

East Coast Main Line Company Limited

Financial Statements for the year ended 31 March 2017

Registered number: 04659708



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Corporate information

Company information for the year ended 31 March 2017

Directors:

- Martin Griffiths
- Ross Paterson
- Patrick McCall
- James Tipple
- David Horne
- Timothy Kavanagh
- Tim Hedley-Jones
- Timothy Shoveller
- Warrick Dent
- Suzanne Donnelly
- John Doughty
- Clare Burles

Company Secretary: Timothy Kavanagh

Registered Office: East Coast House
25 Skeldergate
York
YO1 6DH

Registered Number: 04659708

Independent Auditors: Ernst & Young LLP
G1
5 George Square
Glasgow
G2 1DY

Strategic Report

For the year ended 31 March 2017

The Directors present their strategic report for the year ended 31 March 2017.

The Company is a wholly owned subsidiary of Inter City Railways Limited. Inter City Railways Limited is a 90% subsidiary of Stagecoach Transport Holdings Limited, which is a 100% subsidiary of Stagecoach Group plc. Virgin Holdings Limited has a minority shareholding of 10% in Inter City Railways Limited.

REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

The Company has continued to make great strides in transforming customer journeys. This has been reflected in the achievement of a National Rail Passenger Survey Score of 91, maintaining its position near the top of long distance operators. The Company has continued to invest in the train fleet and additional services. During the year a £41.1m investment was completed in the total refurbishment of the existing train fleet. This was completed in January 2017, and provides a significantly improved interior environment for customers, and has been augmented with a revamped on-board food offer, developed in association with celebrity chef James Martin.

In May 2016, the Company increased Edinburgh to London service frequencies, adding an extra 42 services, providing an additional 22,000 seats per week, and a near half hourly service. In addition, in December 2016, weekend services on the West Yorkshire route were significantly increased to provide a service frequency close to that of the weekday service.

The Company also launched an on-board entertainment service (BEAM) which provides free content streamed to customers' devices. In recognition of the increasing importance of connectivity to customers, the Company now provides free WiFi to those customers booking through the Virgin Trains East Coast website, as well as continuing to provide WiFi free of charge to all First Class passengers. The year also saw the Company launch a global first in the Explorer app, which helps customers navigate their way around stations to locate friends, shops and platforms.

The rate of revenue growth over the last 12 months has been lower than expected, and lower than that generally seen in previous years. This reflects a number of factors including the following:

- Poor Network Rail operating performance, as a consequence of which the Company has commenced a Sustained Poor Performance claim against Network Rail;
- Increased car competition as a result of historically low fuel prices; and
- Slower UK GDP growth and weakened consumer and business confidence, including uncertainty following the UK's decision to leave the European Union.

As noted in the Financial Review the Company is in discussion with the Department for Transport regarding the terms of the continued operation of the franchise. The Company is currently making losses, but reflecting our contractual rights and obligations, and based on our ongoing discussions with the Department for Transport, and the reprioritisation of Network Rail's infrastructure programme, we expect the Company to be profitable from 2019.

Accordingly an exceptional pre-tax charge has been recorded to reflect that the current contractual arrangements give rise to an onerous contract. Further detail of this is provided in the Financial Review.

Strategic Report (continued)

For the year ended 31 March 2017

OPERATIONAL REVIEW

Key Performance Indicators

In addition to monitoring financial performance, the company uses a wide range of performance indicators (KPIs) to assess the effectiveness of performance in key activities. The most important of these KPIs focus in the following key areas:

Safety

The Company holds a periodic Executive Safety, Sustainability and Security Board, attended by all directors and operational senior managers. A variety of KPIs are reviewed to ensure effective monitoring of safety performance and that a proactive approach to safety is adopted by all employees.

	2017 Moving annual average	2016 Moving annual average
Passenger major injuries per 1 million passenger journeys	0.09	0.46
Workforce lost time accidents per 1,000 employees	1.22	1.25
Employee physical assaults per 1,000 employees	1.30	0.86

Against an improving trend in passenger and staff accidents within the business, assaults saw an increase to 52 physical assaults from 33 in 2015/16. While this correlated with a general increase in crimes against the person reported nationally this was disappointing given the work undertaken previously to train staff on conflict avoidance. Further work has been undertaken to address this; including improved CCTV provision at all stations, ensuring BTP adhere to their policing policy for serious physical assaults, targeted use of security personnel on known risk trains and the introduction of Skyguard, a system to allow lone workers to raise the alarm and capture images from personally worn devices. The last quarter of the year showed a sustained reduction in frequency of incidents. This is expected to continue into the next financial year.

Train Performance (see Train Performance below)

Customer Advocacy (see Loyalty Scheme and Customer Advocacy below)

Employee Engagement (see Employee Engagement below)

Train Performance

The primary measure of operational performance for the business is punctuality as reported in the National Rail Trends, Public Performance Measure (PPM). At the end of the year the Company's operational moving annual average (MAA) was 83.1% (2016: 85.2%). This year has proved to be a more challenging year than 2016 as a result of an increase in disruptive incidents.

Loyalty Scheme and Customer Advocacy

The Nectar loyalty scheme continues to perform as forecasted, with points collection being added to Ticket Vending Machines and Season Tickets through the launch of the new centralised booking engine in July 2017. The reward and recognition programme has expanded to be data-driven through our single customer view, with rewards being given by email and in person onboard through our new staff app. This enables frontline staff to deliver personal rewards to customers when they travel with us. The Virgin Group loyalty proposition, Virgin Red, continues to grow for our customers and gives them access to benefits from across the Virgin Group and other companies.

Strategic Report (continued)

For the year ended 31 March 2017

OPERATIONAL REVIEW (continued)

Loyalty Scheme and Customer Advocacy (continued)

Customer advocacy metrics are also strong with an overall net promoter score (NPS) for the year measuring +39.2 (2016: +36), a significant uplift from the starting position of +22 when the new NPS reporting system was introduced in August 2015.

Employee Engagement

The company's employee engagement results were 58% in the year with marked changes in the Customer Experience and Operations teams. 52% of our people participated in the survey.

FINANCIAL REVIEW

The Company generated an operating loss for the year of £117.4 million (2016: profit of £24.9 million) inclusive of £272.0 million (2016: £204.5 million) being paid to the DfT as franchise premium, and operating profit before franchise premium was £154.6 million (2016: £229.4 million).

Turnover for the year ended 31 March 2017 was £819.7 million (2016: £794.3 million) which reflects ticket income earned from passenger services and associated income earned from catering, car park and commission from the sale of tickets on other train operator services. The operating expenditure reported in the year was £937.1 million (2016: £769.4 million) with a loss before taxation of £120.5 million (2016: profit of £23.1 million). Loss after tax in the year was £90.5 million (2016: profit of £16.8 million).

The Company repaid £18.5 million of an Agreed Funding Commitment loan from Stagecoach Group plc on 31 March 2017. This is in accordance with the terms of the Franchise Agreement. The Company drew down £32.5 million from its parent company support facility with Stagecoach Group plc in the year to 31 March 2017 which will be used to continue the finance of a significant capital expenditure programme.

We are engaged in discussions with the Department for Transport regarding the terms of our continued operation of the Virgin Trains East Coast franchise, taking account of our respective rights and obligations under the current franchise agreement. While any new agreement remains subject to approvals and contract, based on our interactions with the Department for Transport, we expect to finalise new commercial terms during the next year.

