

**Virgin Rail Group Holdings Limited**

**Directors' report and financial statements  
for the financial year ended 31 March 2014**

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# **Virgin Rail Group Holdings Limited**

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# **Virgin Rail Group Holdings Limited**

## **Group strategic report for the financial year ended 31 March 2014**

### **Introduction**

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"), a member of the Group. The Group operated these services under the terms of the Interim Franchise Agreement, dated 5 December 2012, for the period from 9 December 2012 to 8 November 2014. The Interim Franchise Agreement operated as a management contract, with the majority of revenue and cost risk being borne by the Department for Transport ("DfT").

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. Following negotiations with the DfT, a new Franchise Agreement was signed on 18 June 2014. This supercedes the Interim Franchise Agreement and is effective for the period from 22 June 2014 to 31 March 2017, with an option for the DfT to extend it by up to one year.

The new Franchise Agreement sees the Group taking on greater revenue and cost risk in return for a commercial profit margin. It will see the Group delivering improvements to the customer experience, local communities and the environment. In addition there are plans for new direct train services from London to Blackpool and Shrewsbury.

### **Business review**

The Group has seen strong passenger revenue and journey growth during the financial year.

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

Customer satisfaction as measured by the independent National Passenger Survey is positive and the Group has been at the top of long distance train operators, in terms of overall satisfaction scores, for the last nine bi-annual surveys.

The Group continues to experience days of poor infrastructure performance 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 under its performance contract to ensure that the effects of poor performance delays are minimised. In addition the Group entered into an alliance with Network Rail on 5 December 2013 to focus on performance improvements and efficiency savings.

### **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.

#### *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.

#### *Network Rail performance*

Reliable running of the Group's high frequency 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 year, economic conditions affect demand for rail services with the subsequent impact on financial performance. Inflation and potentially rising interest rates will put 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.

# **Virgin Rail Group Holdings Limited**

## **Group strategic report (continued) for the financial year ended 31 March 2014**

### **Principal risks and uncertainties (continued)**

#### *West Coast Franchise Agreement*

The new Franchise Agreement 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 its targets are met.

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.

#### *Cyber risk*

The Group, whilst maintaining adequate protection, is aware that the risks of cyber attacks are increasing. The Group, along with its suppliers, is constantly monitoring the risk to its operations.

#### *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.

### **Financial key performance indicators**

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

The Group has seen strong passenger revenue and journey growth year on year. Annual passenger journeys now stand at 31.9 million, a 5% increase from the previous financial year.

### **Other key performance indicators**

Significant non-financial KPIs include train punctuality, safety, customer satisfaction and net advocacy scores. Safety is discussed further in the Safety section below.

The operations of the Group have been affected during the financial year 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 85.7% for the financial year compared to 83.6% in the previous financial year. The current level falls below that expected by the directors and the Group has engaged with Network Rail to improve the service experienced by customers.

The latest Customer Satisfaction survey results maintain the best in class position. This has been achieved by the Group's good value for money offerings and the dedication of staff. In the Autumn 2013 National Passenger Survey the Group achieved an overall satisfaction score of 91% (Autumn 2012: 92%). For the financial year, customer correspondence per thousand passenger journeys stood at 3.8 (2013: 2.4). Delay repay compensation commenced during the financial year.

## **Virgin Rail Group Holdings Limited**

### **Group strategic report (continued) for the financial year ended 31 March 2014**

#### **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 accident 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.

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

- ongoing maintenance of a close safety partnership with Network Rail;
- ongoing 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 developments**

The directors remain confident that, under the terms of the new Franchise Agreement, West Coast will remain profitable over its franchise term.

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.

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



**Philip Whittingham**  
**Director**

Date: 23 June 2014

# **Virgin Rail Group Holdings Limited**

## **Directors' report for the financial year ended 31 March 2014**

The directors present their report and the financial statements for the financial year ended 31 March 2014.

### **Results and dividends**

The profit for the financial year, after taxation and minority interests, amounted to £9,670,000 (2013: £25,870,000).

Dividends paid during the financial year totalled £17,969,000 (2013: £40,396,000).

### **Directors**

The directors who served during the financial year were:

Patrick McCall  
JP Moorhead  
Martin Griffiths  
Ross Paterson  
Anthony Collins (resigned 11 October 2013)  
Christopher Gibb (resigned 11 November 2013)  
Graham Leech  
Philip Whittingham (appointed 1 October 2013)  
Phillip Bearpark (appointed 1 October 2013)

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.

