East Coast Main Line Company Limited

Financial Statements for the year ended 31 March 2018

Registered number: 04659708

Contents

Corporate information

Company information for the year ended 31 March 2018

Directors:	Martin Griffiths
	Timothy Kavanagh
	Ross Paterson
	Patrick McCall
	James Tipple
	Timothy Shoveller
	Neil Micklethwaite
Company Secretary:	Timothy Kavanagh
Registered Office:	One Stockport Exchange
	20 Railway Road
	Stockport
	SK1 3SW
Registered Number:	04659708
Independent Auditors:	Ernst & Young LLP
	G1
	5 George Square
	Glasgow
	G2 1DY

Strategic Report

For the year ended 31 March 2018

The Directors present their strategic report for the year ended 31 March 2018.

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.

TERMINATION OF THE FRANCHISE AGREEMENT

The Company operated train services, principally on the UK's East Coast Main Line, until June 2018 under a franchise agreement with the UK Department for Transport (the Franchise Agreement).

Since the start of the Franchise Agreement on 1 March 2015, the Company has made good progress on improving journeys for passengers, investing in improving customer services, adding extra capacity, and preparing for the launch of a new train fleet later in 2018.

In spite of the good overall performance of the Company in the year, the decline in UK rail revenue growth since the submission of the franchise bid in the summer of 2014 has meant that, in order to meet contracted Franchise Payments, the Company has drawn the remainder of its £165m committed shareholder support during the year.

UK rail revenue growth began reducing almost as soon as the Company submitted its bid for the InterCity East Coast franchise in 2014 and additionally the revenue position upon commencing the franchise was behind what was expected when the Company bid for the franchise. The revenue growth slowdown was caused by slower GDP growth, and major uncertainties in both the leisure and business markets, particularly driven by significantly lower fuel prices and poor day to day infrastructure performance. With less than 5% of revenues from Season Tickets, the highly discretionary nature of the InterCity East Coast market means that the Company was particularly exposed to such volatility. These challenges, together with a period of Sustained Poor Performance (SPP) from Network Rail between 2015 and 2017, necessitated the drawdown of shareholder funding to maintain certain liquidity ratios required by the Franchise Agreement. Given this, the Secretary of State for Transport announced on 5 February 2018 that he was considering two options for the continued operation of the InterCity East Coast services.

These were the award of a short-term contract to the Company for the continued operation of the franchised train services, on a not for profit basis, or the second option which was the transfer of the services to a publicly owned operator.

The Company had been engaged in constructive discussions with the Department in the following months regarding the terms of such a contract, and had formulated and submitted to the Department a compelling customer and taxpayer proposition for the continued operation of the franchise.

Nevertheless, on 16 May 2018, the Secretary of State announced that the responsibility for operating services was to be transferred to a publicly owned operator, London North Eastern Railway (LNER), from the 24 June 2018. The Department for Transport published its analysis of the two options and confirmed that the decision was 'finely balanced', but the final decision came down to the Secretary of State's desire for more flexibility and control of what would happen after the two-year period until 2020.

Whilst this was a surprising and disappointing decision, the Company welcomes the clarity that this decision brings. The operations of the Company were transferred to LNER on 24 June 2018 as expected, in a manner that was both

TERMINATION OF THE FRANCHISE AGREEMENT (continued)

professional and collaborative and was recognised as such by all of the Secretary of State, Department for Transport's Permanent Secretary and Directly Operated Holdings Limited (LNER's holding company). The Company was keen to ensure that, the decision having been made, the transfer was effected in a manner which had the least possible impact on customers, and that employees, the majority of whom transferred to the new operator under Transfer of Undertakings Protection of Employment (TUPE) regulations, were protected and informed throughout the process so as to minimise the impact of any uncertainty. The Company is now working to unwind residual matters in a satisfactory manner. Further detail of the financial impact of the government's decision is provided in the Financial Review.

As a result of the cessation of the Company's trade following the transfer of operations to LNER and the orderly realisation of assets and settlement of liabilities that followed, these accounts have been prepared on a basis other than going concern. The Directors have considered the balance sheet position, and forecasted cash movements of the Company and are of the view that the Company has, and will continue to have, sufficient funds to meet external liabilities as they fall due.

On 21 June 2018 the Parent Company Support loan of £165 million and associated interest was waived by Stagecoach Group plc.

REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

In spite of the Secretary of State's decision to transfer responsibility for operating the East Coast train services from Virgin Trains East Coast to LNER from 24 June 2018, during the year the Company continued to make great strides in transforming customer journeys. This was reflected in the achievement of a National Rail Passenger Survey score of 91% in the Autumn 2017 survey and 87% in Spring 2018. The reduction in the Spring score was largely a consequence of the severe weather conditions seen during the early part of 2018, which saw satisfaction for UK rail as a whole and all long distance operators decline. The Company continued its investment plan which saw a further £25m in improvements for passengers, including a new state of the art retail website, improved ticket vending machines and station improvements.

Key achievements in the year include:

- Passenger revenue growth was 2.9%, with improving growth seen in the final few periods as the impact of our investments flowed through into revenues;
- Employee engagement as measured via an annual survey increased by 2% to 60%, with around three in four of the company workforce responding;
- In December 2017, the East Coast Main Line (ECML) saw its largest increase in Saturday services since its electrification in 1990, with 24 additional services added from Leeds, York and Newark; and
- Preparatory works and testing continued with the Department for Transport, Hitachi and Network Rail for the introduction of new Azuma trains, due to be delivered later in 2018.

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:

Employee Engagement

The company's employee engagement results were 60% in the year, an improvement of 2% over 2017. 73% of our people participated in the survey, a significant increase on the 52% seen in 2017.

Safety

Safety is at the heart of our approach to running the railway. Our Executive Safety, Sustainability and Security Board is 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.

