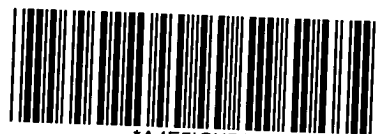


**Registered number: 4196341**

**Virgin Rail Group Holdings Limited**

**Directors' report and financial statements  
for the financial year ended 31 March 2015**

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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 2015**

### **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 21 June 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").

Following negotiations with the DfT, a new Franchise Agreement for West Coast was signed on 18 June 2014. This supersedes 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 the potential to earn a commercial profit margin. It will see the Group delivering improvements to the customer experience, local communities and the environment.

### **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 maintained its position at the top of long distance train operators in terms of overall satisfaction scores.

Under the new Franchise Agreement, the Group will build on its customer satisfaction levels by delivering a range of further enhancements to the customer experience. These include additional standard class seating capacity, high bandwidth Wi-Fi, a partnership with the Nectar loyalty scheme, more ticket vending machines, an upgraded website and new direct train services from London to Blackpool and Shrewsbury.

As well as delivering customer satisfaction, the Group is focused on its corporate responsibility and meeting its commitments to the environment, to local communities and to the UK economy.

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. The Group is in an alliance with Network Rail which focuses 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.

# **Virgin Rail Group Holdings Limited**

## **Group strategic report (continued) for the financial year ended 31 March 2015**

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

#### *Economic conditions*

While strong 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 may 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.

The new Franchise Agreement includes a "GDP sharing" arrangement that is intended to ensure that the DfT bears most of the risk of variances in revenue resulting from UK GDP differing from that expected at the time of the June 2014 Franchise Agreement.

#### *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. The Group is exposed to commodity price risk and uses fuel derivatives to hedge against movements in the fuel price.

### **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 34.5 million, an 8% 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 84.7% for the financial year compared to 85.7% 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.

# **Virgin Rail Group Holdings Limited**

## **Group strategic report (continued) for the financial year ended 31 March 2015**

### **Other key performance indicators (continued)**

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 2014 National Passenger Survey the Group achieved an overall satisfaction score of 90% (Autumn 2013: 91%).

### **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: 17 June 2015

# **Virgin Rail Group Holdings Limited**

## **Directors' report for the financial year ended 31 March 2015**

The directors present their report and the financial statements for the financial year ended 31 March 2015.

### **Results and dividends**

The profit for the financial year, after taxation and minority interests, amounted to £42,801,000 (2014: £9,670,000).

Dividends paid during the financial year totalled £27,927,000 (2014: £17,969,000).

### **Directors**

The directors who served during the financial year were:

Patrick McCall  
JP Moorhead  
Martin Griffiths  
Ross Paterson  
Graham Leech  
Philip Whittingham  
Phillip Bearpark

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 (2014: £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 2015**

#### **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: 17 June 2015

The Battleship Building  
179 Harrow Road  
London  
W2 6NB

## **Virgin Rail Group Holdings Limited**

### **Directors' responsibilities statement for the financial year ended 31 March 2015**

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.



## **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 2015, set out on pages 9 to 35. 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 2015 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.

## **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: 17 June 2015

# Virgin Rail Group Holdings Limited

## Consolidated profit and loss account for the financial year ended 31 March 2015

	Note	2015 £000	2014 £000
<b>Turnover</b>	1,2	<b>1,020,091</b>	952,612
Other operating income	3	40,036	39,479
Train operating expenditure	4	(656,028)	(666,144)
Staff costs	7	(168,446)	(156,600)
Depreciation and amortisation	13,14	(1,604)	(630)
Other operating charges		(186,926)	(163,298)
<b>Operating profit before exceptional items</b>	5	<b>47,123</b>	5,419
<b>Exceptional items</b>			
Other exceptional items	11	-	2,012
<b>Operating profit after exceptional items and profit on ordinary activities before interest</b>		<b>47,123</b>	7,431
Interest receivable and similar income	9	669	340
Interest payable and similar charges	10	(14)	(5)
Other finance income	30	5,980	5,320
<b>Profit on ordinary activities before taxation</b>		<b>53,758</b>	13,086
Tax on profit on ordinary activities	12	(10,844)	(3,395)
<b>Profit on ordinary activities after taxation</b>		<b>42,914</b>	9,691
Minority interests	25	(113)	(21)
<b>Profit for the financial year</b>	22	<b>42,801</b>	9,670

All amounts relate to continuing operations.