### **Political contributions**

The Group made no political contributions during the financial year (2013: £Nil).

### **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.

# **Virgin Rail Group Holdings Limited**

## **Directors' report for the financial year ended 31 March 2014**

### **Disclosure of information to auditor**

Each of the persons who are directors at the time when this Directors' report is approved has confirmed that:

- so far as that director is aware, there is no relevant audit information of which the Company and the Group's auditor is 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 auditor is aware of that information.

### **Auditor**

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:



**Philip Whittingham**  
Director

Date: 23 June 2014

The Battleship Building  
179 Harrow Road  
London  
W2 6NB

## **Virgin Rail Group Holdings Limited**

### **Directors' responsibilities statement for the financial year ended 31 March 2014**

The directors are responsible for preparing the Group strategic report, 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 Accounting Standards and applicable law (United Kingdom Generally Accepted Accounting Practice). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the Group and 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 Company and 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.



# **Virgin Rail Group Holdings Limited**

## **Independent auditor's 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 year ended 31 March 2014, set out on pages 9 to 36. 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 Auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditor**

As explained more fully in the Directors' responsibilities statement, 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](http://www.frc.org.uk/auditscopeukprivate).

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 March 2014 and of the Group's profit for the financial year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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

In our opinion the information given in the Group strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

## Virgin Rail Group Holdings Limited

### Independent auditor's 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: 23 June 2014

# Virgin Rail Group Holdings Limited

## Consolidated profit and loss account for the financial year ended 31 March 2014

	Note	2014 £000	2013 £000
<b>Turnover</b>	1,2	<b>952,612</b>	<b>897,750</b>
Other operating income	3	<b>39,479</b>	43,925
Train operating expenditure	4	<b>(666,144)</b>	(612,641)
Staff costs	7	<b>(156,600)</b>	(150,804)
Depreciation and amortisation	13,14	<b>(630)</b>	(698)
Other operating charges		<b>(163,298)</b>	(159,927)
<b>Operating profit before exceptional items</b>	5	<b>5,419</b>	17,605
<b>Exceptional items</b>			
Other exceptional items	11	<b>2,012</b>	11,290
<b>Operating profit after exceptional items and profit on ordinary activities before interest</b>		<b>7,431</b>	28,895
Interest receivable and similar income	9	<b>340</b>	405
Interest payable and similar charges	10	<b>(5)</b>	-
Other finance income	30	<b>5,320</b>	4,670
<b>Profit on ordinary activities before taxation</b>		<b>13,086</b>	33,970
Tax on profit on ordinary activities	12	<b>(3,395)</b>	(8,044)
<b>Profit on ordinary activities after taxation</b>		<b>9,691</b>	25,926
Minority interests	25	<b>(21)</b>	(56)
<b>Profit for the financial year</b>	22	<b>9,670</b>	25,870

All amounts relate to continuing operations.

The notes on pages 14 to 36 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 year ended 31 March 2014

	Note	2014 £000	2013 £000
<b>Profit for the financial year</b>		<b>9,670</b>	<b>25,870</b>
Actuarial (loss)/gain on defined benefit pension scheme	30	(100)	20
Taxation on actuarial (loss)/gain on defined benefit pension scheme	19	20	(5)
		<hr/>	<hr/>
<b>Total recognised gains and losses relating to the financial year</b>		<b>9,590</b>	<b>25,885</b>
		<hr/>	<hr/>

**Virgin Rail Group Holdings Limited**  
**Registered number: 4196341**

**Consolidated balance sheet**  
**as at 31 March 2014**

	Note	£000	2014 £000	£000	2013 £000
<b>Fixed assets</b>					
Intangible assets	13		320		847
Tangible assets	14		202		305
			<u>522</u>		<u>1,152</u>
<b>Current assets</b>					
Stocks	16	408		-	
Debtors: amounts falling due after more than one year	17	-		11	
Debtors: amounts falling due within one year	17	58,439		52,680	
Cash at bank and in hand		57,575		77,372	
			<u>116,422</u>	<u>130,063</u>	
<b>Creditors: amounts falling due within one year</b>	18	<u>(91,569)</u>		<u>(97,375)</u>	
<b>Net current assets</b>			<u>24,853</u>		<u>32,688</u>
<b>Total assets less current liabilities</b>			<u>25,375</u>		<u>33,840</u>
<b>Provisions for liabilities</b>					
Dilapidations provision	20		<u>(835)</u>		<u>(813)</u>
<b>Net assets excluding pension liability</b>			<u>24,540</u>		<u>33,027</u>
Pension liability, net of deferred tax	30		<u>(464)</u>		<u>(562)</u>
<b>Net assets</b>			<u><u>24,076</u></u>		<u><u>32,465</u></u>
<b>Capital and reserves</b>					
Called up share capital	21		3		3
Merger reserve	22		22,533		22,533
Profit and loss account	22		<u>1,436</u>		<u>9,815</u>
<b>Shareholders' funds</b>	23		<u>23,972</u>		<u>32,351</u>
<b>Minority interests</b>	25		<u>104</u>		<u>114</u>
			<u><u>24,076</u></u>		<u><u>32,465</u></u>