These will provide clarity for customers, staff, investors and other stakeholders on the future operation of the franchise, and offer value for money for taxpayers. We look forward to continuing to deliver our vision and plans for the franchise through to at least 2023. Reflecting our contractual rights and obligations and based on our ongoing discussions with the Department for Transport and the reprioritisation of Network Rail's infrastructure programme, we expect Virgin Trains East Coast to be profitable from 2019 with the potential to earn a profit margin commensurate with that of a "direct award" franchise. However, we also expect Virgin Trains East Coast to incur losses under the current contract. Accordingly, in the financial statements for the year ended 31 March 2017, we have recorded an exceptional pre-tax charge of £93.7 million to reflect that the current contractual arrangements give rise to an onerous contract. The calculation of that onerous contract provision takes account of the Stagecoach parent company's £165 million loan commitment to Virgin Trains East Coast, from which £66.5 million was already loaned at 31 March 2017. 10% of any loan is funded by Virgin. We have also recorded a £2.9 million impairment of intangible assets associated with the right to operate the franchise. The impairment charge is essentially an acceleration of amortisation and is a non-cash charge.

Strategic Report (continued)

For the year ended 31 March 2017

FINANCIAL REVIEW (continued)

Passenger revenue growth for the year to 31 March 2017 was 3.4% from 2.8% journey growth and 0.6% yield growth. Excluding all HQ adjustments revenue grew 3.2%.

Key risks and uncertainties

There are a number of potential risks and uncertainties that could have an impact on the Company's performance and objectives.

The Company is subject to numerous laws relating to safety procedures, equipment, employment, environmental initiatives and procedures and other operating issues and considerations. These laws and regulations are subject to alteration and amendment and the costs of compliance with new legislation and regulations may have an adverse impact on the Company's financial performance. To mitigate the risk from such changes the Company used its parent company Stagecoach Group plc to engage both Government and railway groups.

Following the tragic incidents in Manchester and London, it is clear that terrorist incidents or terrorist campaigns (direct or an attack on other public transport) could adversely impact operations and passenger demand. The Company has a security programme in place which meets TRANSEC requirements and attends Association of Train Operating Companies Emergency Planning Meetings. The Company has a rigorous, ongoing training and inspection regime in place.

The retention and recruitment of key personnel is essential to ensure that the Company has the correct level of expertise and industry knowledge. To mitigate this risk, a talent management and succession planning review was undertaken to identify key posts and individuals. In addition to this, a high potential and future leader's development strategy is in place to ensure retention and that successors are in place and equipped for the role.

The principal risks and uncertainties of Stagecoach Group plc, which includes those of this company, are discussed in the Group's 2017 annual report (paragraph 1.4.5 of the Strategic Review), which does not form part of this report.

By order of the Board

A handwritten signature in black ink, appearing to be 'Tim Kavanagh', written over a horizontal line.

Tim Kavanagh
Director

04 August 2017

Directors' Report

For the year ended 31 March 2017

The Directors present their report together with the audited financial statements for the year ended 31 March 2017.

Principal activities

The principal activity of East Coast Main Line Company Limited, trading as Virgin Trains East Coast ("the Company"), is the provision of passenger services on the East Coast main line.

The website www.virgintrainseastcoast.com contains information on timetables, fares and further information on the business.

Results and dividends

The results for the year ended 31 March 2017 are set out in the income statement on page 12. The results for the year have been discussed in the strategic report on page 1. The directors do not recommend a dividend for the year (2016: £nil)

Health and safety

The safety of employees and customers is of prime importance and working with partners such as British Transport Police, Network Rail and other key stakeholders, the Company continues to put in place initiatives that will ensure, so far as is reasonably practicable, the health, safety and welfare of its staff and our customers. The Company's 2017/18 Safety & Sustainability Plan sets risk-based and targeted objectives which will maintain, and further improve, the safety performance delivered in 2016/17 (which has been recognised by the Company being awarded the RoSPA 'Gold Medal' for safety performance improvement for the seventh year running). The Safety and Sustainability Plan contains both strategic and tactical objectives which are reviewed at an Executive level to ensure the continuous improvement in safety performance.

Environment

Sustainability underpins the delivery of the Company's services and continues to be an issue of prime importance to both customers and staff. In May 2015 we began a programme of energy audits across our property portfolio to identify energy saving opportunities and inform the introduction of targets to drive a reduction in energy usage. To address waste the Company is working with waste contractors to ensure diversion of waste from landfill, and is part of an industry forum tasked with improving recycling performance.

During 2016/17 the Company maintained certification to the ISO14001 environmental standard across its engineering function. The Company is currently working towards extending this across the rest of the business and plans to incorporate certification to ISO50001 (for energy management). Further changes will be made to the way waste is dealt with and there will be continued investment in low-carbon solutions for both stations and depots.

Directors' Report (continued)

For the year ended 31 March 2017

Directors

The Directors of the Company who were in office during the year and up to the date of signing the financial statements were:

Martin Griffiths	Director	
Ross Paterson	Director	
Patrick McCall	Director	
James Tipple	Director	
Tim Hedley-Jones	Director	
David Horne	Managing Director	
Timothy Shoveller	Director	
Warrick Dent	Director	
Suzanne Donnelly	Director	
Clare Burles	Director	
John Doughy	Director	Appointed 13 June 2016
Timothy Kavanagh	Director	Appointed 21 November 2016
Graham Leech	Director	Resigned 10 November 2016
Richard Bodicoat	Director	Resigned 09 December 2016
Alison Watson	Director	Resigned 26 May 2017

No Director had any interest in the share capital of the Company during the financial period.

The Company entered into no significant contract or arrangement during the period in which any Director had a material interest.

Company Secretary

The Company Secretary is Timothy Kavanagh.

Employees

The Company is an inclusive employer which aims to eliminate any unfair discrimination, harassment, victimisation and bullying. The Company is committed to ensuring all individuals are treated fairly, with respect, and are valued irrespective of disability, gender, race, health, social class, sexual preference, marital status, nationality, religion, employment status, age or membership or non-membership of a trade union.

The Company gives full consideration to applications for employment from disabled persons where the candidate's particular aptitudes and abilities are consistent with adequately meeting the requirements of the job. Opportunities are available to disabled employees for training, career development and promotion.

Where existing employees become disabled, it is the Company's policy to provide continuing employment wherever practicable in the same or an alternative position and to provide appropriate training to achieve this aim.

Directors' Report (continued)

For the year ended 31 March 2017

Employees (continued)

We remain committed to creating a culture in which open, regular and high quality communication is key. Our internal communication strategy has three drivers: enabling our people to use technology to communicate more effectively; ensuring our managers communicate business messages to their teams; and providing tools to foster a culture of collaboration and innovation. This year has seen us making use of our expanded channel mix, including an Enterprise Social Media tool, a weekly e-zine and frequent Managers' conference calls in addition to our more traditional but popular magazines, Forward and Way2Amazing. These are supplemented by regular email updates from members of the Executive Committee, an annual Management Conference and regular business news updates for our Managers. Our dialogue with our Trade Unions is also informed by our broader corporate communications strategy.

The Company consults employees or their representatives on a regular basis so that the views of employees are taken into account when making decisions that are likely to affect their interests. Employee involvement in the Company's performance is encouraged through an employee Buy As You Earn scheme.

Charitable and political donations

The Company made charitable donations totalling £22,000 during the year ended 31 March 2017 (2016: £23,655). This donation for £22,000 was in respect of the Railway Mission Chaplaincy service. There were no political donations made in the year (2016: £nil).

Future developments

The Company's franchise plans include significant investment in delivering an improved service and a more personalised travel experience for passengers, as well as the introduction of a new fleet of rolling stock, known as Azuma.