The notes on pages 14 to 35 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 2015

	Note	2015 £000	2014 £000
<b>Profit for the financial year</b>		<b>42,801</b>	<b>9,670</b>
Actuarial gain/(loss) on defined benefit pension scheme	30	3,943	(100)
Taxation on actuarial gain/(loss) on defined benefit pension scheme	19	(788)	20
		<hr/>	<hr/>
<b>Total recognised gains and losses relating to the financial year</b>		<b>45,956</b>	<b>9,590</b>
		<hr/> <hr/>	<hr/> <hr/>

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

**Consolidated balance sheet**  
**as at 31 March 2015**

	Note	£000	2015 £000	£000	2014 £000
<b>Fixed assets</b>					
Intangible assets	13		3,316		320
Tangible assets	14		-		202
			<u>3,316</u>		<u>522</u>
<b>Current assets</b>					
Stocks	16	694		408	
Debtors	17	67,144		58,439	
Cash at bank and in hand		106,192		57,575	
		<u>174,030</u>		<u>116,422</u>	
<b>Creditors: amounts falling due within one year</b>	18	<u>(132,381)</u>		<u>(91,569)</u>	
<b>Net current assets</b>			<u>41,649</u>		<u>24,853</u>
<b>Total assets less current liabilities</b>			<u>44,965</u>		<u>25,375</u>
<b>Provisions for liabilities</b>					
Dilapidations provision	20		<u>(2,588)</u>		<u>(835)</u>
<b>Net assets excluding pension liability</b>			<u>42,377</u>		<u>24,540</u>
Pension liability, net of deferred tax	30		<u>(232)</u>		<u>(464)</u>
<b>Net assets</b>			<u><u>42,145</u></u>		<u><u>24,076</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		19,465		1,436
<b>Shareholders' funds</b>	23		<u>42,001</u>		<u>23,972</u>
<b>Minority interests</b>	25		<u>144</u>		<u>104</u>
			<u><u>42,145</u></u>		<u><u>24,076</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: 17 June 2015

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

**Company balance sheet**  
**as at 31 March 2015**

	Note	£000	2015 £000	£000	2014 £000
<b>Fixed assets</b>					
Investments	15		33,477		33,477
<b>Current assets</b>					
Debtors	17	553		1,507	
Cash at bank		310		167	
		<u>863</u>		<u>1,674</u>	
<b>Creditors: amounts falling due within one year</b>	18	<u>(283)</u>		<u>(784)</u>	
<b>Net current assets</b>			<u>580</u>		<u>890</u>
<b>Total assets less current liabilities and net assets</b>			<u><u>34,057</u></u>		<u><u>34,367</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>580</u>		<u>890</u>
<b>Shareholders' funds</b>	23		<u><u>34,057</u></u>		<u><u>34,367</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: 17 June 2015

# Virgin Rail Group Holdings Limited

## Consolidated cash flow statement for the financial year ended 31 March 2015

	Note	2015 £000	2014 £000
Net cash flow from operating activities	31	84,071	3,061
Returns on investments and servicing of finance	32	601	275
Taxation		(8,128)	(5,164)
Equity dividends paid		(27,927)	(17,969)
<b>Increase/(Decrease) in cash in the financial year</b>	33	<b>48,617</b>	<b>(19,797)</b>

## Reconciliation of net cash flow to movement in net funds for the financial year ended 31 March 2015

	2015 £000	2014 £000
Increase/(Decrease) in cash in the financial year	48,617	(19,797)
<b>Movement in net debt in the financial year</b>	<b>48,617</b>	<b>(19,797)</b>
Net funds at 1 April 2014	57,575	77,372
<b>Net funds at 31 March 2015</b>	<b>106,192</b>	<b>57,575</b>

# Virgin Rail Group Holdings Limited

## Notes to the financial statements for the financial year ended 31 March 2015

### 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 2015**

### **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 agreement 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 on a straight line basis to write off the cost of the asset over the expected remaining duration of the franchise, which is deemed to be the expected useful life.