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



**Philip Whittingham**  
Director

Date: 23 June 2014

**Virgin Rail Group Holdings Limited**  
**Registered number: 4196341**

**Company balance sheet**  
**as at 31 March 2014**

	Note	£000	2014 £000	£000	2013 £000
<b>Fixed assets</b>					
Investments	15		33,477		33,477
<b>Current assets</b>					
Debtors	17	1,507		1,100	
Cash at bank		167		5,485	
		<u>1,674</u>		<u>6,585</u>	
<b>Creditors: amounts falling due within one year</b>	18	<u>(784)</u>		<u>(1,182)</u>	
<b>Net current assets</b>			<u>890</u>		<u>5,403</u>
<b>Total assets less current liabilities and net assets</b>			<u><u>34,367</u></u>		<u><u>38,880</u></u>
<b>Capital and reserves</b>					
Called up share capital	21		3		3
Merger reserve	22		33,474		33,474
Profit and loss account	22		<u>890</u>		<u>5,403</u>
<b>Shareholders' funds</b>	23		<u><u>34,367</u></u>		<u><u>38,880</u></u>

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



**Philip Whittingham**  
Director

Date: 23 June 2014

# Virgin Rail Group Holdings Limited

## Consolidated cash flow statement for the financial year ended 31 March 2014

	Note	2014 £000	2013 £000
Net cash flow from operating activities	31	3,061	50,586
Returns on investments and servicing of finance	32	275	326
Taxation		(5,164)	(5,044)
Equity dividends paid		(17,969)	(40,396)
<b>(Decrease)/Increase in cash in the financial year</b>	<b>33</b>	<b>(19,797)</b>	<b>5,472</b>

## Reconciliation of net cash flow to movement in net funds for the financial year ended 31 March 2014

	2014 £000	2013 £000
(Decrease)/Increase in cash in the financial year	(19,797)	5,472
<b>Movement in net debt in the financial year</b>	<b>(19,797)</b>	<b>5,472</b>
Net funds at 1 April 2013	77,372	71,900
<b>Net funds at 31 March 2014</b>	<b>57,575</b>	<b>77,372</b>

# Virgin Rail Group Holdings Limited

## Notes to the financial statements for the financial year ended 31 March 2014

### 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 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 year dealt with in the financial statements of the Company is disclosed in note 22 to these financial statements.

#### 1.4 Turnover

Turnover comprises revenue recognised by the Group in respect of goods and services supplied during the financial year, 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 and car parking. 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.



# Virgin Rail Group Holdings Limited

## Notes to the financial statements for the financial year ended 31 March 2014

### 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 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 Stocks

Stocks are valued at the lower of cost and net realisable value after making due allowance for obsolete and slow-moving stocks.

# Virgin Rail Group Holdings Limited

## Notes to the financial statements for the financial year ended 31 March 2014

### 1. Accounting policies (continued)

#### 1.11 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.

#### 1.12 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 undertook 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.

#### 1.13 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.

#### 1.14 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.

#### 1.15 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.

# Virgin Rail Group Holdings Limited

## Notes to the financial statements for the financial year ended 31 March 2014

### 1. Accounting policies (continued)

#### 1.16 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 the profit and loss account 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.

#### 1.17 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

	2014 £000	2013 £000
Passenger turnover	907,636	851,893
Catering income	11,415	10,748
Other trading income	33,561	35,109
	<hr/>	<hr/>
	952,612	897,750
	<hr/>	<hr/>

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 and car parking.

## Virgin Rail Group Holdings Limited

### Notes to the financial statements for the financial year ended 31 March 2014

#### 3. Other operating income

	2014 £000	2013 £000
Network change compensation and performance regime	36,392	40,373
Property income	3,022	2,917
Other income	65	635
	<u>39,479</u>	<u>43,925</u>

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.