	2018 Moving annual average	2017 Moving annual average
Passenger major injuries per 1 million passenger journeys	**0.58**	0.09
Workforce lost time accidents per 1,000 employees	**0.79**	1.22
Employee physical assaults per 1,000 employees	**0.75**	1.30

Year on year the reported number of passenger and staff accidents within the business has increased with a slight decrease in the number of lost time injuries sustained by staff. This is partly due to active promotion of reporting of accidents and near misses (Close Calls).

There was a significant increase in the number of passenger major injuries throughout the year largely due to adverse underfoot conditions resulting in broken limbs being sustained as a result. This increase was largely identified with two locations, York and Newcastle over one period. As a result, initiatives were put in place to address the causes, such as improved signage and analysis of pedestrian flows. This has resulted in a sustained low level of specified injuries to the end of the financial year.

There is a continued decrease in the number of physical assaults on members of staff down to 30 from 52 in 2017/18. The reduction in numbers of all assaults, including threats of violence and verbal abuse has been as a result of a number of initiatives including continued staff training on conflict management, improved CCTV provision at stations, encouraging BTP to 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 personal warning devices.

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 moving annual average (MAA) for PPM was 81.5% against a target of 87% (2017: 83.1%).

OPERATIONAL REVIEW (continued)

The year proved to be more challenging than 2017 as a result of infrastructure reliability issues, including an upturn in the number of significant dewirement incidents and disruptive weather events towards the end of the financial year. The trend also reflects a decrease in fleet reliability due to the age of the existing fleet.

Loyalty Scheme and Customer Advocacy

The Nectar loyalty scheme continued to perform as expected with further growth during the year, along with positive feedback as a result of our reward and recognition programme. The net promoter score (NPS) rolling average finished the year on +32 (2017: +39.2), below our annual target of +38. This was predominantly as a result of lower punctuality in the second half of the year, linked to infrastructure challenges and extreme weather.

FINANCIAL REVIEW

The Company generated an operating loss for the year of £20.4 million (2017: £117.4 million) inclusive of £334.2 million (2017: £272.0 million) being paid to the Department for Transport as franchise premium, and operating profit before franchise premium was £313.8 million (2017: £154.6 million).

Turnover for the year ended 31 March 2018 was £842.3 million (2017: £819.7 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 £862.8 million (2017: £937.1 million) with a loss before taxation of £23.2 million (2017: £120.5 million). Loss after tax in the year was £46.9 million (2017: £90.5 million).

The Company drew down an additional £98.5m from its parent company support facility with Stagecoach Group plc in the year to 31 March 2018. This was in accordance with the terms of the Franchise Agreement and associated Funding Deed. As noted above, this represents the totality of the committed loan facility of £165m. Although the Company had for some time been engaged in constructive discussions with the Department for Transport, the Secretary of State announced on 16 May 2018 that the Company's Franchise Agreement was to be terminated and the responsibility for delivering services transferred to LNER from 24 June 2018.

As a result of the transfer of the franchise, the Company has recorded an exceptional pre-tax expense of £56.8m. Of the total expense £40.4m has been recognised in the income statement with the remaining £16.4m recognised in the statement of comprehensive income, as it represents the actuarial loss in relation to the re-measurement of the pension asset arising from the termination of the Franchise Agreement. Taking this into account the Directors have considered the balance sheet position, and forecasted cash movements of the Company and are of the view that the Company has, and will continue to have, sufficient funds to meet external liabilities as they fall due. However, as detailed in note 1, the Directors do not consider it is appropriate to prepare these accounts on a going concern basis as the Franchise Agreement has been terminated. Consequently, the financial statements have been prepared on a basis other than going concern.

FINANCIAL REVIEW (continued)

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.

The key risk faced by the Company during the year was the termination of its Franchise Agreement. As already noted the Secretary of State announced on 16 May 2018 that the Franchise Agreement was to be terminated and the operation of the franchise transferred from 24 June 2018.

The Company therefore faces the following key risks in relation to the wind down of residual assets and liabilities:

- That the Company has insufficient funds to meet its external liabilities as they fall due; and
- The potential for a contingent claim in respect of premium foregone from the Secretary of State.

In respect of the first of these risks the Directors have considered and continue to consider the balance sheet and cash flow forecasts of the Company and are confident that the Company has sufficient funding to meet external liabilities.

The Company has also received assurances, including in writing, from the Department for Transport that the Department only intends to pursue the Company to the extent of the value of net assets available in the Company.

The principal risks and uncertainties of Stagecoach Group plc, which includes those of this company, are discussed in the Group's 2018 annual report (paragraph 1.4.5 of the Strategic Review), which does not form part of this report.

By order of the Board

Tim Kavanagh
Company Secretary

13 November 2018

Directors' Report

For the year ended 31 March 2018

The Directors present their report together with the audited financial statements for the year ended 31 March 2018.

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.

Results and dividends

The results for the year ended 31 March 2018 are set out in the income statement on page 14. 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 (2017: £nil).

Health and safety

The safety of employees and customers has been of prime importance and working with partners such as British Transport Police, Network Rail and other key stakeholders, the Company has 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 2018/19 Safety & Sustainability Plan set risk-based and targeted objectives which would maintain, and further improve, the safety performance delivered in 2017/18 (which has been recognised by the Company being awarded the RoSPA 'Gold Medal' for safety performance improvement for the seventh year running).

Environment

Sustainability underpins the delivery of the Company's services and has continued 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 has worked with waste contractors to ensure diversion of waste from landfill, and was part of an industry forum tasked with improving recycling performance.

During 2017/18 the Company maintained certification to the ISO14001 environmental standard across its engineering function.

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	
Timothy Kavanagh	Director	
Ross Paterson	Director	
Patrick McCall	Director	
James Tipple	Director	
Timothy Shoveller	Director	
Neil Micklethwaite	Director	Appointed 01 Jun 2018
Tim Hedley-Jones	Director	Resigned 31 May 2018
David Horne	Managing Director	Resigned 31 May 2018
Warrick Dent	Director	Resigned 31 May 2018
Suzanne Donnelly	Director	Resigned 31 May 2018

Clare Burles	Director	Resigned 31 May 2018
John Doughty	Director	Resigned 31 May 2018
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.