#### **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 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 2015

### 1. Accounting policies (continued)

#### 1.11 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.

#### 1.12 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.

#### 1.13 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.

# Virgin Rail Group Holdings Limited

## Notes to the financial statements for the financial year ended 31 March 2015

### 1. Accounting policies (continued)

#### 1.14 Taxation

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

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

#### 1.15 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

	2015 £000	2014 £000
Passenger turnover	970,651	907,636
Catering income	12,495	11,415
Other trading income	36,945	33,561
	<u>1,020,091</u>	<u>952,612</u>

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.

### 3. Other operating income

	2015 £000	2014 £000
Network change compensation and performance regime	37,489	36,392
Property income	2,547	3,022
Other income	-	65
	<u>40,036</u>	<u>39,479</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.

# Virgin Rail Group Holdings Limited

## Notes to the financial statements for the financial year ended 31 March 2015

### 4. Train operating expenditure

	2015 £000	2014 £000
Rolling stock costs	323,181	318,792
Track access costs	167,957	186,222
Station and depot access costs	15,572	13,884
Power costs	62,314	66,985
Other operating expenditure	87,004	80,261
	<u>656,028</u>	<u>666,144</u>

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

### 5. Operating profit

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

	2015 £000	2014 £000
Amortisation of intangible fixed assets	1,402	527
Depreciation of tangible fixed assets:		
- owned by the group	202	103
Operating lease rentals:		
- hire of plant and machinery	119,479	119,409
- other operating leases	12,067	11,352
Rental income received on properties	(2,547)	(3,022)
Franchise expense (see below)	105,226	97,534
	<u>105,226</u>	<u>97,534</u>

#### Franchise expense

	2015 £000	2014 £000
Franchise Agreement payments	58,629	-
Profit share payment under Franchise Agreement	12,712	-
Interim Franchise Agreement payments	33,885	97,472
Adjustments under the Supplemental Letter	-	62
	<u>105,226</u>	<u>97,534</u>

The new West Coast Franchise Agreement, applicable from 22 June 2014, includes a profit share arrangement whereby a share of the profit above certain pre-determined thresholds is payable to the DfT.

The Interim Franchise Agreement, applicable up to 21 June 2014, allowed for West Coast receiving a pre-tax profit margin equivalent to 1% of revenue.

The adjustment under the Supplemental Letter relates to a residual amount in respect of CrossCountry Trains Limited, a franchise operated by the Group until 10 November 2007.

# Virgin Rail Group Holdings Limited

## Notes to the financial statements for the financial year ended 31 March 2015

### 6. Auditor's remuneration

	2015 £000	2014 £000
Fees payable to the Company's auditor for the audit of these financial statements	24	24

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 UK Holdings 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:

	2015 £000	2014 £000
Wages and salaries	138,318	128,571
Social security costs	12,438	11,529
Other pension costs	17,690	16,500
	168,446	156,600

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

	2015 No.	2014 No.
Management	461	444
Other staff	2,607	2,529
	3,068	2,973

#### Company

The average number of employees employed by the Company, including the directors, during the financial year was Nil (2014: Nil).

# Virgin Rail Group Holdings Limited

## Notes to the financial statements for the financial year ended 31 March 2015

### 8. Directors' remuneration

	2015 £000	2014 £000
Remuneration	876	939
Amounts receivable under long-term incentive schemes	573	-
Amounts paid to third parties for directors' services	150	150
Compensation for loss of office	-	255

The highest paid director received remuneration of £515,000 (2014: £324,000).

The total accrued pension provision of the highest paid director at 31 March 2015 amounted to £31,000 (2014: £75,000).

The amount of the accrued lump sum in respect of the highest paid director at 31 March 2015 amounted to £19,000 (2014: £55,000).

During the financial year retirement benefits were accruing to 3 directors (2014: 3) in respect of defined benefit pension schemes.