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

#### 4. Train operating expenditure

	2014 £000	2013 £000
Rolling stock costs	318,792	302,333
Track access costs	186,222	156,215
Station and depot access costs	13,884	13,246
Power costs	66,985	65,129
Other operating expenditure	80,261	75,718
	<u>666,144</u>	<u>612,641</u>

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

# Virgin Rail Group Holdings Limited

## Notes to the financial statements for the financial year ended 31 March 2014

### 5. Operating profit

The operating profit is stated after charging/(crediting):

	2014 £000	2013 £000
Amortisation of intangible fixed assets	527	163
Depreciation of tangible fixed assets:		
- owned by the group	103	535
Operating lease rentals:		
- hire of plant and machinery	119,409	112,156
- other operating leases	11,352	10,954
Rental income received on properties	(3,022)	(2,917)
Franchise expense (see below)	97,534	104,373
	<u>97,534</u>	<u>104,373</u>

	2014 £000	2013 £000
<b>Franchise expense/(income)</b>		
Interim Franchise Agreement payments	97,472	24,313
Payments under ARFA (Amended and Restated Franchise Agreement)	-	107,053
Revenue support adjustment under ARFA	-	(27,611)
Adjustments under the Supplemental Letter	62	618
	<u>97,534</u>	<u>104,373</u>

The Interim Franchise Agreement, applicable from 9 December 2012, allows for West Coast receiving a pre-tax profit margin equivalent to 1% of revenue.

The West Coast ARFA, applicable up to 8 December 2012, allowed for adjustment to franchise payments under a number of circumstances, the more routine circumstances being for revenue share and revenue support. These provisions applied when actual revenues exceeded or fell short of that anticipated as set out in the National Rail Franchise Terms.

CrossCountry Trains Limited ("CrossCountry"), a subsidiary company of the Group, operated passenger rail services until 10 November 2007 and has been incurring residual costs and income. In CrossCountry, franchise expense/(income) arises under the original Franchise Agreement between the DfT and CrossCountry 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% of revenue and remain in place following the termination of the CrossCountry franchise to cover any residual costs and income.

# Virgin Rail Group Holdings Limited

## Notes to the financial statements for the financial year ended 31 March 2014

### 6. Auditors' remuneration

	2014 £000	2013 £000
Fees payable to the Company's auditor for the audit of these financial statements	24	23

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:

	2014 £000	2013 £000
Wages and salaries	128,571	124,894
Social security costs	11,529	11,130
Other pension costs	16,500	14,780
	<u>156,600</u>	<u>150,804</u>

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

	2014 No.	2013 No.
Management	444	468
Other staff	2,529	2,447
	<u>2,973</u>	<u>2,915</u>

### Company

The average number of employees employed by the Company, including the directors, during the financial year was Nil (2013: Nil).

# Virgin Rail Group Holdings Limited

## Notes to the financial statements for the financial year ended 31 March 2014

### 8. Directors' remuneration

	2014 £000	2013 £000
Remuneration	939	995
Amounts receivable under long-term incentive schemes	-	246
Amounts paid to third parties for directors' remuneration services	150	150
Compensation for loss of office	255	-

During the financial year retirement benefits were accruing to 3 directors (2013: 3) in respect of defined benefit pension schemes.

The highest paid director, currently in office, received remuneration of £324,000 (2013: £479,000).

The total accrued pension provision of the highest paid director at 31 March 2014 amounted to £75,000 (2013: £54,000).

The amount of the accrued lump sum in respect of the highest paid director at 31 March 2014 amounted to £55,000 (2013: £29,000).

### 9. Interest receivable

	2014 £000	2013 £000
Bank interest receivable	334	394
Other interest receivable	6	11
	340	405

### 10. Interest payable

	2014 £000	2013 £000
Other interest payable	5	-

### 11. Exceptional items

	2014 £000	2013 £000
Bid costs refund	2,012	11,290

Following the cancellation of the bid for the West Coast franchise in 2012 the DfT announced that it would reimburse the bid costs incurred. The bid costs refund is in respect of amounts received during the financial year.