Financial Risk Management

The Company's activities expose it to a variety of financial risks. Price risk is managed by the Company having a solid understanding of the markets that it operates within and setting appropriate fares for each of these markets. A proportion of its fares are fixed prices which are set annually and are subject to regulatory approval. Credit risk is managed by cash being held by large high street financial institutions with satisfactory credit ratings, furthermore all significant receivable balances are managed to ensure that the credit quality of the counterparty is satisfactory. Liquidity risk is controlled by the Company ensuring that there is a sufficient mixture of long-term and short-term debt finance to meet planned operations. Cash flow risk is managed by cash flow budgeting and forecasting and availability of long-term debt facilities if required.

The Company uses derivative financial instruments to manage its exposure to fuel price risk, in accordance with IAS39. Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value.

Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. For those derivatives designated as hedges and for which hedge accounting is desired, the hedging relationship is documented at its inception. This documentation identifies the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how effectiveness will be measured throughout its duration. Such hedges are expected at inception to be highly effective.

Directors' Report (continued)

For the year ended 31 March 2017

Statement of Directors' Responsibilities

The Directors are responsible for preparing the 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 prepared the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards, including FRS 101 have been followed, subject to any material departures disclosed and explained in the financial statements;
- notify its shareholders in writing about the use of disclosure exemptions, if any, of FRS 101 used in the preparation of financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Going Concern

The Directors believe that preparing the financial statements on the going concern basis is appropriate due to the continued financial support of the ultimate parent company, Stagecoach Group plc. Stagecoach Group plc has committed to providing parent company support of up to £165 million to allow the Company to meet its franchise obligations, including the obligation to maintain financial ratios specified in the franchise agreement. A bank has issued a bond to underwrite 50% of the parent company support, and Stagecoach Group plc has indemnified the bank. The Directors have received confirmation that Stagecoach Group plc intend to support the Company for at least one year after these financial statements are signed.

We are engaged in discussion with the Department for Transport regarding the terms of our continued operation of the Virgin Trains East Coast franchise, taking account of our respective rights and obligations under the current franchise agreement. While any new agreement remains subject to approvals and contract, based on our interactions with the Department for Transport, we expect to finalise new commercial terms during the next year. Accordingly, the financial statements have been prepared on the going concern basis.

Directors' Report (continued)

For the year ended 31 March 2017

Indemnification of directors and officers

The company's ultimate parent maintains Directors' and Officers' Liability Insurance in respect of legal action that might be brought against the directors of the company. The ultimate parent has indemnified each of the company's directors and other officers of the company against certain liabilities that may be incurred as a result of their offices.


Directors' statement of disclosure of information to auditor

The Directors who held office at the date of approval of the Directors' Report confirm that insofar as the Directors are aware, there is no relevant audit information (as defined in section 418 of the Companies Act 2006) of which the company's auditors are unaware, and they have taken all the steps required of them as Directors in order to make themselves aware of any relevant audit information (as defined) and to establish that the Company's auditors are aware of that information.

Independent Auditors

The auditors, Ernst & Young LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act.

The financial statements on pages 12 to 38 were approved by the Board of Directors on 04 August 2017 and signed on its behalf by



Tim Kavanagh

Director

04 August 2017

Registered Office:

East Coast House

25 Skeldergate

York

YO1 6DH

Independent auditors' report to the members of East Coast Main Line Limited

For the year ended 31 March 2017

We have audited the financial statements of East Coast Main Line Company Limited for the year ended 31 March 2017 which comprise the Income Statement, the Statement of Other Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 23. 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), including FRS 101 "Reduced Disclosure Framework".

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

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement on page 8, 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

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 101 "Reduced Disclosure Framework"; 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, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Independent auditors' report to the members of East Coast Main Line Limited (continued)

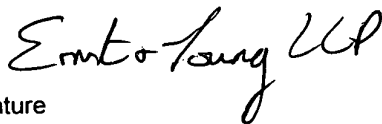
For the year ended 31 March 2017

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic Report or Directors' Report.

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



Signature

Mark Harvey (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

Glasgow

4 August 2017

Income Statement

For the year ended 31 March 2017

		2017	2016
	Note	£000	£000
Revenue			
Passenger income	2	751,825	727,405
Other operating income	2	67,862	66,849
Total Revenue		819,687	794,254
Onerous contract provision	14	(93,723)	-
Other operating costs		(843,384)	(769,369)
Total operating costs		(937,107)	(769,369)
Operating (loss)/profit	3	(117,420)	24,885
Finance income	6	379	219
Finance and similar charges	6	(3,409)	(1,973)
(Loss)/profit before taxation		(120,450)	23,131
Tax on (loss)/profit	7	29,930	(6,339)
(Loss)/profit for the financial year		(90,520)	16,792

The income statement has been prepared on the basis that all operations are continuing operations.

The accompanying notes form an integral part of this income statement.

Statement of other comprehensive income

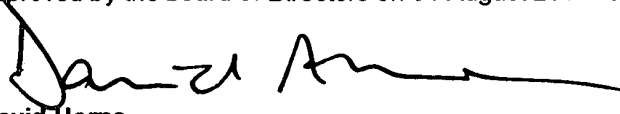
For the year ended 31 March 2017

		Year ended 31 March 2017	Year ended 31 March 2016
	Note	£000	£000
(Loss)/profit for the year		(90,520)	16,792
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Net fair value gain/(loss) on cash flow hedge		1,863	(4,890)
Reclassified and reported in (loss)/profit for the year		1,364	1,680
Tax effect of cash flow hedge		(581)	578
Total items that may be reclassified to profit or loss		2,646	(2,632)
Items that will not be reclassified to profit or loss:			
Actuarial gain/(loss) on retirement benefit obligations	20	24,474	(23,967)
Tax credit relating to actuarial loss on retirement benefit obligations		-	670
Total items that will not be reclassified to profit or loss		24,474	(23,297)
Other comprehensive income/(loss) for the year, net of tax		27,120	(25,929)
Total comprehensive loss for the year		(63,400)	(9,137)

Balance Sheet
As at 31 March 2017

	Note	2017 £000	2016 £000
Assets			
Non-current assets			
Intangible assets	8	9,512	6,689
Tangible assets	9	20,093	16,377
Investments	10	-	-
Retirement benefit asset	20	22,453	3,456
Deferred tax asset	15	19,137	1,673
		<u>71,195</u>	<u>28,195</u>
Current assets			
Inventories	11	4,899	5,520
Trade and other receivables: amounts due within one year	12	119,457	81,512
Trade and other receivables: amounts due after one year	12	267	606
Cash at bank and in hand		47,628	94,131
		<u>172,251</u>	<u>181,769</u>
Total assets		<u>243,446</u>	<u>209,964</u>
LIABILITIES			
Current liabilities			
Trade and other payables	13	(173,402)	(181,820)
Non-current liabilities			
Trade and other payables	13	(81,633)	(70,874)
Provisions for liabilities	14	(94,945)	(667)
		<u>(176,578)</u>	<u>(71,541)</u>
Total liabilities		<u>(349,980)</u>	<u>(253,361)</u>
Net liabilities		<u>(106,534)</u>	<u>(43,397)</u>
EQUITY			
Ordinary share capital	16	-	-
Capital reserve	21	374	111
Cash flow hedge reserve		14	(2,632)
Retained earnings		(106,922)	(40,876)
Total shareholders' deficit		<u>(106,534)</u>	<u>(43,397)</u>

The accompanying notes form an integral part of this balance sheet. The financial statements on pages 12 to 38 were approved by the board of Directors on 04 August 2017 and were signed on its behalf by;


David Horne
Managing Director

Statement of changes in equity

As at 31 March 2017

	Ordinary share capital	Capital Reserve	Cash Flow Hedge	Retained Earnings	Total equity
	£000	£000	£000	£000	£000
As at 31 March 2015	-	-	-	(34,371)	(34,371)
Profit for the year	-	-	-	16,792	16,792
Other comprehensive loss for the year	-	-	(2,632)	(23,297)	(25,929)
Total comprehensive loss for the year	-	-	(2,632)	(6,505)	(9,137)
Other Reserve	-	111	-	-	111
As at 31 March 2016	-	111	(2,632)	(40,876)	(43,397)
Loss for the year	-	-	-	(90,520)	(90,520)
Other comprehensive income for the year	-	-	2,646	24,474	27,120
Total comprehensive loss for the year	-	-	2,646	(66,046)	(63,400)
Other Reserve	-	263	-	-	263
Total comprehensive income/(loss) for the year	-	263	2,646	(66,046)	(63,137)
As at 31 March 2017	-	374	14	(106,922)	(106,534)

Notes to the Financial Statements

For the year ended 31 March 2017

1 Accounting policies

The principal accounting policies, all of which have been applied consistently throughout the year and the preceding year, are:

a) Basis of accounting

The financial statements have been prepared on a going concern basis.