### 9. Interest receivable and similar income

	2015 £000	2014 £000
Bank interest receivable	413	334
Other interest receivable	1	6
Loan interest receivable from related parties (see note 34)	99	-
Loan income receivable from related parties (see note 34)	156	-
	669	340

### 10. Interest payable and similar charges

	2015 £000	2014 £000
Other interest payable	14	5

### 11. Exceptional items

	2015 £000	2014 £000
Bid costs refund	-	2,012

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 prior financial year.

# Virgin Rail Group Holdings Limited

## Notes to the financial statements for the financial year ended 31 March 2015

### 12. Taxation

	2015 £000	2014 £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	13,682	3,512
Adjustments in respect of prior financial years	229	(50)
<b>Total current tax</b>	<b>13,911</b>	<b>3,462</b>
<b>Deferred tax (see note 19)</b>		
Origination and reversal of timing differences	(3,078)	(352)
Effect of change in tax rate	-	252
Adjustments in respect of prior financial years	11	33
<b>Total deferred tax</b>	<b>(3,067)</b>	<b>(67)</b>
<b>Tax on profit on ordinary activities</b>	<b>10,844</b>	<b>3,395</b>

### Factors affecting tax charge for the financial year

The tax assessed for the financial year is higher than (2014: higher than) the standard rate of corporation tax in the UK of 21% (2014: 23%). The differences are explained below:

	2015 £000	2014 £000
Profit on ordinary activities before tax	53,758	13,086
Current tax at 21% (2014: 23%)	11,289	3,010
<b>Effects of:</b>		
Expenses not deductible for tax purposes	41	95
Depreciation in excess of capital allowances	2,354	729
Adjustments in respect of prior financial years	229	(50)
Other timing differences	(2)	(322)
<b>Total current tax charge (see above)</b>	<b>13,911</b>	<b>3,462</b>

### Factors that may affect future tax charges

A reduction in the corporation tax rate from 21% to 20% (effective from 1 April 2015) was 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 2015

### 13. Intangible fixed assets

<b>Group</b>	<b>Rail franchise £000</b>
<b>Cost</b>	
At 1 April 2014	1,010
Additions	4,600
Disposals	(1,010)
At 31 March 2015	4,600
<b>Amortisation</b>	
At 1 April 2014	690
Charge for the financial year	1,402
On disposals	(808)
At 31 March 2015	1,284
<b>Net book value</b>	
At 31 March 2015	3,316
At 31 March 2014	320

The opening 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 was recognised, reflecting a cost in acquiring the right to operate the franchise for the period to 8 November 2014.

From 22 June 2014, the Interim Franchise Agreement was superseded by a new Franchise Agreement, effective for the period from 22 June 2014 to 31 March 2017. As a result of this, the remaining unamortised intangible asset in respect of the Interim Franchise Agreement has been extinguished and a corresponding expense recognised in the profit and loss account within other operating charges. The pension deficit in existence at the start of the new Franchise Agreement has been recognised with a corresponding intangible asset, reflecting a cost in acquiring the right to operate the franchise for the period to 31 March 2017.

### 14. Tangible fixed assets

<b>Group</b>	<b>Fixtures &amp; fittings £000</b>
<b>Cost</b>	
At 1 April 2014 and 31 March 2015	40,856
<b>Depreciation</b>	
At 1 April 2014	40,654
Charge for the financial year	202
At 31 March 2015	40,856
<b>Net book value</b>	
At 31 March 2015	-
At 31 March 2014	202



# Virgin Rail Group Holdings Limited

## Notes to the financial statements for the financial year ended 31 March 2015

### 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.

<b>Company</b>	<b>Investments in subsidiary companies £000</b>
<b>Cost</b>	
At 1 April 2014 and 31 March 2015	348,629
<b>Impairment</b>	
At 1 April 2014 and 31 March 2015	315,152
<b>Net book value</b>	
At 31 March 2015	33,477
At 31 March 2014	33,477

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.

Virgin Rail Group also owned 100% of the allotted share capital of CrossCountry Trains Limited, which operated passenger rail services until 10 November 2007, until it was dissolved on 4 November 2014.

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 2015. This impairment review was principally based on discounted cash flows over the life of the West Coast franchise.