# Virgin Rail Group Holdings Limited

## Notes to the financial statements for the financial year ended 31 March 2014

### 12. Taxation

	2014 £000	2013 £000
<b>Analysis of tax charge in the financial year</b>		
<b>Current tax</b>		
UK corporation tax charge on profit for the financial year	3,512	7,392
Adjustments in respect of prior financial years	(50)	46
<b>Total current tax</b>	<b>3,462</b>	<b>7,438</b>
<b>Deferred tax (see note 19)</b>		
Origination and reversal of timing differences	(352)	534
Effect of change in tax rate	252	107
Adjustments in respect of prior financial years	33	(35)
<b>Total deferred tax</b>	<b>(67)</b>	<b>606</b>
<b>Tax on profit on ordinary activities</b>	<b>3,395</b>	<b>8,044</b>

### Factors affecting tax charge for the financial year

The tax assessed for the financial year is higher than (2013: lower than) the standard rate of corporation tax in the UK of 23% (2013: 24%). The differences are explained below:

	2014 £000	2013 £000
Profit on ordinary activities before tax	13,086	33,970
Current tax at 23% (2013: 24%)	3,010	8,153
<b>Effects of:</b>		
Expenses not deductible for tax purposes	95	39
Depreciation in excess of capital allowances/(capital allowances in excess of depreciation)	729	(76)
Adjustments in respect of prior financial years	(50)	46
Other timing differences	(322)	(724)
<b>Total current tax charge (see above)</b>	<b>3,462</b>	<b>7,438</b>

### Factors that may affect future tax charges

Reductions in the corporation tax rate from 23% to 21% (effective from 1 April 2014) and from 21% to 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. A rate of 20% has been used within the deferred tax calculations within these financial statements.



# Virgin Rail Group Holdings Limited

## Notes to the financial statements for the financial year ended 31 March 2014

### 13. Intangible fixed assets

	Rail franchise £000
<b>Group</b>	
<b>Cost</b>	
At 1 April 2013 and 31 March 2014	1,010
<b>Amortisation</b>	
At 1 April 2013	163
Charge for the financial year	527
At 31 March 2014	690
<b>Net book value</b>	
At 31 March 2014	320
At 31 March 2013	847

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

	Fixtures & fittings £000
<b>Group</b>	
<b>Cost</b>	
At 1 April 2013 and 31 March 2014	40,856
<b>Depreciation</b>	
At 1 April 2013	40,551
Charge for the financial year	103
At 31 March 2014	40,654
<b>Net book value</b>	
At 31 March 2014	202
At 31 March 2013	305

### 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.

# Virgin Rail Group Holdings Limited

## Notes to the financial statements for the financial year ended 31 March 2014

### 15. Fixed asset investments (continued)

<b>Company</b>	<b>Investments in subsidiary companies £000</b>
<b>Cost</b>	
At 1 April 2013 and 31 March 2014	<b>348,629</b>
<b>Impairment</b>	
At 1 April 2013 and 31 March 2014	<b>315,152</b>
<b>Net book value</b>	
At 31 March 2014	<b>33,477</b>
At 31 March 2013	<b>33,477</b>

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 allotted 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 2014. This impairment review was principally based on discounted cash flows over the life of the West Coast franchise using a discount rate of 5.7%.

### 16. Stocks

	<b>Group</b>		<b>Company</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Raw materials and consumables	<b>408</b>	-	-	-

# Virgin Rail Group Holdings Limited

## Notes to the financial statements for the financial year ended 31 March 2014

### 17. Debtors

	<u>Group</u>		<u>Company</u>	
	2014	2013	2014	2013
	£000	£000	£000	£000
<b>Due after more than one year</b>				
Prepayments and accrued income	-	11	-	-
	<u>-</u>	<u>11</u>	<u>-</u>	<u>-</u>
	<u>Group</u>		<u>Company</u>	
	2014	2013	2014	2013
	£000	£000	£000	£000
<b>Due within one year</b>				
Trade debtors	42,020	38,425	530	34
Group relief	-	-	656	1,056
Other debtors	9,535	8,645	-	-
Prepayments and accrued income	4,976	3,841	314	-
Deferred tax asset (see note 19)	1,908	1,769	7	10
	<u>58,439</u>	<u>52,680</u>	<u>1,507</u>	<u>1,100</u>

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

	<u>Group</u>	
	2014	2013
	£000	£000
Deferred costs:		
Amounts falling due within one year	11	17
Amounts falling due after more than one year	-	11
	<u>11</u>	<u>28</u>

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

	<u>Group</u>		<u>Company</u>	
	2014	2013	2014	2013
	£000	£000	£000	£000
Trade creditors	59,724	55,314	116	-
Amounts owed to group undertakings	-	-	245	5
Corporation tax	9,186	10,888	234	1,172
Other taxation and social security	4,114	3,822	28	-
Deferred season ticket income	5,595	5,064	-	-
Other creditors	10,565	18,777	-	-
Accruals and other deferred income	2,385	3,510	161	5
	<u>91,569</u>	<u>97,375</u>	<u>784</u>	<u>1,182</u>