Charitable and political donations
The Company made charitable donations totalling £22,550 during the year ended 31 March 2018 (2017: £22,000). This donation for £22,550 was in respect of the Railway Mission Chaplaincy service. There were no political donations made in the year (2017: £nil).

Financial Risk Management
As noted above the operation of the franchise was transferred to LNER on the 24 June 2018. As a consequence, a number of assets and liabilities of the Company were transferred to LNER and work is now underway to wind down the residual elements. Regular reviews are undertaken of the realisable value of those assets and liabilities, and cash flow forecasts are produced to ensure the Company can meet its external liabilities as they fall due.

The Company's activities exposed it to a variety of financial risks. Price risk was managed by the Company having a solid understanding of the markets that it operated 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 was 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 used 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.

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; 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 financial statements have been prepared on a basis other than going concern. Since the Franchise Agreement has been terminated as noted above in the Strategic Report, the Directors do not consider it is appropriate to prepare these accounts on a going concern basis. Accordingly, the Directors have considered the assets and liabilities of the Company and have made appropriate adjustments to write them down to their expected values. No material adjustment has arisen as a result of ceasing to apply the going concern basis. The Directors continue to meet regularly to consider the balance sheet and forecasted cash position of the Company and are of the view that the Company has, and will continue to have, sufficient funds to meet external liabilities as they fall due.

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 13 to 43 were approved by the Board of Directors on 13 November 2018 and signed on its behalf by

Tim Kavanagh
Company Secretary
13 November 2018

Registered Office:

One Stockport Exchange

20 Railway Road

Stockport

SK1 3SW

Independent auditor's report to the members of East Coast Main Line Company Limited

For the year ended 31 March 2018

Opinion

We have audited the financial statements of East Coast Main Line Company Limited for the year ended 31 March 2018 which comprise the Income Statement, Statement of other comprehensive income, Balance Sheet, Statement of changes in equity and the related notes 1 to 25, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice)".

In our opinion, the financial statements:

- give a true and fair view of the Company's affairs as at 31 March 2018 and of its loss for the 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter – financial statements prepared on a basis other than going concern

We draw attention to Note 1 to the financial statements which explains that the Franchise Agreement has been terminated and therefore the directors do not consider it to be appropriate to adopt the going concern basis of accounting in preparing the financial statements. Accordingly, the financial statements have been prepared on a basis other than going concern as described in Note 1. Our opinion is not modified in this respect of this matter.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters 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 directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which 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.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on pages 8 and 9, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Independent auditor's report to the members of East Coast Main Line Company Limited (continued)

For the year ended 31 March 2018

Use of our report

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.

Ernst & Young LLP

Mark Harvey (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Glasgow
13 November 2018

Income statement

For the year ended 31 March 2018

	Note	2018 £000	2017 £000
Revenue			
Passenger income	2	**773,508**	751,825
Other operating income	2	**68,838**	67,862
Total Revenue		**842,346**	819,687
Onerous contract provision	14	**(40,376)**	(93,723)
Other operating costs		**(822,384)**	(843,384)
Total operating costs		**(862,760)**	(937,107)
Operating loss	3	**(20,414)**	(117,420)
Finance income	6	**755**	379
Finance and similar charges	6	**(3,569)**	(3,409)
Loss before taxation		**(23,228)**	(120,450)
Tax on (loss)	7	**(23,696)**	29,930
(Loss) for the financial year		**(46,924)**	(90,520)

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 2018

	Note	**31 March 2018** **£000**	31 March 2017 £000
Loss for the year		**(46,924)**	(90,520)
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Net fair value (loss)/gain on cash flow hedge		**(62)**	1,863
Reclassified and reported in loss for the year		**45**	1,364
Tax effect of cash flow hedge		**3**	(581)
Total items that may be reclassified to profit or loss		**(14)**	2,646
Items that will not be reclassified to profit or loss:			
Actuarial (loss)/gain on retirement benefit obligations	21	**(16,392)**	24,474
Total items that will not be reclassified to profit or loss		**(16,392)**	24,474
Other comprehensive (loss)/income for the year, net of tax		**(16,406)**	**27,120**
Total comprehensive loss for the year		**(63,330)**	**(63,400)**

Balance Sheet

As at 31 March 2018

	Note	2018 £000	2017 £000
ASSETS			
Non-current assets			
Intangible assets	8	**27,850**	9,512
Tangible assets	9	**17,268**	20,093
Investments	10	**-**	-
Retirement benefit asset	21	**-**	22,453
Deferred tax asset	16	**-**	19,137
		45,118	71,195
Current assets			
Inventories	11	**5,412**	4,899
Trade and other receivables: amounts due within one year	12	**118,456**	119,457
Trade and other receivables: amounts due after one year	12	**-**	267
Cash at bank and in hand		**52,720**	47,628
		176,588	172,251
Total assets		**221,706**	243,446
LIABILITIES			
Current liabilities			
Trade and other payables	13	**(184,715)**	(173,402)
Non-current liabilities			
Trade and other payables	13	**(165,000)**	(81,633)
Provisions for liabilities	14	**(41,519)**	(94,945)
		(206,519)	(176,578)
Total liabilities		**(391,234)**	(349,980)
Net liabilities		**(169,528)**	(106,534)
EQUITY			
Ordinary share capital	17	**-**	-
Capital reserve	18	**710**	374
Cash flow hedge reserve	18	**-**	14
Retained earnings		**(170,238)**	(106,922)
Total shareholders' deficit		**(169,528)**	(106,534)

The accompanying notes form an integral part of this balance sheet. The financial statements on pages 13 to 43 were approved by the board of Directors on 13 November 2018 and were signed on its behalf by;

Tim Kavanagh, Company Secretary

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 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**
As at 31 March 2017	-	**374**	**14**	**(106,922)**	**(106,534)**
Loss for the year	-	-	-	(46,924)	**(46,924)**
Other comprehensive loss for the year	-	-	(14)	(16,392)	**(16,406)**
Total comprehensive loss for the year	-	-	**(14)**	**(63,316)**	**(63,330)**
Other Reserve	-	336	-	-	**336**
Total comprehensive *income/(loss)* for the year	-	**336**	**(14)**	**(63,316)**	**(62,994)**
As at 31 March 2018	-	**710**	-	**(170,238)**	**(169,528)**

1 Accounting policies

The Company is a private limited company limited by shares and 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 6.