### 16. Stocks

	<b>Group</b>		<b>Company</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Raw materials and consumables	694	408	-	-

# Virgin Rail Group Holdings Limited

## Notes to the financial statements for the financial year ended 31 March 2015

### 17. Debtors

	<b>Group</b>		<b>Company</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Trade debtors	46,075	42,020	42	530
Amounts owed by group undertakings	-	-	32	-
Group relief	-	-	71	656
Other debtors	10,594	9,535	28	-
Prepayments and accrued income	6,230	4,976	374	314
Deferred tax asset (see note 19)	4,245	1,908	6	7
	<b>67,144</b>	<b>58,439</b>	<b>553</b>	<b>1,507</b>

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

	<b>Group</b>		<b>Company</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Trade creditors	76,441	59,724	170	116
Amounts owed to group undertakings	-	-	60	245
Corporation tax	14,969	9,186	31	234
Other taxation and social security	4,493	4,114	-	28
Deferred season ticket income	5,635	5,595	-	-
Other creditors	29,523	10,565	-	-
Accruals and other deferred income	1,320	2,385	22	161
	<b>132,381</b>	<b>91,569</b>	<b>283</b>	<b>784</b>

### 19. Deferred tax

The deferred tax asset, which has been recognised at 20% (2014: 20%), is set out below:

	<b>Group</b>		<b>Company</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
At 1 April 2014	2,024	1,937	7	10
Credit/(charge) to profit and loss account	3,067	67	(1)	(3)
(Charge)/credit to statement of total recognised gains and losses	(788)	20	-	-
At 31 March 2015	<b>4,303</b>	<b>2,024</b>	<b>6</b>	<b>7</b>

# Virgin Rail Group Holdings Limited

## Notes to the financial statements for the financial year ended 31 March 2015

### 19. Deferred tax (continued)

	<b>Group</b>		<b>Company</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Disclosed as:				
Debtors - deferred tax asset (see note 17)	<b>4,245</b>	1,908	<b>6</b>	7
Pension liability (see note 30)	<b>58</b>	116	-	-
Net deferred tax asset	<b>4,303</b>	2,024	<b>6</b>	7

The elements of deferred taxation are as follows:

	<b>Group</b>		<b>Company</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Excess of capital allowances over depreciation	<b>3,893</b>	1,661	<b>6</b>	7
Other timing differences	<b>410</b>	363	-	-
	<b>4,303</b>	2,024	<b>6</b>	7

Based on the anticipated profitable position of the Group during the remaining West Coast franchise period, the deferred tax asset has been recognised.

### 20. Provisions

<b>Group</b>	<b>Dilapidations provision £000</b>
At 1 April 2014	<b>835</b>
Utilised during financial year	<b>(24)</b>
Charge to profit and loss account	<b>1,777</b>
At 31 March 2015	<b>2,588</b>

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.

# Virgin Rail Group Holdings Limited

## Notes to the financial statements for the financial year ended 31 March 2015

### 21. Share capital

	2015 £	2014 £
<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
	<u>3,478</u>	<u>3,478</u>

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

### 22. Reserves

<b>Group</b>	<b>Merger reserve £000</b>	<b>Profit and loss account £000</b>
At 1 April 2014	22,533	1,436
Profit for the financial year	-	42,801
Dividends paid (see note 24)	-	(27,927)
Actuarial gain on pension scheme, net of deferred tax	-	3,155
At 31 March 2015	<u>22,533</u>	<u>19,465</u>
<b>Company</b>	<b>Merger reserve £000</b>	<b>Profit and loss account £000</b>
At 1 April 2014	33,474	890
Profit for the financial year	-	27,617
Dividends paid (see note 24)	-	(27,927)
At 31 March 2015	<u>33,474</u>	<u>580</u>