# Virgin Rail Group Holdings Limited

## Notes to the financial statements for the financial year ended 31 March 2014

### 19. Deferred tax

The deferred tax asset, which has been recognised at 20% (2013: 23%), is set out below:

	<b>Group</b>		<b>Company</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
At 1 April 2013	1,937	2,548	10	14
Credit/(charge) to profit and loss account	67	(606)	(3)	(4)
Credit/(charge) to statement of total recognised gains and losses	20	(5)	-	-
At 31 March 2014	<b>2,024</b>	<b>1,937</b>	<b>7</b>	<b>10</b>

	<b>Group</b>		<b>Company</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Disclosed as:				
Debtors - deferred tax asset (see note 17)	1,908	1,769	7	10
Pension liability (see note 30)	116	168	-	-
Net deferred tax asset	<b>2,024</b>	<b>1,937</b>	<b>7</b>	<b>10</b>

The elements of deferred taxation are as follows:

	<b>Group</b>		<b>Company</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Excess of capital allowances over depreciation	1,661	1,220	7	10
Other timing differences	363	717	-	-
	<b>2,024</b>	<b>1,937</b>	<b>7</b>	<b>10</b>

There is an unrecognised deferred tax asset of £34,000 (2013: £40,000) which relates to tax losses carried forward.

# Virgin Rail Group Holdings Limited

## Notes to the financial statements for the financial year ended 31 March 2014

### 20. Provisions

	Dilapidations provision £000
<b>Group</b>	
At 1 April 2013	813
Utilised during financial year	(48)
Charge to profit and loss account	70
	<hr/>
At 31 March 2014	<b>835</b> <hr/>

The dilapidations provision relates to costs required to be incurred at properties leased by the Group in accordance with lease obligations. These costs are expected to be incurred by the end of the West Coast franchise.

The Company has no provisions.

### 21. Share capital

	2014 £	2013 £
<b>Allotted, called up and fully paid</b>		
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
	<hr/>	<hr/>
	<b>3,478</b> <hr/>	<b>3,478</b> <hr/>

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

### 22. Reserves

	Merger reserve £000	Profit and loss account £000
<b>Group</b>		
At 1 April 2013	22,533	9,815
Profit for the financial year	-	9,670
Dividends paid (see note 24)	-	(17,969)
Actuarial loss on pension scheme, net of deferred tax	-	(80)
	<hr/>	<hr/>
At 31 March 2014	<b>22,533</b> <hr/>	<b>1,436</b> <hr/>

# Virgin Rail Group Holdings Limited

## Notes to the financial statements for the financial year ended 31 March 2014

### 22. Reserves (continued)

Company	Merger reserve £000	Profit and loss account £000
At 1 April 2013	33,474	5,403
Profit for the financial year	-	13,456
Dividends paid (see note 24)	-	(17,969)
At 31 March 2014	<u>33,474</u>	<u>890</u>

### 23. Reconciliation of movement in shareholders' funds

Group	2014 £000	2013 £000
Opening shareholders' funds	32,351	46,862
Profit for the financial year	9,670	25,870
Dividends paid (see note 24)	(17,969)	(40,396)
Actuarial (loss)/gain on pension scheme, net of deferred tax	(80)	15
Closing shareholders' funds	<u>23,972</u>	<u>32,351</u>

  

Company	2014 £000	2013 £000
Opening shareholders' funds	38,880	54,082
Profit for the financial year	13,456	25,194
Dividends paid (see note 24)	(17,969)	(40,396)
Closing shareholders' funds	<u>34,367</u>	<u>38,880</u>

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.

### 24. Dividends

	2014 £000	2013 £000
Dividends paid	<u>17,969</u>	<u>40,396</u>

# Virgin Rail Group Holdings Limited

## Notes to the financial statements for the financial year ended 31 March 2014

### 25. Minority interests

	£000
At 1 April 2013	114
Share of profit for the financial year	21
Dividends paid	(31)
	<hr/>
At 31 March 2014	104
	<hr/>

### 26. Capital commitments

The Group had no capital commitments at 31 March 2014 (2013: £Nil).

### 27. Operating lease commitments

At 31 March 2014 the Group had annual commitments under non-cancellable operating leases as follows:

	Plant and machinery		Other operating leases	
	2014	2013	2014	2013
Group	£000	£000	£000	£000
Expiry date:				
Between 2 and 5 years	119,641	118,937	12,353	11,437
	<hr/>	<hr/>	<hr/>	<hr/>

The Company did not have any commitments under non-cancellable leases at 31 March 2014 (2013: £Nil).