The principal accounting policies are set out below.

a) Basis of accounting

The financial statements have been prepared on a basis other than going concern. Since the Franchise Agreement has been terminated as noted above in the Strategic Report, the Directors do not consider it is appropriate to prepare these accounts on a going concern basis. Accordingly, the Directors have considered the assets and liabilities of the Company and have made appropriate adjustments to write them down to their expected values. No material adjustment has arisen as a result of ceasing to apply the going concern basis. The Directors continue to meet regularly to consider the balance sheet and forecasted cash position of the Company and are of the view that the Company has, and will continue to have, sufficient funds to meet external liabilities as they fall due.

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). Amounts in these financial statements are rounded to the nearest thousand (£000) unless otherwise indicated.

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 payments' 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
- Paragraphs 91 to 99 of IFRS 13, Fair Value Measurement

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 can involve some estimation – for example revenue is deferred within creditors, and released to the income statement over the year of the relevant season ticket.

Travel on a train operating company's services can be sold by other train operating companies as well as other travel retailers. Furthermore, certain tickets for train travel can be sold which provide the holder with a choice of train operators to travel with. In light of those factors, our UK Rail revenue includes amounts receivable from individuals or groups of individuals to travel on UK rail services that is attributed to train operating companies by the Railway Settlement Plan Limited ("RSP"). RSP administers the income allocation system within the UK rail industry and allocates revenue to operators principally on agreed models of route usage.

Procedures exist to allow operators to challenge the appropriateness of revenue allocation – where the revenue allocated to the Company is subsequently adjusted, the effect of the adjustment is recognised in the income statement in the period in which we are made aware of it. Where an adjustment results in additional revenue being attributed to the Company, the additional revenue is recognised when the amount of revenue can be reliably estimated and it is highly probable that the economic benefits will flow to the Company.

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) Performance incentive payments

Performance incentive payments received from or made to Network Rail by the Company in respect of rail operational performance are recognised in the same period that the performance relates to and are treated as operating costs or other operating income.

d) 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.

1 Accounting policies (continued)

d) Taxation (continued)

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.

e) Deferred tax

Deferred tax is recognised in respect of all material temporary 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.

f) 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.

g) 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.

h) 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.

1 Accounting policies (continued)

i) 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 selling price in the ordinary course of business, less the costs of completion and selling expenses. Where necessary, provision is made for obsolete, slow moving and defective inventory.

j) 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.

k) 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 21.

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. 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.

l) Accounting for participation in Railways pension scheme

As disclosed in note 21, the Company applies a "franchise adjustment" to the amounts recorded in the balance sheet for the RPS. This represents the remaining element of the franchisee's 60% share of the IAS 19 deficit or surplus after determining the amount of any deficits the Company is required to fund (or surplus it is entitled to recover) over the remaining franchise period.

1 Accounting policies (continued)

l) Accounting for participation in Railways pension scheme (continued)

This adjustment can give rise to a net pension asset, representing the expected excess of the income statement expense under IAS 19 for service cost and net interest over the contributions payable over the remainder of the franchise. The economic benefit of the asset is expected to be realised through the lower cash contributions over the remaining period of the franchise, and therefore upon the expiry of the franchise, there will be

no pension asset (or liability) remaining. This judgement is consistent with the industry wide accounting treatment for the RPS that was agreed on adoption of IFRS in 2005. An alternative assessment of the RPS may conclude that such a net pension asset does not give rise to any economic benefits under IAS 19, on the basis that no refund is available from the RPS and there will not be any reduction in future contributions to the RPS. Adopting this alternative assessment would result in such an asset being restricted to £Nil under the asset ceiling under IFRIC 14. This would have an impact on the amounts recognised in the Company's balance sheet, with £Nil relating to net RPS assets (2017: £22.5m) out of total net liabilities of £169.5m (2017: £106.5m) based on the Group's application of its existing accounting treatment.

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.

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.

1 Accounting policies (continued)

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.

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 2018 (2017: £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.

1 Accounting policies (continued)

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.

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.

The pension assumptions may vary due to actual changes in market conditions following the balance sheet date but IAS 19 requires the assumptions to be set based on the market conditions prevailing at the balance sheet date. The pension assumptions are also affected by judgements the Directors are required to make on matters that cannot be directly observed from market prices such as life expectancies, future pay increases, harder to value assets and the criteria for bonds to be included in the population from which the discount rate is determined. Note 21 provides information on the sensitivity of pension benefit obligations to changes in assumptions.

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. 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 the 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.

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.

1 Accounting policies (continued)

q) Critical accounting policies and estimates (continued)

iii. Impairment (continued)

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.