# Virgin Rail Group Holdings Limited

## Notes to the financial statements for the financial year ended 31 March 2015

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

	2015 £000	2014 £000
<b>Group</b>		
Opening shareholders' funds	23,972	32,351
Profit for the financial year	42,801	9,670
Dividends paid (see note 24)	(27,927)	(17,969)
Actuarial gain/(loss) on pension scheme, net of deferred tax	3,155	(80)
	<u>42,001</u>	<u>23,972</u>
Closing shareholders' funds		
	<u>42,001</u>	<u>23,972</u>
<b>Company</b>		
Opening shareholders' funds	34,367	38,880
Profit for the financial year	27,617	13,456
Dividends paid (see note 24)	(27,927)	(17,969)
	<u>34,057</u>	<u>34,367</u>
Closing shareholders' funds		
	<u>34,057</u>	<u>34,367</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

	2015 £000	2014 £000
Dividends paid	<u>27,927</u>	<u>17,969</u>

### 25. Minority interests

	£000
At 1 April 2014	104
Share of profit for the financial year	113
Dividends paid	(73)
	<u>144</u>
At 31 March 2015	<u>144</u>

### 26. Capital commitments

The Group had no capital commitments at 31 March 2015 (2014: £Nil).

# Virgin Rail Group Holdings Limited

## Notes to the financial statements for the financial year ended 31 March 2015

### 27. Operating lease commitments

At 31 March 2015 the Group had annual commitments under non-cancellable operating leases as follows:

	Plant and machinery		Other operating leases	
	2015	2014	2015	2014
Group	£000	£000	£000	£000
Expiry date:				
Between 2 and 5 years	119,196	119,641	12,363	12,353

At 31 March 2015 the Company had annual commitments under non-cancellable operating leases as follows:

	Plant and machinery		Other operating leases	
	2015	2014	2015	2014
Company	£000	£000	£000	£000
Expiry date:				
Between 2 and 5 years	-	-	844	-

### 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 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.

During the financial year, the Group entered into fuel hedging arrangements to fix a proportion of its fuel costs for the period from July 2014 to March 2017. The fair value of these arrangements as at 31 March 2015 was a cost of £5,868,000. This includes a £254,000 liability on the balance sheet as at 31 March 2015 in relation to the March 2015 settlement which was settled in April 2015. There were no fuel hedging arrangements in place as at 31 March 2014.

### 29. Contingent liabilities

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

This performance bond has been issued by ACE European Group Limited up to £21,000,000 (2014: £21,000,000).

# Virgin Rail Group Holdings Limited

## Notes to the financial statements for the financial year ended 31 March 2015

### 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 2013 using the projected unit method. This valuation has been updated to 31 March 2015 by a qualified independent actuary, using revised assumptions that are consistent with the requirements of FRS 17.

	2015 £000	2014 £000
<b>Net pension liability</b>		
Present value of funded defined benefit obligations	(741,730)	(579,570)
Fair value of section assets	478,910	407,030
Deficit in section	(262,820)	(172,540)
Members share of section	105,130	69,020
Franchise adjustment	157,400	102,940
Deficit recognised by Group	(290)	(580)
Related deferred tax asset	58	116
Net pension liability	(232)	(464)
	2015 £000	2014 £000
<b>Movements in present value of defined benefit obligation</b>		
At 1 April 2014	579,570	553,270
Employer share of current service cost	17,420	16,450
Members share of current service cost	11,200	10,600
Past service cost	270	50
Interest cost	26,360	25,730
Benefits paid	(16,110)	(15,110)
Actuarial losses/(gains)	123,020	(11,420)
At 31 March 2015	741,730	579,570

# Virgin Rail Group Holdings Limited

## Notes to the financial statements for the financial year ended 31 March 2015

### 30. Pensions (continued)

	2015 £000	2014 £000
<b>Movements in fair value of section assets</b>		
At 1 April 2014	407,030	383,150
Expected return on section assets	28,620	26,830
Contributions by employer	12,250	11,430
Contributions by members	7,550	7,220
Benefits paid	(16,110)	(15,110)
Actuarial gains/(losses)	39,570	(6,490)
	<hr/>	<hr/>
At 31 March 2015	478,910	407,030
	<hr/>	<hr/>

	2015 £000	2014 £000
<b>Expense recognised in the profit and loss account</b>		
Current service cost	17,420	16,450
Past service cost	270	50
Expected return on section assets	(17,170)	(16,100)
Interest on section liabilities	15,820	15,440
Interest credit on franchise adjustment	(4,630)	(4,660)
	<hr/>	<hr/>
	11,710	11,180
	<hr/>	<hr/>

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

	2015 £000	2014 £000
Staff costs	17,690	16,500
Other finance income	(5,980)	(5,320)
	<hr/>	<hr/>
	11,710	11,180
	<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 £3,943,000 gain (2014: £100,000 loss).