### 28. 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.

### 29. 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 (2013: £21,000,000).

# Virgin Rail Group Holdings Limited

## Notes to the financial statements for the financial year ended 31 March 2014

### 30. 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 2014 by a qualified independent actuary, using revised assumptions that are consistent with the requirements of FRS 17.

	2014 £000	2013 £000
<b>Net pension liability</b>		
Present value of funded defined benefit obligations	(579,570)	(553,270)
Fair value of section assets	407,030	383,150
	<hr/>	<hr/>
Deficit in section	(172,540)	(170,120)
Members share of section	69,020	68,050
Franchise adjustment	102,940	101,340
	<hr/>	<hr/>
Deficit recognised by Group	(580)	(730)
Related deferred tax asset	116	168
	<hr/>	<hr/>
Net pension liability	<u>(464)</u>	<u>(562)</u>

	2014 £000	2013 £000
<b>Movements in present value of defined benefit obligation</b>		
At 1 April 2013	553,270	477,880
Employer share of current service cost	16,450	14,780
Members share of current service cost	10,600	9,410
Past service cost	50	-
Interest cost	25,730	23,450
Benefits paid	(15,110)	(12,880)
Actuarial (gains)/losses	(11,420)	40,630
	<hr/>	<hr/>
At 31 March 2014	<u>579,570</u>	<u>553,270</u>



# Virgin Rail Group Holdings Limited

## Notes to the financial statements for the financial year ended 31 March 2014

### 30. Pensions (continued)

	2014 £000	2013 £000
<b>Movements in fair value of section assets</b>		
At 1 April 2013	383,150	346,910
Expected return on section assets	26,830	24,940
Contributions by employer	11,430	10,910
Contributions by members	7,220	6,820
Benefits paid	(15,110)	(12,880)
Actuarial (losses)/gains	(6,490)	6,450
	<hr/>	<hr/>
At 31 March 2014	407,030	383,150
	<hr/>	<hr/>

	2014 £000	2013 £000
<b>Expense recognised in the profit and loss account</b>		
Current service cost	16,450	14,780
Past service cost	50	-
Expected return on section assets	(16,100)	(14,960)
Interest on section liabilities	15,440	14,070
Interest credit on franchise adjustment	(4,660)	(3,780)
	<hr/>	<hr/>
	11,180	10,110
	<hr/>	<hr/>

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

	2014 £000	2013 £000
Staff costs	16,500	14,780
Other finance income	(5,320)	(4,670)
	<hr/>	<hr/>
	11,180	10,110
	<hr/>	<hr/>

### 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 £100,000 loss (2013: £20,000 gain).

Cumulative actuarial gains/losses reported in the consolidated statement of total recognised gains and losses since 1 March 2004 are £1,971,000 gain (2013: £2,071,000 gain).

# Virgin Rail Group Holdings Limited

## Notes to the financial statements for the financial year ended 31 March 2014

### 30. Pensions (continued)

	2014 £000	2013 £000
<b>Movement in deficit recognised by Group</b>		
At 1 April 2013	(730)	(540)
Current service cost	(16,450)	(14,780)
Past service cost	(50)	-
Contributions	11,430	10,910
Other finance income	5,320	4,670
Actuarial (loss)/gain	(100)	20
Deficit at start of Interim Franchise Agreement (see note 13)	-	(1,010)
	<hr/>	<hr/>
At 31 March 2014	<b>(580)</b>	<b>(730)</b>
	<hr/>	<hr/>

	2014 £000	2013 £000
<b>Fair value of section assets</b>		
Equities	170,570	162,050
Bonds	66,380	61,860
Property	38,970	36,210
Other	131,110	123,030
	<hr/>	<hr/>
	<b>407,030</b>	<b>383,150</b>
	<hr/>	<hr/>
Actual return on section assets	<b>20,340</b>	<b>31,390</b>
	<hr/>	<hr/>

### Future contributions

Following the signing of the new West Coast Franchise Agreement, as explained in note 35, the Group currently expects to pay contributions of £12,000,000 over the period of the 2014/15 financial year.