The Company is a private limited company registered in England. The address of the Company's registered office is shown on page 9 and a description of the Company's principal activities are set out on page 1.

These financial statements have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101) and the Companies Act 2006 (the Act).

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- Paragraphs 45(b) and 46-52 of IFRS 2, 'Share-based payment' because the share based payment arrangement concerns the instruments of another group entity
- IFRS 7, 'Financial Instruments: Disclosures'
- Paragraphs 10(d), 10(f), 16, 38A-D, 40A-D, 111 and 134-136 of IAS 1 'Presentation of financial statements'
- IAS 7, 'Statement of cash flows'
- Paragraphs 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors'
- The requirements of paragraph 17 of IAS 24 Related Party Disclosures
- Paragraph 73(e) of IAS 16 Property, Plant and Equipment
- Paragraph 118(e) of IAS 38 Intangible Assets

At 31 March 2017, the company had net liabilities of £106,534,000 (2016: liabilities of £43,397,000). The Directors have received confirmation of continuing financial support from the ultimate parent company, Stagecoach Group plc. Stagecoach Group plc has committed to providing parent company support of up to £165 million to allow the Company to meet its franchise obligations, including the obligation to maintain financial ratios specified in the franchise agreement. A bank has issued a bond to underwrite 50% of the parent company support, and Stagecoach Group plc has indemnified the bank. We are engaged in discussion with the Department for Transport regarding the terms of our continued operation of the Virgin Trains East Coast franchise, taking account of our respective rights and obligations under the current franchise agreement. While any new agreement remains subject to approvals and contract, based on our interactions with the Department for Transport, we expect to finalise new commercial terms during the next year. Accordingly, the financial statements have been prepared on the going concern basis.

Notes to the Financial Statements (continued)

For the year ended 31 March 2017

1 Accounting policies (continued)

b) Revenue

Passenger income represents amounts agreed as attributed to the Company by the income allocation systems of the Rail Settlement Plan Limited, mainly in respect of passenger receipts. Income is attributed based principally on models of certain aspects of passengers' travel patterns 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 income statement over the year of the relevant season ticket.

Other operating income is derived from ticket commissions, station trading income, catering sales, depot and station access payments, performance regime payments, and the provision of goods or services to other train operating companies and excludes VAT. Revenue is recognised upon completion of services or delivery of goods. Revenue from services is recognised on the basis of agreed rates. Commission income is recognised on an accrual basis in accordance with the substance of the relevant agreements.

The Company operates a loyalty programme which operates through the East Coast website and is open to all passengers who book tickets on line. The scheme allows travellers to accumulate points that entitle them to a choice of various awards, primarily free travel. The fair value attributed to the awarded points is deferred as a liability and recognised as revenue on redemption of the points by the participants to whom they are issued.

c) Taxation

Tax, current and deferred is calculated using tax rates and laws enacted or substantively enacted at the balance sheet date.

Corporation tax is provided on taxable profits at the current rate applicable. Tax charges and credits are accounted for through the same primary statement as the related pre-tax item.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to taxation authorities using the tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

d) Deferred tax

Deferred tax is recognised in respect of all material timing differences that have originated, but not reversed, by the balance sheet date. Deferred tax is measured on a non-discounted basis at tax rates that are expected to apply in the periods in which the timing differences reverse.

Deferred tax assets are recognised where their recovery is considered more likely than not in that there will be suitable taxable profits from which the future reversal of underlying timing differences can be deducted.

Notes to the Financial Statements (continued)

For the year ended 31 March 2017

1 Accounting policies (continued)

e) *Tangible assets*

Tangible assets are stated at historic cost less accumulated depreciation. Depreciation is provided on a straight line basis to write off the cost less estimated residual value of fixed assets over their expected useful economic lives as follows:

Leasehold land and buildings	3 - 10 years or lease term
Plant and equipment	3 - 10 years or lease term

Assets in the course of construction are not depreciated until they are available for use and on completion are transferred to the appropriate asset class.

f) *Non-current intangible assets*

Intangible assets, consisting of software, are shown at their original historic cost net of amortisation and any provision for impairment. Cost includes the original purchase price of the assets and costs attributable to bringing the asset to its working condition for its intended use.

Amortisation is charged on a straight-line basis over the life of the franchise and is recorded in operating costs in the Income Statement.

The need for any impairment write-down is assessed by comparing the carrying value of the asset against the higher of net realisable value and value in use.

Intangible assets acquired separately from a business combination are capitalised at cost. Amortisation of intangible assets is calculated on the straight-line method to write-off the cost of each asset over the life of the franchise.

g) *Rail franchise intangible non-current assets*

Where the conditions relating to the award of a franchise require the company to assume legal responsibility for any pension obligation that exists at that point in time, the company 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.

h) *Rail transition costs*

The costs associated with securing new rail franchises are expensed as incurred, except where it is virtually certain that a contract will be awarded in which case they are recognised as an asset and are charged to the income statement over the life of the franchise.

i) *Leased assets*

Assets held under finance leases are included as tangible fixed assets and depreciated over their expected useful lives. The corresponding obligations relating to finance leases, excluding finance charges allocated to future periods, are included in creditors. Finance costs are allocated to the income statement over the period of the lease in accordance with the interest rate inherent in the lease.

Operating lease rentals are charged to the income statement on a straight-line basis over the lease term.

Notes to the Financial Statements (continued)

For the year ended 31 March 2017

1 Accounting policies (continued)

j) Inventories

Inventories are valued at the lower of cost and net realisable value on a weighted average cost basis. Cost comprises direct costs and excludes borrowing costs. Net realisable value is the estimated replacement value of inventory. Where necessary, provision is made for obsolete, slow moving and defective inventory.

k) Grants

Capital grants are credited to deferred grant income and released to the income statement over the estimated useful economic lives of the related assets.

l) Retirement benefit obligations

The Company contributes to a defined benefit pension scheme on behalf of the majority of employees. Full details are provided in note 20.

The Company participates in the Railway Pension Scheme, a defined benefit scheme which covers the whole of the UK Rail industry. This is partitioned into sections and the Company is responsible for the funding of the sections whilst it operates the relevant franchise. In contrast to the pension schemes operated by most businesses, the RPS is a shared cost scheme, which means that costs are formally shared 60% employer and 40% employee.

The trustees complete a full actuarial valuation triennially, separately for each section of the RPS, but the obligation is updated annually by independent actuaries using the projected unit credit method for financial reporting purposes.

The current service cost and gains and losses on settlements and curtailments are recognised in staff pension costs within operating costs in the income statement.

