2010, aggregate amounts of £8 000 *(2009 £12,000)* were payable to related parties

32 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 6 March 2010, the ultimate parent company is Virgin Group Holdings Limited, a company registered in the British Virgin Islands