# Virgin Rail Group Holdings Limited

## Notes to the financial statements for the financial year ended 31 March 2014

### 30. Pensions (continued)

#### Actuarial assumptions

Principal actuarial assumptions at the balance sheet date were as follows:

	2014 %	2013 %
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	4.5	4.6
RPI inflation assumption	3.3	3.3
CPI inflation assumption	2.3	2.3
Long term rate of return expected on		
- Equities	8.0	8.0
- Bonds	4.3	3.9
- Property	7.5	7.5
- Other	7.0	7.0
- Overall	7.0	7.0

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)

#### History of section

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

	31 March 2014 £000	31 March 2013 £000	31 March 2012 £000	5 March 2011 £000	6 March 2010 £000
<b>Balance sheet</b>					
Present value of section liabilities	(579,570)	(553,270)	(477,880)	(385,210)	(386,770)
Fair value of section assets	407,030	383,150	346,910	326,550	293,540
Deficit in section	(172,540)	(170,120)	(130,970)	(58,660)	(93,230)
Members share of section	69,020	68,050	52,390	23,460	37,290
Franchise adjustment	102,940	101,340	78,040	32,150	52,820
Deficit recognised by Group	(580)	(730)	(540)	(3,050)	(3,120)

# Virgin Rail Group Holdings Limited

## Notes to the financial statements for the financial year ended 31 March 2014

### 30. Pensions (continued)

	31 March 2014 £000	31 March 2013 £000	31 March 2012 £000	5 March 2011 £000	6 March 2010 £000
<i>Experience adjustments</i>					
Experience adjustments on section assets:					
amount (£000)	(3,890)	3,870	(8,660)	2,750	36,070
percentage of section assets	(1%)	1%	(3%)	1%	12%
Experience adjustments on section liabilities:					
amount (£000)	2,880	(8,220)	(6,070)	970	(2,510)
percentage of present value of section liabilities	-	(1%)	(1%)	-	(1%)

### 31. Net cash flow from operating activities

	2014 £000	2013 £000
Operating profit before exceptional items	5,419	17,605
Exceptional items	2,012	11,290
Amortisation of intangible fixed assets	527	163
Depreciation of tangible fixed assets	103	535
Increase in stocks	(408)	-
Increase in debtors	(5,579)	(2,588)
(Decrease)/increase in creditors	(4,105)	21,577
Increase/(decrease) in provisions	22	(1,866)
Difference between employer pension contributions and amounts recognised in the profit and loss account	5,070	3,870
<b>Net cash inflow from operating activities</b>	<b>3,061</b>	<b>50,586</b>

### 32. Analysis of cash flows for headings netted in cash flow statement

	2014 £000	2013 £000
<b>Returns on investments and servicing of finance</b>		
Interest received	311	431
Interest paid	(5)	-
Dividends paid to minority interests	(31)	(105)
<b>Net cash inflow from returns on investments and servicing of finance</b>	<b>275</b>	<b>326</b>

# Virgin Rail Group Holdings Limited

## Notes to the financial statements for the financial year ended 31 March 2014

### 33. Analysis of changes in net funds

	1 April 2013 £000	Cash flow £000	Other non-cash changes £000	31 March 2014 £000
Cash at bank and in hand	77,372	(19,797)	-	57,575
<b>Net funds</b>	<b>77,372</b>	<b>(19,797)</b>	<b>-</b>	<b>57,575</b>

### 34. Related party transactions

At 31 March 2014 and 31 March 2013, 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, commission and marketing services provided by:

	2014 £000	2013 £000
Virgin Atlantic Airways Limited	1,450	880
Virgin Enterprises Limited	332	325
Virgin Management Limited	81	104
Virgin Insight Limited	200	63
Virgin Holdings Limited	-	1,172
Stagecoach Group plc	60	1,580
Other	72	61
	<b>2,195</b>	<b>4,185</b>

During the financial year, the Group made sales of £182,000 (2013: £165,000) to and purchases of £2,000 (2013: £51,000) from East Midlands Trains Limited in relation to train operating services. The Group also made sales of £326,000 (2013: £Nil) to Stagecoach Transport Holdings Limited in relation to franchise bid support.

At 31 March 2014 aggregate amounts of £327,000 were receivable from related parties (2013: £2,419,000 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.

### 35. Post balance sheet events

On 18 June 2014, the new West Coast Franchise Agreement was signed. It is effective for the period from 22 June 2014 to 31 March 2017. It supercedes the Interim Franchise Agreement for West Coast, which was due to run until 8 November 2014.

## **Virgin Rail Group Holdings Limited**

### **Notes to the financial statements for the financial year ended 31 March 2014**

#### **36. 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 2014 the ultimate parent company is Virgin Group Holdings Limited, a company registered in the British Virgin Islands.