Cumulative actuarial gains/losses reported in the consolidated statement of total recognised gains and losses since 1 March 2004 are £5,914,000 gain (2014: £1,971,000 gain).



# Virgin Rail Group Holdings Limited

## Notes to the financial statements for the financial year ended 31 March 2015

### 30. Pensions (continued)

	2015 £000	2014 £000
<b>Movement in deficit recognised by Group</b>		
At 1 April 2014	(580)	(730)
Current service cost	(17,420)	(16,450)
Past service cost	(270)	(50)
Contributions	12,250	11,430
Other finance income	5,980	5,320
Actuarial gain/(loss)	3,943	(100)
Deficit at start of new Franchise Agreement (see note 13)	(4,600)	-
Extinguish deficit from Interim Franchise Agreement	407	-
	<u>(290)</u>	<u>(580)</u>
At 31 March 2015	<u>(290)</u>	<u>(580)</u>

From 22 June 2014, the West Coast Interim Franchise Agreement was superseded by a new Franchise Agreement, effective for the period from 22 June 2014 to 31 March 2017. The pension deficit remaining from the Interim Franchise Agreement has been extinguished, with a corresponding credit to the profit and loss account within other operating charges, and superseded by the deficit in relation to the new Franchise Agreement.

	2015 £000	2014 £000
<b>Fair value of section assets</b>		
Equities	208,400	170,570
Bonds	58,110	66,380
Property	48,770	38,970
Other	163,630	131,110
	<u>478,910</u>	<u>407,030</u>
Actual return on section assets	<u>68,190</u>	<u>20,340</u>

### Future contributions

The Group currently expects to pay contributions of £12,200,000 over the period of the 2015/16 financial year.

# Virgin Rail Group Holdings Limited

## Notes to the financial statements for the financial year ended 31 March 2015

### 30. Pensions (continued)

#### Actuarial assumptions

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

	2015 %	2014 %
Rate of increase in salaries	4.0	4.3
Rate of increase in pensions in payment and deferred pensions	2.0	2.3
Discount rate	3.4	4.5
RPI inflation assumption	3.0	3.3
CPI inflation assumption	2.0	2.3
Long term rate of return expected on		
- Equities	7.5	8.0
- Bonds	3.2	4.3
- Property	7.0	7.5
- Other	6.5	7.0
- Overall	6.5	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 2015 £000	31 March 2014 £000	31 March 2013 £000	31 March 2012 £000	5 March 2011 £000
<b>Balance sheet</b>					
Present value of section liabilities	(741,730)	(579,570)	(553,270)	(477,880)	(385,210)
Fair value of section assets	478,910	407,030	383,150	346,910	326,550
Deficit in section	(262,820)	(172,540)	(170,120)	(130,970)	(58,660)
Members share of section	105,130	69,020	68,050	52,390	23,460
Franchise adjustment	157,400	102,940	101,340	78,040	32,150
Deficit recognised by Group	(290)	(580)	(730)	(540)	(3,050)

# Virgin Rail Group Holdings Limited

## Notes to the financial statements for the financial year ended 31 March 2015

### 30. Pensions (continued)

	31 March 2015 £000	31 March 2014 £000	31 March 2013 £000	31 March 2012 £000	5 March 2011 £000
<i>Experience adjustments</i>					
Experience adjustments on section assets:					
amount (£000)	23,740	(3,890)	3,870	(8,660)	2,750
percentage of section assets	5%	(1%)	1%	(3%)	1%
Experience adjustments on section liabilities:					
amount (£000)	(610)	2,880	(8,220)	(6,070)	970
percentage of present value of section liabilities	-	-	(1%)	(1%)	-