Past service costs are included in operating costs where the benefits have vested, otherwise they are amortised on a straight-line basis over the vesting period. The expected return on assets of funded defined benefit schemes and the interest on pension scheme liabilities comprise the finance element of the pension cost and are included in interest costs. When, on commencement of a franchise, the expected cash contributions for the defined benefit scheme are less than the expected expenses over the term of the franchise, the difference is recognised as deferred credit which is released to the profit and loss account over the term of the franchise. Actuarial gains and losses arising from experience adjustments, changes in actuarial assumptions and amendments to pension plans are charged or credited to the statement of total recognised gains and losses in the period in which they arise.

The charges in respect of defined contribution schemes are recognised when they are due. The Company has no legal or constructive obligation to pay further contributions into a defined contribution scheme if the fund has insufficient assets to pay all employees benefits relating to employee service in the current and prior periods.

m) Provisions

Provisions for current obligations and legal claims are recognised when: the Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Notes to the Financial Statements (continued)

For the year ended 31 March 2017

1 Accounting policies (continued)

m) Provisions (continued)

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

A provision is recognised in the balance sheet for any contract that is "onerous" where it is probable that the future economic benefits to be derived from the contract are less than the unavoidable costs under that contract. Determining the amount of any contract provision necessitates forecasting future cash flows and applying an appropriate discount rate to determine a net present value.

The recognition of an onerous contract provision is charged to the income statement. Losses that subsequently arise on that contract are treated as a utilisation of the provision to the extent they have been provided for.

The amount of any provision is re-assessed at each balance sheet date. Any increase or decrease required to the amount of the provision is charged or credited to the income statement.

n) Investments

Fixed asset investments are initially recognised at cost and thereafter are carried in the balance sheet at cost less any impairment in value. All the fixed assets investments are subject to an impairment review at any time if events or changes in circumstances indicate that their carrying value may not be recoverable.

o) Share-based payments

Certain of the company's employees are granted equity settled share based payments by the parent company. The company has applied the optional exemption contained within IFRS 2, which allows it to apply the standard only to share options granted after the 7 November 2002 that have not vested by 1 May 2005.

i. Equity-settled transactions

The cost of equity settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vested period. In valuing equity settled transactions, no account is taken of any non-market based vesting conditions and no expense is recognised for awards that do not ultimately vest as a result of failure to satisfy a non-market based vesting condition. None of the Stagecoach Group plc's equity-settled transactions have any market based performance conditions.

Fair value for equity-settled share based payments is estimated by the use of the Black-Scholes pricing model. At each balance sheet date before vesting the cumulative expense is calculated based on management's best estimates of the number of equity instruments that will ultimately vest taking into consideration the likelihood of achieving non-market based vesting conditions.

Notes to the Financial Statements (continued)

For the year ended 31 March 2017

1 Accounting policies (continued)

o) Share-based payments (continued)

ii. Cash-settled transactions

The cost of cash settled transactions is measured at fair value. Fair value is estimated initially at the grant date and at each balance sheet date thereafter until the awards are settled. Market based performance conditions are taken into account when determining fair value.

Fair value for cash-settled share based payments (being only those that relate to Long Term Incentive Plan) is estimated by use of a simulation model.

During the vested period, a liability is recognised representing the estimated fair value of the award and the portion of the vesting period expired as at the balance sheet date.

There were no such liabilities recognised as at 31 March 2017 (2016: £Nil).

p) Derivative financial instruments and hedging

The Company uses derivative financial instruments to manage its exposure to fuel price risk, in accordance with IAS39. Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. For those derivatives designated as hedges and for which hedge accounting is desired, the hedging relationship is documented at its inception. This documentation identifies the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how effectiveness will be measured throughout its duration. Such hedges are expected at inception to be highly effective.

The derivatives designated as hedges by the Company are fuel derivatives and these are classified as cash flow hedges. Any gains or losses arising from revaluing derivatives designated as cash flow hedges are recognised through the statement of comprehensive income or the income statement depending on the effectiveness. The effective portion of the gain or loss is recognised through the statement of comprehensive income while the ineffective portion is recognised in the income statement.

q) Critical accounting policies and estimates

Preparation of the financial statements, in accordance with Financial Reporting Standard ("FRS") 101, requires directors to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Actual outcomes could differ from those estimated. The Directors believe that the accounting policies and estimation techniques discussed below represent those that require the greatest exercise of judgement. The Directors have used their best judgement in determining the estimates and assumptions used in these areas but a different set of judgements could result in material changes to the Company's reported financial performance and/or financial position.

The critical accounting policies summarised below cover the policies regarded by the Directors as critical to the Company's reporting in general.

Notes to the Financial Statements (continued)

For the year ended 31 March 2017

1 Accounting policies (continued)

q) Critical accounting policies and estimates (continued)

i. Pensions

The determination of the Company's pension benefit obligation and expense for defined benefit pension schemes is dependent on the selection by the Directors of certain assumptions used by actuaries in calculating such amounts. Those assumptions include the discount rate, the annual rate of increase in future salary levels and mortality rates. The Directors' assumptions are based on actual historical experience and external data. While we believe that the assumptions are appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the pension obligation and future expense.

ii. Onerous contracts

IFRS requires a provision to be recorded for a contract that is "onerous" where it is probable that the future economic benefits to be derived from the contract are less than the unavoidable costs under the contract. Determining the amount of any contract provision necessitates forecasting future cash flows and applying an appropriate discount rate to determine a net present value. There is uncertainty over future cash flows. Forecasts of cash flows for this purpose are consistent with management's plans and forecasts. The forecast of future cash flows and the estimation of the discount rate involves a significant degree of judgement. Actual results can differ from those assumed and there can be no absolute assurance that the assumptions used will hold true.

iii. Impairment

In certain circumstances, IFRS requires property, plant, equipment and intangible assets to be reviewed for impairment. When a review for impairment is conducted, the recoverable amount is assessed by reference to the net present value of the expected future cash flows of the relevant cash generating unit ("CGU") or net realisable value, if higher. The discount rate applied in determining the present value of future cash flows is based on the Company's estimated weighted average cost of capital with appropriate adjustments made to reflect the specific risks associated with the CGU.

Forecasts of cash flows for this purpose are consistent with management's plans and forecasts. The forecast of future cash flows and the estimation of the discount rate involve a significant degree of judgement. Actual results can differ from those assumed and there can be no absolute assurance that the assumptions used will hold true.

2 Revenue

All revenue originates in the United Kingdom.

The Directors consider that the whole of the activities of the Company constitute a single class of business consisting of passenger and other related operating income as disclosed in the income statement.

Notes to the Financial Statements (continued)

For the year ended 31 March 2017

2 Revenue (continued)

Revenue, excluding value added tax (VAT) where applicable, is comprised of;

	2017	2016
	£000	£000
Passenger income	741,215	717,369
Car park sales	10,610	10,036
	<u>751,825</u>	<u>727,405</u>

Other operating income comprises of commercial property income, railway station access income, maintenance income, fuel sales, on board catering income and commissions receivable.

3 Operating (loss)/profit

	2017	2016
	£000	£000
Operating (loss)/profit is stated after charging/(crediting):		
Staff Costs (note 5)	157,864	147,697
Depreciation (note 9)	3,400	2,883
Delay Repay costs	12,495	9,239
Amortisation of intangible assets (note 8)	2,203	2,014
Impairment of intangible asset (note 8)	2,861	-
Release of pension deferred income	(3,025)	(3,033)
Operating lease rentals		
- Fixed track access	24,184	20,797
- Land and buildings	5,494	5,199
- Rolling stock costs	78,340	78,507
- Plant and machinery	2,064	2,138
- Other	5,705	1,721
Auditors' remuneration – audit fees	44	66
Auditors' remuneration – (non audit services)		
- other compliance reporting	7	8

4 Directors' remuneration

	2017	2016
	£000	£000
Emoluments in respect of qualifying services to the Company	1,174	1,466
Compensation for loss of office	124	135
Company pension contributions	127	172
	<u>1,425</u>	<u>1,773</u>

The emoluments excluding pension contributions of the highest paid Director were £227,000 (2016: £270,000).