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

	2018	2017
	£000	£000
Passenger income	**762,776**	741,215
Car park sales	**10,732**	10,610
	773,508	751,825

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)

	2018	2017
Operating loss is stated after charging/(crediting):	£000	£000
Staff Costs (note 5)	169,000	157,864
Depreciation (note 9)	4,735	3,400
Delay Repay costs	14,178	12,495
Amortisation of intangible assets (note 8)	4,789	2,203
Impairment of intangible asset (note 8)	-	2,861
Release of pension deferred income	(18,158)	(3,025)
Inventories recognised as expenses	30,912	32,494
Operating lease rentals		
- Fixed track access	27,245	24,184
- Land and buildings	5,529	5,494
- Rolling stock costs	79,651	78,340
- Plant and machinery	2,066	2,064
- Other	5,831	5,705
Auditors' remuneration – audit fees	62	44
Auditors' remuneration – non audit services		
- other compliance reporting	8	7

4 Directors' remuneration

	2018	2017
	£000	£000
Emoluments in respect of qualifying services to the Company	1,030	1,174
Compensation for loss of office	101	124
Company pension contributions	97	127
	1,228	1,425

The emoluments excluding pension contributions of the highest paid Director were £228,000 (2017: £227,000).

The pension contributions of the highest paid Director were £18,000 (2017: £21,000).

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

	2018	2017
	Number	Number
Defined benefit scheme	8	9

The highest paid director accrued defined pension benefits of £59,000 (2017: £57,000) and lump sum benefits of £48,000 (2017: £45,000).

5 Staff costs

	2018	2017
	£000	£000
Wages and salaries	**132,849**	126,040
Social security costs	**13,249**	12,386
Other pension costs	**22,324**	18,910
Cash Settled share based payments (note 22)	**216**	226
Equity settled share based payments (note 22)	**362**	302
	169,000	157,864

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

	2018	2017
Managerial and administrative	**594**	536
Operational	**2,639**	2,508
	3,233	3,044

6 Finance income and charges

	2018	2017
	£000	£000
Finance income		
Bank interest	**95**	379
Pension interest	**660**	-
	755	379
Finance charges		
Interest payable to group undertakings	**(3,219)**	(1,791)
Other interest payable	**(350)**	(441)
Pension interest	**-**	(1,177)
	(3,569)	(3,409)
Net finance charge	**(2,814)**	(3,030)

7 Tax on loss

a) Tax recognised in the income statement

	2018	2017
	£000	£000
Current taxation:		
UK corporation tax on loss for the year	-	-
Amounts receivable from fellow subsidiary in respect of group relief	-	(4,557)
Adjustments in respect of prior years	4,556	(7,328)
	4,556	(11,885)
Deferred taxation:		
Origination and reversal of temporary differences	19,140	(17,322)
Adjustment in respect of prior years	-	(723)
Total deferred tax (note 16)	19,140	(18,045)
Total tax charge reported in the income statement	23,696	(29,930)

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

	2018	2017
	£000	£000
Tax on fuel derivatives (hedge reserve)	3	581
Tax reported outside of the income statement	3	581

c) Factors affecting the tax charge for the year

The tax assessed for the year is lower (2017: higher) than the standard effective rate of corporation tax in the UK of 19% (2017: 20%). The current tax charge is made up as follows:

	2018	2017
	£000	£000
Loss before taxation	(23,228)	(120,450)
Loss multiplied by standard rate of corporation tax in the UK of 19% (2017: 20%)	(4,413)	(24,089)
Not deductible expenses	-	66
Non taxable release of pension deferred income	(3,450)	-
Share based payments	69	122
Treatment of inter-company transactions	(58)	(43)
Impact of initial recognition exemption	1,151	1,095
Deferred tax not recognised	25,841	-
Impact of reduction in UK tax rate on current year's deferred tax	-	869
Impact of reduction in UK tax rate on prior year's deferred tax	-	101
Adjustment to tax charge in respect of previous periods	4,556	(8,051)
Total tax charge for the year reported in the income statement	23,696	(29,930)

7 Tax on loss (continued)

d) Factors that may affect future tax charges

Gross deductible temporary differences of £163,000,000 have not been recognised due to significant doubt over the Group's ability to access and utilise these losses.

The main rate of corporation tax reduced from 20% to 19% effective from 1 April 2017. The Finance Act 2016, substantively enacted on 6 September 2016, includes legislation that will further reduce the main rate of corporation tax to 17%, effective from 1 April 2020.

8 Intangible assets

	Software costs	Other intangibles	Work in Progress	Total
	£000	£000	£000	£000
Cost				
At beginning of year	10,338	3,816	6,639	**20,793**
Additions	28,840	-	23,127	**51,967**
Disposals	(445)	-	(28,840)	**(29,285)**
At end of year	**38,733**	**3,816**	**926**	**43,475**
Accumulated amortisation				
At beginning of year	7,465	3,816	-	**11,281**
Amortisation charged to the income statement	4,789	-	-	**4,789**
Disposals	(445)	-	-	**(445)**
At end of year	**11,809**	**3,816**	**-**	**15,625**
Net book value				
At beginning of year	2,873	-	6,639	**9,512**
At end of year	**26,924**	**-**	**926**	**27,850**

9 Tangible assets

	Plant and Equipment	Work in progress	Total
	£000	£000	£000
Cost			
At beginning of year	23,630	11,273	**34,903**
Additions	9,043	1,919	**10,962**
Disposals	(336)	(9,043)	**(9,379)**
At end of year	**32,337**	**4,149**	**36,486**
Accumulated depreciation			
At beginning of year	14,810	-	**14,810**
Depreciation charged to the income statement	4,735	-	**4,735**
Disposals	(327)	-	**(327)**
	19,218	**-**	**19,218**
Net book value			
At beginning of year	8,820	11,273	**20,093**
At end of year	**13,119**	**4,149**	**17,268**

10 Investments

The Company held the following unlisted investments at 31 March 2018:

	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.