### 31. Net cash flow from operating activities

	2015 £000	2014 £000
Operating profit before exceptional items	47,123	5,419
Exceptional items	-	2,012
Amortisation of intangible fixed assets	1,402	527
Depreciation of tangible fixed assets	202	103
Loss on extinguished intangible fixed assets	202	-
Profit on extinguished pension deficit	(407)	-
Increase in stocks	(286)	(408)
Increase in debtors	(6,388)	(5,579)
Increase/(decrease) in creditors	35,030	(4,105)
Increase in provisions	1,753	22
Difference between employer pension contributions and amounts recognised in the profit and loss account	5,440	5,070
<b>Net cash inflow from operating activities</b>	<b>84,071</b>	<b>3,061</b>

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

	2015 £000	2014 £000
<b>Returns on investments and servicing of finance</b>		
Interest received	532	311
Interest paid	(14)	(5)
Loan income received (see note 34)	156	-
Dividends paid to minority interests	(73)	(31)
<b>Net cash inflow from returns on investments and servicing of finance</b>	<b>601</b>	<b>275</b>

# Virgin Rail Group Holdings Limited

## Notes to the financial statements for the financial year ended 31 March 2015

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

	2015 £000	2014 £000
<b>Capital expenditure and financial investment</b>		
New loans made to related parties (see note 34)	(10,263)	-
Loan receipts from related parties (see note 34)	10,263	-
	<hr/>	<hr/>
<b>Net cash inflow from capital expenditure</b>	<hr/> <b>-</b> <hr/>	<hr/> <b>-</b> <hr/>

### 33. Analysis of changes in net funds

	1 April 2014 £000	Cash flow £000	Other non-cash changes £000	31 March 2015 £000
Cash at bank and in hand	57,575	48,617	-	106,192
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Net funds</b>	<hr/> <b>57,575</b> <hr/>	<hr/> <b>48,617</b> <hr/>	<hr/> <b>-</b> <hr/>	<hr/> <b>106,192</b> <hr/>

### 34. Related party transactions

At 31 March 2015 and 31 March 2014, the Company's ultimate parent company was Virgin Group Holdings Limited, whose 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:

	2015 £000	2014 £000
Virgin Atlantic Airways Limited	1,293	1,450
Virgin Enterprises Limited	337	332
Virgin Management Limited	96	81
Virgin Insight Limited	(17)	200
Other	81	72
	<hr/>	<hr/>
	<hr/> <b>1,790</b> <hr/>	<hr/> <b>2,135</b> <hr/>

# Virgin Rail Group Holdings Limited

## Notes to the financial statements for the financial year ended 31 March 2015

### 34. Related party transactions (continued)

During the financial year, the Group made sales of £178,000 (2014: £182,000) to and purchases of £1,000 (2014: £2,000) from East Midlands Trains Limited in relation to train operating services. The Group also made sales of £555,000 (2014: £326,000) to Stagecoach Transport Holdings Limited in relation to franchise bid support and purchases from Stagecoach Group plc of £60,000 (2014: £60,000) in relation to management services.

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

At 31 March 2015 aggregate amounts of £206,000 were payable to related parties (2014: £327,000 receivable).

On 10 October 2014 Virgin Rail Group Limited, a subsidiary undertaking of the Company, signed a loan agreement with Stagecoach Rail Holdings Limited to grant a term loan facility of £10,263,000. Stagecoach Rail Holdings Limited drew down the full amount of the term loan facility on 10 October 2014 and paid an arrangement fee of £103,000 at the same time. The term loan facility was repaid in full on 5 February 2015 along with interest of £99,000. The term loan facility was cancelled on 26 March 2015.

On 14 October 2014 Virgin Rail Group Limited signed a loan agreement with Virgin Holdings Limited to grant a term loan facility of £10,682,000. There was no draw down on the term loan facility. A commitment fee of £53,000 was paid before it was cancelled on 26 March 2015.

All other related party transactions are between entities within the Group.

### 35. 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 UK Holdings Limited.

Copies of the Virgin UK Holdings Limited consolidated financial statements are available to the public and may be obtained from the Registrar of Companies, Companies House, Crown Way, Cardiff, CF14 3UZ.

As at 31 March 2015 the ultimate parent company is Virgin Group Holdings Limited, a company registered in the British Virgin Islands.