The pension contributions of the highest paid Director were £21,000 (2016: £25,000).

Notes to the Financial Statements (continued)

For the year ended 31 March 2017

4 Directors' remuneration (continued)

The number of directors who were members of pension schemes during the year was as follows:

	2017	2016
	Number	Number
Defined benefit scheme	<u>9</u>	<u>12</u>

The highest paid director accrued defined pension benefits of £57,000 (2016: £53,000) and lump sum benefits of £45,000 (2016: £42,000).

5 Staff costs

	2017	2016
	£000	£000
Wages and salaries	126,040	116,925
Social security costs	12,386	8,972
Other pension costs	18,910	21,488
Cash Settled share based payments (note 21)	226	195
Equity settled share based payments (note 21)	<u>302</u>	<u>117</u>
	<u>157,864</u>	<u>147,697</u>

The average monthly number of full-time equivalent employees (including Directors) during the year was as follows:

	2017	2016
Managerial and administrative	536	490
Operational	<u>2,508</u>	<u>2,651</u>
	<u>3,044</u>	<u>3,141</u>

6 Finance income and charges

	2017	2016
	£000	£000
Finance income		
Bank interest	<u>379</u>	<u>219</u>
	<u>379</u>	<u>219</u>
Finance charges		
Bank interest	-	(48)
Interest payable to group undertakings	(1,791)	(1,225)
Other interest payable	(441)	(501)
Pension interest	<u>(1,177)</u>	<u>(199)</u>
	<u>(3,409)</u>	<u>(1,973)</u>
Net finance (charge)	<u>(3,030)</u>	<u>(1,754)</u>

Notes to the Financial Statements (continued)

For the year ended 31 March 2017

7 Tax on (loss)/profit

a) Tax recognised in the income statement

	2017	2016
	£'000	£'000
Current taxation:		
UK corporation tax on (loss)/profit for the year	-	7,375
Amounts receivable from fellow subsidiary in respect of group relief	(4,557)	-
Adjustments in respect of prior years	(7,328)	-
	<u>(11,885)</u>	<u>7,375</u>
Deferred taxation:		
Origination and reversal of timing differences	(17,322)	(1,151)
Adjustment in respect of prior years	(723)	115
Total deferred tax (note 15)	<u>(18,045)</u>	<u>(1,036)</u>
Total tax charge reported in the income statement	<u>(29,930)</u>	<u>6,339</u>

b) Tax relating to items charged or credited outside of the income statement

	2017	2016
	£'000	£'000
Tax on fuel derivatives (hedge reserve)	<u>581</u>	<u>-</u>
Tax reported outside of the income statement	<u>581</u>	<u>-</u>

c) Factors affecting the tax charge for the year

The tax assessed for the year is higher (2016: higher) than the standard effective rate of corporation tax in the UK of 20% (2016: 20%). The current tax charge is made up as follows:

	2017	2016
	£000	£000
(Loss)/Profit before taxation	<u>(120,450)</u>	<u>23,131</u>
(Loss)/profit multiplied by standard rate of corporation tax in the UK of 20% (2016: 20%)	(24,089)	4,626
Not deductible expenses	66	1,505
Share based payments	122	(126)
Treatment of inter-company transactions	(43)	12
Impact of initial recognition exemption	1,095	-
Impact of reduction in UK tax rate on current year's deferred tax	869	136
Impact of reduction in UK tax rate on prior year's deferred tax	101	71
Adjustment to tax charge in respect of previous periods	<u>(8,051)</u>	<u>115</u>
Total tax charge for the year reported in the income statement	<u>(29,930)</u>	<u>6,339</u>

Notes to the Financial Statements (continued)

For the year ended 31 March 2017

7 Tax on (loss)/profit (continued)

d) Factors that may affect future tax charges

The reduction in the UK corporate income tax rate to 17% which is expected to take effect from 1 April 2020 had been enacted by the balance sheet date. The deferred tax balance as at 31 March 2017 has therefore been calculated with reference to the enacted expected UK corporation tax rate of 17%. However where we expect the temporary differences to reverse before 1 April 2020 deferred tax has been calculated with reference to 19%.

8 Intangible assets

	Software costs	Other intangibles	Work in Progress	Total
	£000	£000	£000	£000
Cost				
At beginning of year	9,144	3,816	-	12,960
Additions	1,248	-	4,520	5,768
Reclassifications from PP&E	-	-	2,119	2,119
Disposals	(54)	-	-	(54)
At end of year	10,338	3,816	6,639	20,793
Accumulated amortisation				
At beginning of year	5,707	564	-	6,271
Impairment charged to the income statement	-	2,861	-	2,861
Amortisation charged to the income statement	1,812	391	-	2,203
Disposals	(54)	-	-	(54)
At end of year	7,465	3,816	-	11,281
Net book value				
At beginning of year	3,437	3,252	-	6,689
At end of year	2,873	-	6,639	9,512

Having determined that the rail franchise meets the definition of an onerous contract the Company recorded a £2.9 million impairment of intangible assets associated with the right to operate the franchise. The impairment charge is essentially an acceleration of amortisation and is a non-cash charge.

Notes to the Financial Statements (continued)

For the year ended 31 March 2017

9 Tangible assets

	Plant and Equipment	Work in progress	Total
	£000	£000	£000
Cost			
At beginning of year	19,931	8,678	28,609
Additions	4,522	4,714	9,236
Reclassifications to intangible assets	-	(2,119)	(2,119)
Disposals	(823)	-	(823)
At end of year	23,630	11,273	34,903
Accumulated depreciation			
At beginning of year	12,232	-	12,232
Depreciation charged to the income statement	3,400	-	3,400
Disposals	(822)	-	(822)
At 31 March 2017	14,810	-	14,810
Net book value			
At beginning of year	7,699	8,678	16,377
At end of year	8,820	11,273	20,093

10 Investments

The Company held the following unlisted investments at 31 March 2017:

	Country of registration	No. of shares held	Class of share	Proportion held
ATOC Limited	UK	1	Ordinary (4p)	5%
Rail Settlement Plan Limited	UK	1	Ordinary (4p)	5%
Rail Staff Travel Limited	UK	1	Ordinary (4p)	5%
NRES Limited	UK	1	Ordinary (£1)	5%

The principal activity of the above companies is to provide a range of services to all UK passenger rail operators, each of which has an equal share in the companies.

The Directors believe that the carrying value of investments is supported by their underlying net assets.

Notes to the Financial Statements (continued)

For the year ended 31 March 2017

11 Inventories

	2017	2016
	£000	£000
Raw materials and consumables	<u>4,899</u>	<u>5,520</u>

There is no material difference between the replacement value of inventories and their cost.

12 Trade and other receivables

	2017	2016
	£000	£000
<i>Amounts falling due within one year:</i>		
Trade receivables	58,622	47,231
Amounts owed by group undertakings (note 22)	513	211
Intercompany group relief receivable (note 22)	4,557	-
Value Added Tax receivable (note 22)	3,900	4,783
Prepayments and accrued income	30,297	19,696
Innovation fund	14,524	7,473
Maintenance fund	4,948	2,118
Corporation tax receivable	<u>2,096</u>	<u>-</u>
	<u>119,457</u>	<u>81,512</u>

Amounts falling due after more than one year:

Prepayments and accrued income	250	606
Derivative – Fuel Hedge	<u>17</u>	<u>-</u>
	<u>267</u>	<u>606</u>

Amounts due from group undertakings are unsecured, interest free and repayable on demand.