11 Inventories

	2018	2017
	£000	£000
Raw materials and consumables	5,412	4,899

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

12 Trade and other receivables

	2018	2017
	£000	£000
Amounts falling due within one year:		
Trade receivables	52,925	58,622
Amounts owed by group undertakings (note 22)	498	513
Intercompany group relief receivable (note 22)	-	4,557
Value Added Tax receivable (note 22)	4,211	3,900
Prepayments and accrued income	35,294	30,297
Innovation fund	19,855	14,524
Maintenance fund	5,673	4,948
Corporation tax receivable	-	2,096
	118,456	119,457
Amounts falling due after more than one year:		
Prepayments and accrued income	-	250
Derivative – Fuel Hedge	-	17
	-	267

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

13 Trade and other payables

	2018	2017
	£000	£000
Amounts falling due within one year:		
Trade payables	**45,865**	45,169
Amounts owed to group undertakings (note 22)	**6,934**	5,680
Deferred season ticket income	**4,934**	4,705
Other taxation and social security	**3,409**	3,181
Other payables	**6,750**	9,193
Accruals and deferred income	**116,823**	102,449
Deferred credit (pension asset)	**-**	3,025
	184,715	173,402

	2018	2017
Amounts falling due after more than one year:		
Amounts owed to group undertakings (note 22)	**165,000**	66,500
Deferred credit (pension asset)	**-**	15,133
	165,000	81,633

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 £165,000,000 (2017: £66,500,000) which represents loans from Stagecoach Group Plc. These loans accrue interest at 6 month LIBOR plus 2.5% (2017: 2.5%). As previously noted this loan and the associated interest was subject to a waiver which was executed on 21 June 2018.

14 Provisions

	2018	2017
	£000	£000
Insurance (a)	**1,143**	1,222
Onerous contracts (b)	**40,376**	93,723
	41,519	94,945

a) Insurance

	2018	2017
	£000	£000
At start of year	**1,222**	667
Charged to the income statement	**471**	761
Unused amounts reversed	**(195)**	-
Utilised in year	**(355)**	(206)
Provision at end of year	**1,143**	1,222

The £1,143,000 (2017: £1,222,000) provision relates to customer and employee claims against the Company for compensation for injuries occurring whilst on East Coast property. Payments are expected to be made in respect of these claims as they are settled, which is typically within 5 years of origination, but the nature of the settlement process makes the timing of these payments uncertain. Estimates of claim values are based on actuarial reviews and prior claims history.

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 Company's onerous contract provision 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. The provisions are expected to be fully utilised within two years.

An onerous contract provision was first recognised at 31 March 2017, when the Company determined that losses would not be fully recovered unless new commercial terms were agreed with the Department for Transport. The provision of £93.7 million at 31 March 2017 was determined based on the Company's forecast of the extent to which the unavoidable costs under the franchise would exceed the future economic benefits. The onerous contract provision as at 31 March 2017 was estimated on the assumption that Stagecoach Group plc would fund its entire £165 million loan commitment to the Company and that no amount of that loan would be recovered.

The estimate of the onerous contract provision has been updated as at 31 March 2018 to take account of actual losses arising since 31 March 2017 and forecast to arise after 31 March 2018. The £40.4 million onerous contract provision as at 31 March 2018 has been determined based on the amount by which the forecast unavoidable costs from 31 March 2018 exceed the expected economic benefits to be received.

14 Provisions (continued)

b) Onerous Contracts (continued)

The Company has also reviewed the carrying values of assets and liabilities as at 31 March 2018 (including taking account of the estimated amounts payable and receivable to the public sector company in respect of the transfer of assets and liabilities under the agreed terms of the transfer of the business) and made appropriate adjustments to those carrying values.

While the terms of the transfer of the business to the public sector company have been agreed the transfer values have not yet been agreed for all of the individual items. Estimating the amount of the onerous contract provision and the carrying values of assets and liabilities therefore involves some judgement. However, under the terms agreed for the transfer of the business any residual net assets of the Company are payable to the Department for Transport. No additional liability has been recorded as at 31 March 2018 in respect of possible further claims by the Department for Transport on the basis that the Directors consider the likelihood of such claims to be remote and all of the Company's residual net assets are assumed to be payable to the Department for Transport in any event.

	2018	2017
	£000	£000
At start of year	**93,723**	-
Utilised in the year	**(93,723)**	-
Recognised in the year	**40,376**	93,723
Provision at end of year	**40,376**	93,723

15 Contingent Liabilities

The termination of the Franchise Agreement could, in certain circumstances, give the Department for Transport the right to claim against the Company in respect of future premia payments foregone. As at 31 March 2018, liabilities have been recorded for amounts payable to the Department for Transport in respect of any residual net assets of the Company. No further amounts have been recorded by the Company in relation to potential claims by the Department for Transport in respect of the termination of the Franchise Agreement, because the Directors do not currently expect further amounts to be payable.

16 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	**2018**	2017
	£000	£000
Deferred tax asset	**-**	19,137
Net deferred tax asset	**-**	19,137

16 Deferred Tax (continued)

The movement in deferred tax during the year was	**2018**	2017
	£000	£000
At beginning of year	**19,137**	1,673
(Charge)/credit to income statement (note 7a)	**(19,140)**	18,045
Credit/(charge) to equity in relation to cash flow hedge reserve	**3**	(581)
At end of year	**-**	19,137

Deferred tax included on the balance sheet comprises:	**2018**	2017
	£000	£000
Accelerated capital allowances	**-**	1,033
Accrued expenses deductible when paid	**-**	17,807
Other temporary differences	**-**	297
Net deferred tax asset	**-**	19,137

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

	2018	2017
	£000	£000
Accelerated capital allowances	**1,033**	117
Pension temporary differences	**-**	-
Short-term temporary differences	**18,107**	17,928
Deferred tax credit to income statement	**19,140**	18,045

17 Called up share capital

	2018	2017
	£	£
Allotted and fully paid		
Ordinary shares of £1 each	**100**	100

18 Reserves

A reconciliation of the movements in each reserve is shown in the statement of changes in equity on page 16.

The capital reserve represents the cumulative par value of all shares bought back and cancelled.

The cash flow hedging reserve records the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge. The cumulative gain or loss is recycled to the income statement to match the recognition of the hedged item through the income statement.

The balance held in the retained earnings reserve is the accumulated retained profits of the Company.