Notes to the Financial Statements (continued)

For the year ended 31 March 2017

13 Trade and other payables

	2017	2016
		Restated
	£000	£000
<i>Amounts falling due within one year:</i>		
Trade payables	45,169	45,685
Amounts owed to group undertakings (note 22)	5,680	3,107
Deferred season ticket income	4,705	4,788
Other taxation and social security	3,181	2,649
Other payables	9,193	6,523
Accruals and deferred income	102,449	107,818
Deferred credit (pension asset)	3,025	3,025
Corporation Tax	-	5,232
Derivative – Fuel Hedge	-	2,993
	173,402	181,820
<i>Amounts falling due after more than one year:</i>		
Amounts owed to group undertakings (note 22)	66,500	52,500
Deferred credit (pension asset)	15,133	18,157
Derivative – Fuel Hedge	-	217
	81,633	70,874

Amounts owed to group undertakings within one year accrue no interest and are repayable on demand.

Amounts owed to group undertakings greater than one year accrue no interest and are repayable on demand apart from a Parent Company Support loan for £66,500,000 (2016: £34,000,000) and an Available Funding Commitment loan for £0 (2016: £18,500,000) both of which represent loans from Stagecoach Group Plc. These loans accrue interest at 6 month LIBOR plus 2.5% (2016: 2.5%). The Parent Company Support loan is repayable no later than the date falling 6 months after the franchise end date of 31 March 2023 or on demand subject to the Funding Deed or the written consent of the Secretary of State for Transport.

Notes to the Financial Statements (continued)

For the year ended 31 March 2017

14 Provisions for liabilities

	2017	2016
	£000	£000
Insurance (a)	1,222	667
Onerous contracts (b)	<u>93,723</u>	<u>-</u>
	<u>94,945</u>	<u>667</u>

a) Insurance

	2017	2016
	£000	£000
At start of year	667	512
Charged to the income statement	761	412
Utilised in year	<u>(206)</u>	<u>(257)</u>
Provision at end of year	<u>1,222</u>	<u>667</u>

The £1,222,000 (2016: £667,000) provision relates to customer and employee claims against the Company for compensation for injuries occurring whilst on East Coast property.

b) Onerous Contracts

Provisions for onerous contracts relate to contracts where the cost of fulfilling the contract outweigh the economic benefits to be received, which includes contracts that have been acquired through business combinations that have been identified as being on unfavourable terms at the relevant acquisition date.

The onerous contract provision in respect of Virgin Trains East Coast has been calculated based on updated financial forecasts for the franchise. The forecasts are based on a number of assumptions, most significantly in respect of revenue growth. There can be no certainty that the actual outcome will be consistent with those currently forecast, however based on our sensitivity analysis, we consider it unlikely that the actual costs will be more than £10 million higher or lower than the provision recorded. The provisions are expected to be fully utilised within three years.

	2017	2016
	£000	£000
At start of year	-	-
Charged to the income statement	<u>93,723</u>	<u>-</u>
Provision at end of year	<u>93,723</u>	<u>-</u>

Notes to the Financial Statements (continued)

For the year ended 31 March 2017

15 Deferred Tax

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and where the deferred taxes relate to the same fiscal authority. The amounts are as follows:

Deferred tax to be recovered after 12 months	2017 £000	2016 £000
Deferred tax asset	<u>19,137</u>	<u>1,673</u>
Net deferred tax asset	<u>19,137</u>	<u>1,673</u>

The movement in deferred tax during the year was	2017 £000	2016 £000
At beginning of year	1,673	(611)
Credit to income statement (note 7a)	18,045	1,036
Credit to equity in relation to pension	-	670
(Charge)/Credit to equity in relation to cash flow hedge reserve	<u>(581)</u>	<u>578</u>
At end of year	<u>19,137</u>	<u>1,673</u>

Deferred tax included on the balance sheet comprises:	2017 £000	2016 £000
Accelerated capital allowances	1,033	916
Accrued expenses deductible when paid	17,807	-
Other temporary differences	<u>297</u>	<u>757</u>
Net deferred tax asset	<u>19,137</u>	<u>1,673</u>

The amount of deferred tax recognised in the income statement by type of temporary difference is as follows:

	2017 £000	2016 £000
Accelerated capital allowances	117	86
Pension temporary differences	-	770
Short-term temporary differences	<u>17,928</u>	<u>180</u>
Deferred tax credit to income statement	<u>18,045</u>	<u>1,036</u>

Notes to the Financial Statements (continued)

For the year ended 31 March 2017

16 Called up share capital

	2017	2016
	£	£
Allotted and fully paid		
Ordinary shares of £1 each	<u>100</u>	<u>100</u>

On 4 March 2016, 99 £1 ordinary shares were issued to Inter City Railways and the total value of the consideration received for the shares issue was £99.

17 Dividends Paid

No dividend was recommended at 31 March 2017 (2016: £nil).

18 Capital commitments

	2017	2016
	£000	£000
Contracted	<u>5,086</u>	<u>4,724</u>
Authorised but not contracted	<u>15,349</u>	<u>15,024</u>

19 Operating lease commitments

The Company has contracts with Network Rail for access to the railway (track access) infrastructure, leasing of stations and depots. The company also leases rolling stock, ticket barriers and IT equipment.

Minimum lease payments under non-cancellable operating leases are as follows:

	2017			2016		
	Within one year	Between one & five years	Five years and over	Within one year	Between one & five years	Five years and over
	£000	£000	£000	£000	£000	£000
Fixed track access	27,245	58,233	-	22,387	81,874	-
Rolling stock	79,570	1,048,990	334,828	80,225	803,945	663,515
Land and buildings	4,831	15,271	3,350	4,827	15,141	8,184
Plant and machinery	1,993	1,936	191	1,979	3,671	452
Other	5,705	22,819	5,705	1,457	5,826	2,913
	<u>119,344</u>	<u>1,147,249</u>	<u>344,074</u>	<u>110,875</u>	<u>910,457</u>	<u>675,064</u>

Notes to the Financial Statements (continued)

For the year ended 31 March 2017

20 Retirement benefit obligations

Information about the scheme and the Company's accounting policies

East Coast Main Line Company Limited participates in a final salary pension scheme and is part of the Railways Pension Scheme. The assets and liabilities are identified separately from the remainder of the scheme.

Under the terms of the Railways Pension Scheme, any fund deficit or surplus is shared by the employer (60%) and the employees (40%) in accordance with the shared cost nature of the scheme. The employee's share of the deficit (or surplus) is reflected as an adjustment to Railway Pension Scheme liabilities (or assets). Therefore the liability (or asset) recognised and reported below reflects only that part of the net deficit (or surplus) of each section that the employer is expected to fund (or expected to recover) over the life of the franchise to which the section relates. The adjusting entry referred to as the "franchise adjustment" represents that proportion of the deficit (or surplus) that is expected to exist at the end of the franchise.

In addition the company contributes to a defined contribution scheme for certain employees. Contributions to defined contribution schemes during the year amounted to £1,283,000 (2016: £872,000).