19 Capital commitments

	2018	2017
	£000	£000
Contracted	3,179	5,086
Authorised but not contracted	5,817	15,349

20 Operating lease commitments

The Company has contracts with Network Rail for access to the railway (track access) infrastructure, leasing of stations and depots. The track access contract is a regulated contract with charges set by the Office for Road and Rail (ORR) on a five-yearly cycle, known as Control Periods (CP). The current control period (CP5) expires at the 31 March 2019, and charges for the following Control Period (CP6) have yet to be finalised. The Company also leases rolling stock, ticket barriers and IT equipment. As at 24 June 2018 all of the Company's lease commitments (including track access and rolling stock commitments) were assumed by the new operator and the Company has no further liability in this regard. The minimum contractual lease payments up to 24 June 2018 were £35.3m.

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

	2018			2017		
	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	58,625	-	-	27,245	58,233	-
Rolling stock	123,671	1,273,205	-	79,570	1,048,990	334,828
Land and buildings	4,686	16,257	1,759	4,831	15,271	3,350
Plant and machinery	1,405	967	-	1,993	1,936	191
Other	3,890	15,560	-	5,705	22,819	5,705
	192,277	1,305,989	1,759	119,344	1,147,249	344,074

21 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. The Company has no rights or obligations to the Scheme following the termination of the Franchise Agreement, the only amounts payable during the period 1 April 2018 to 24 June 2018 being the value of cash contributions payable during that period. Under the terms of the RPS any fund deficit or surplus is shared by the employer (60%) and the employees (40%) in accordance with the shared cost nature of the RPS. The Company applies a "franchise adjustment" to the amounts recorded in the balance sheet for the RPS. This represents the remaining element of the franchisee's 60% share of the IAS 19 deficit or surplus after determining the amount of any deficits the Company is required to fund (or surplus it is entitled to recover) over the remaining franchise period. This adjustment can give rise to a net pension asset, representing the expected excess of the income statement expense under IAS 19 for service cost and net interest over the contributions payable over the remainder of the franchise. The economic benefit of the asset is expected to be realised through the lower cash contributions over the remaining period of the franchise, and therefore upon the expiry of the franchise, there will be no pension asset (or liability) remaining. This judgement is consistent with the industry wide accounting treatment for the RPS that was agreed on adoption of IFRS in 2005. An alternative assessment of the RPS may conclude that such a net pension asset does not give rise to any economic benefits under IAS 19, on the basis that no refund is available from the RPS and there will not be any reduction in future contributions to the RPS. Adopting this alternative assessment would result in such an asset being restricted to £Nil under the asset ceiling under IFRIC 14. This would have an impact on the amounts recognised in the Company's balance sheet, with £Nil relating to net RPS assets (2017: £22.5m) out of total net liabilities of £169.5m (2017: £106.5m) based on the Company's application of its existing accounting treatment.

In addition, the Company contributes to a defined contribution scheme for certain employees. Contributions to defined contribution schemes during the year amounted to £942,000 (2017: £1,283,000).

The measurement of the defined benefit obligations is sensitive to changes in key assumptions as described below:

- The discount rate has been selected following actuarial advice and taking into account the duration of the liabilities.
- The inflation assumption adopted is consistent with the discount rate used. It is used to set the assumptions for pension increases, pensionable salary increases and deferred revaluations.
- The life expectancy assumptions adopted are a best estimate of the life expectancies of scheme members both during and after employment, and are based on the most recent data available from actuarial valuations.

The termination of the Franchise Agreement on 24 June 2018 however means that the Company has no ongoing rights or liabilities to the Scheme, beyond the payment of cash contributions for the period up to 24 June 2018. As a consequence of this, any changes in the assumptions described above will have no impact on the position at 31 March 2018, since the net liability in respect of the Scheme is nil in any event.

21 Retirement benefit obligations (continued)

The principal actuarial assumptions used were as follows:

	31 March 2018	31 March 2017
	% pa	% pa
Rate of increase in salaries	**2.40**	2.50
Rate of increase of pensions in payment	**1.90**	2.00
Discount rate	**2.70**	2.85
Retail price index (RPI) inflation	**3.20**	3.00
Consumer price index (CPI) inflation	**1.90**	2.00

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

	31 March 2018	31 March 2017
Current pensioner aged 65 – male	**21.6**	21.6
Current pensioner aged 65 – female	**22.8**	22.7
Future pensioners at age 65 – (aged 45 now) - male	**23.1**	23.0
Future pensioners at age 65 – (aged 45 now) - female	**24.5**	24.4

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

	31 March 2018	31 March 2017
	£000	£000
Equity	**271,602**	254,597
Equity (Private)	**84,735**	79,169
Infrastructure	**10,318**	17,258
Bonds	**67,249**	51,107
Cash	**54,666**	66,246
Property	**51,526**	50,085
Fair value of plan assets	**540,096**	518,462
Present value of obligations	**(744,951)**	(727,255)
Members share of deficit	**81,942**	83,517
Deficit expected to be recovered after the end of East Coast's involvement with the section	**122,913**	147,729
Asset recognised in the balance sheet	**-**	22,453

21 Retirement benefit obligations (continued)

The amounts recognised in the income statement were as follows:

	31 March 2018	**31 March 2017**
	£000	**£000**
Defined benefit obligation		
Current service cost	**21,210**	17,455
Administration cost	**172**	172
Interest cost (net)	**3,715**	3,138
Unwinding of franchise adjustment	**(4,375)**	(1,961)
Total defined benefit cost	**20,722**	18,804
Defined contribution cost	**942**	1,283
Total income statement charge	**21,664**	20,087

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

	31 March 2018	31 March 2017
	£000	£000
Total included in staff costs (note 5)	**22,324**	18,910
Total included in finance and similar charge (note 6)	**(660)**	1,177
	21,664	20,087