The principal actuarial assumptions used were as follows:

	31 March 2017	31 March 2016
	% pa	% pa
Rate of increase in salaries	2.50	2.20
Rate of increase of pensions in payment	2.00	1.70
Discount rate	2.85	3.80
Retail price index (RPI) inflation	3.00	3.00
Consumer price index (CPI) inflation	2.00	1.70

The assumed average expectation of life in years at age 65 is as follows:

	31 March 2017	31 March 2016
Current pensioner aged 65 – male	21.6	20.0
Current pensioner aged 65 – female	22.7	23.8
Future pensioners at age 65 – (aged 45 now) - male	23.0	22.2
Future pensioners at age 65 – (aged 45 now) - female	24.4	26.0

Notes to the Financial Statements (continued)

For the year ended 31 March 2017

20 Retirement benefit obligations (continued)

The amounts recognised in the balance sheet were determined as follows:

	31 March 2017	31 March 2016
	£000	£000
Equity	254,597	214,478
Equity (Private)	79,169	66,694
Infrastructure	17,258	14,539
Bonds	51,107	43,053
Cash	66,246	55,807
Property	50,085	42,192
Fair value of plan assets	518,462	436,763
Present value of obligations	(727,255)	(524,834)
Members share of deficit	83,517	35,228
Deficit expected to be recovered after the end of East Coast's involvement with the section	147,729	56,299
Asset recognised in the balance sheet	22,453	3,456

The amounts recognised in the income statement were as follows:

	31 March 2017	31 March 2016
	£000	£000
Defined benefit obligation		
Current service cost	17,455	20,447
Administration cost	172	169
Interest cost (net)	3,138	5,686
Unwinding of franchise adjustment	(1,961)	(5,487)
Total defined benefit cost	18,804	20,815
Defined contribution cost	1,283	872
Total income statement charge	20,087	21,687

Notes to the Financial Statements (continued)

For the year ended 31 March 2017

20 Retirement benefit obligations (continued)

The impact of the income statement charge can be analysed as follows:

	31 March 2017	31 March 2016
	£000	£000
Total included in staff costs (note 5)	18,910	21,488
Total included in finance and similar charge (note 6)	1,177	199
	<u>20,087</u>	<u>21,687</u>

The amounts recognised within the statement of other comprehensive income were as follows:

	31 March 2017	31 March 2016
	£000	£000
Actual return on scheme assets higher than discount rate	75,301	17,454
Experience gains and losses arising on the scheme liabilities	16,960	(68,126)
Changes in financial assumptions	(165,680)	146,935
Change in demographic assumptions	8,424	-
Total actuarial (loss)/gain recognised	<u>(64,995)</u>	<u>96,263</u>
Change in franchise adjustment	89,469	(120,230)
Total amounts recognised in the statement of other comprehensive income	<u>24,474</u>	<u>(23,967)</u>

A sensitivity analysis of significant actuarial assumptions is included within note 24 of the Group's 2017 annual report.

The movement in the asset recognised in the balance sheet in respect of the defined benefit plan during the year under IAS 19 was:

	31 March 2017	31 March 2016
	£000	£000
Asset at the beginning of the year	3,456	31,700
Total expense	(18,804)	(20,815)
Employer's contribution	13,327	16,538
Actuarial (loss)/gain	(64,995)	96,263
Change in franchise adjustment	89,469	(120,230)
Asset at end of the year	<u>22,453</u>	<u>3,456</u>

Notes to the Financial Statements (continued)

For the year ended 31 March 2017

20 Retirement benefit obligations (continued)

The movement in the present value of asset recognised in the balance sheet in respect of the defined benefit plan during the year under IAS 19 is as follows:

	Year ended 31 March 2017	Year ended 31 March 2016
	£000	£000
At beginning of year	436,763	408,800
Return on assets excluding amounts included in net interest	75,301	17,454
Interest income	9,139	7,884
Administration costs	(172)	(169)
Employer's contributions	13,327	16,538
Members contributions	1,674	1,610
Benefit paid	(17,570)	(15,354)
At end of year	518,462	436,763

The movement in the present value of obligations recognised in the balance sheet in respect of the defined benefit plan during the year under IAS19 is as follows:

	Year ended 31 March 2017	Year ended 31 March 2016
	£000	£000
At beginning of year	433,307	377,100
Current service cost	17,455	20,447
Interest cost	12,277	13,570
Actuarial gains/(losses) – changes in financial assumptions	165,680	(146,935)
Actuarial (losses) – change in demographic assumptions	(8,424)	-
Actuarial (losses)/gains – experience on benefit obligations	(16,960)	68,126
Change in franchise adjustment	(89,469)	120,230
Members contributions	1,674	1,610
Benefit paid	(17,570)	(15,354)
Unwinding of franchise adjustment	(1,961)	(5,487)
At end of year	496,009	433,307

Notes to the Financial Statements (continued)

For the year ended 31 March 2017

21 Share based payments

a) Buy As You Earn (BAYE) scheme

BAYE enables eligible employees to purchase shares from their gross income. The company provides two matching shares for every share bought from the first £10 of monthly investment, subject to a maximum company contribution of shares to the value of £20 per employee per month. If the shares are held in trust for five years or more, no income tax and national insurance will be payable. The matching shares will be forfeited if the corresponding partnership shares are removed from the trust within three years of award.

At 31 March 2017 there were 1,040 (2016: 1,089) participants in the BAYE scheme who have cumulatively purchased 465,553 (2016: 190,913) shares with the company contributing 155,870 (2016: 59,016) matching shares on a cumulative basis. Dividends had been reinvested in a further 25,780 (2016: 2,865) for these participants.

Costs of £225,800 (2016: £194,758) have been recognised in the income statement during the period in relation to the scheme.

a) Executive Participation Plan

Under the EPP, directors and senior managers sacrifice part of their actual annual cash bonus and are awarded deferred shares with an initial market value approximately equal to the amount of bonus foregone. The movements in EPP notional units during the period were as follows:

	27 June 2013	26 June 2014	25 June 2015	10 Dec 2015	30 June 2016	Total
Award date						
Outstanding at start of the period (notional units)	33,191	27,710	36,933	6,649	-	104,483
Awards granted in the period (notional units)	-	-	-	-	324,626	324,626
Exercised in the period (notional units)	(33,191)	-	-	-	-	(33,191)
Intra group transfers (notional units)	-	16,756	16,362	-	-	33,118
Lapsed in the period (notional units)	-	(7,468)	(8,509)	-	(30,158)	(46,135)
Dividends in the period (notional units)	-	1,440	1,944	378	17,511	21,273
Outstanding at end of the period (notional units)	-	38,438	46,730	7,027	311,979	404,174
Vesting date	27 June 2016	26 June 2017	25 June 2018	10 Dec 2018	30 June 2019	
Expected total value of award at time of grant (£)	94,354	98,557	153,031	19,997	735,277	
Closing share price on date of grant (£)	3.1010	3.810	4.1960	2.980	2.311	

A charge of £301,646 (2016: £117,259) has been recognised in the income statement during the period in relation to the above scheme.

Notes to the Financial Statements (continued)

For the year ended 31 March 2017

22 Related party disclosures

The Company is a 90% owned subsidiary of Stagecoach Group plc. As at 31 March 2017, the Company has a payable of £63,210,000 (2016: £50,613,000). Directors' remuneration is disclosed separately in note 4.

	2017	2016
	£000	£000
Sales to Group companies		
Ultimate parent company	-	-
Other group companies	<u>554</u>	<u>411</u>
Total sales to group companies	<u>554</u>	<u>411</u>
Purchases from Group companies		
Ultimate parent company	(157)	3,190
Other group companies	<u>(16,801)</u>	<u>(15,212)</u>
Total sales to group companies	<u>(16,958)</u>	<u>(12,023)</u>
Interest Payable on group loans		
Ultimate parent company	<u>(1,791)</u>	<u>(1,225)</u>
Total interest payable	<u>(1,791)</u>	<u>(1,225)</u>

23 Ultimate parent undertakings

The immediate parent undertaking is Inter City Railways Limited, a company registered in England and Wales (number 08753471).

The company's ultimate parent undertaking and controlling party is Stagecoach Group plc, a company registered in Scotland (number SC100764), which is the parent undertaking and the only group to consolidate these financial statements. Copies of the Stagecoach Group plc consolidated financial statements are available on the Group's website (www.stagecoach.com) or from:

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