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

	31 March 2018	31 March 2017
	£000	£000
Actual return on scheme assets higher than discount rate	**14,812**	75,301
Experience gains and losses arising on the scheme liabilities	**11,901**	16,960
Changes in financial assumptions	**(8,054)**	(165,680)
Change in demographic assumptions	**-**	8,424
Total actuarial gain/(loss) recognised	**18,659**	(64,995)
Change in franchise adjustment	**(35,051)**	89,469
Total amounts recognised in the statement of other comprehensive income	**(16,392)**	24,474

21 Retirement benefit obligations (continued)

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 2018	31 March 2017
	£000	£000
Asset at the beginning of the year	**22,453**	3,456
Total expense	**(20,722)**	(18,804)
Employer's contribution	**14,661**	13,327
Actuarial gain/(loss)	**18,659**	(64,995)
Change in franchise adjustment	**(35,051)**	89,469
Asset at end of the year	**-**	22,453

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:

	31 March 2018	31 March 2017
	£000	£000
At beginning of year	**518,462**	436,763
Return on assets excluding amounts included in net interest	**14,812**	75,301
Interest income	**9,002**	9,139
Administration costs	**(172)**	(172)
Employer's contributions	**14,661**	13,327
Members contributions	**1,236**	1,674
Benefit paid	**(17,905)**	(17,570)
At end of year	**540,096**	518,462

21 Retirement benefit obligations (continued)

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:

	31 March 2018	31 March 2017
	£000	£000
At beginning of year	**496,009**	433,307
Current service cost	**21,210**	17,455
Interest cost	**12,717**	12,277
Actuarial gains – changes in financial assumptions	**8,054**	165,680
Actuarial (losses) – change in demographic assumptions	**-**	(8,424)
Actuarial (losses) – experience on benefit obligations	**(11,901)**	(16,960)
Change in franchise adjustment	**35,051**	(89,469)
Members contributions	**1,236**	1,674
Benefit paid	**(17,905)**	(17,570)
Unwinding of franchise adjustment	**(4,375)**	(1,961)
At end of year	**540,096**	496,009

The movement in the franchise adjustment is as follows:

	31 March 2018	31 March 2017
	£000	£000
At beginning of year	**147,729**	171,052
Rail franchise changes	**5,860**	(114,753)
Amounts recognised in the income statement:		
Unwinding of franchise adjustment	**4,375**	1,961
Re-measurements:		
Change in franchise adjustment	**(35,051)**	89,469
At end of year	**122,913**	147,729

22 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 2018, there were 981 (2017: 1,040) participants in the BAYE scheme who have cumulatively purchased 788,992 (2017: 465,553) shares with the Company contributing 274,496 (2017: 155,870) matching shares on a cumulative basis. Dividends had been reinvested in a further 89,371 (2017: 25,780) for these participants.

Costs of £216,000 (2017: £225,800) have been recognised in the income statement during the period in relation to the scheme.

b) 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:

Award date	26 June 2014	25 June 2015	10 Dec 2015	30 June 2016	29 June 2017	**Total**
Outstanding at start of the period (notional units)	38,438	46,730	7,027	311,979	-	**404,174**
Awards granted in the period (notional units)	-	-	-	-	110,465	**110,465**
Exercised in the period (notional units)	(38,438)	-	-	(488)	-	**(38,926)**
Intra group transfers (notional units)	-	(6,383)	-	-	-	**(6,383)**
Lapsed in the period (notional units)	-	(1,047)	-	(14,000)	-	**(15,047)**
Dividends in the period (notional units)	-	2,993	535	23,519	8,415	**35,462**
Outstanding at end of the period (notional units)	-	42,293	7,562	321,010	118,880	**489,745**
Vesting date	26 June 2017	25 June 2018	10 Dec 2018	30 June 2019	29 June 2020	
Expected total value of award at time of grant (£)	98,557	153,031	19,997	735,277	211,099	
Closing share price on date of grant (£)	3.810	4.1960	2.980	2.311	1.911	

A charge of £362,000 (2017: £302,000) has been recognised in the income statement during the period in relation to the above scheme.

All share options lapsed when the operation of the franchised services was transferred to LNER on 24 June 2018.

23 Related party disclosures

The Company is a 90% owned subsidiary of Stagecoach Group plc. As at 31 March 2018, the Company has a receivable of £4,709,000 (2017: £8,970,000) and a payable of £171,934,000 (2017: £72,180,000), of which £165,000,000 is loan funding from Stagecoach Group plc. Directors' remuneration is disclosed separately in note 4.

	2018	2017
	£000	£000
Sales to Group companies		
Ultimate parent company	**217**	-
Other group companies	**1,212**	554
Total sales to group companies	**1,429**	554
Purchases from Group companies		
Ultimate parent company	**1,480**	(157)
Other group companies	**(18,333)**	(16,801)
Total purchases from group companies	**(16,853)**	(16,958)
Interest Payable on group loans		
Ultimate parent company	**(3,219)**	(1,791)
Total interest payable	**(3,219)**	(1,791)

24 Post Balance Sheet Events

On 16 May 2018, as a consequence of the drawdown of all available committed funding from Stagecoach Group plc, combined with a continuing lower than expected revenue growth rate, the Secretary of State announced that the Franchise Agreement was to be terminated on 24 June 2018. The responsibility for delivering the franchised passenger services was transferred to London North Eastern Railway from this date.

As a result of the transfer of the franchise, the Company has recorded an exceptional pre-tax expense of £56.8m. Of the total expense £40.4m has been recognised in the income statement with the remaining £16.4m recognised in the statement of comprehensive income, as it represents the actuarial loss in relation to the re-measurement of the pension asset arising from the termination of the franchise. Taking this into account the Directors have considered the balance sheet position, and forecasted cash movements of the Company and are of the view that the Company has, and will continue to have, sufficient funds to meet external liabilities as they fall due. However, as detailed in note 1, the Directors do not consider it is appropriate to prepare these accounts on a going concern basis as the Franchise Agreement has been terminated. Consequently, the financial statements have been prepared on a basis other than going concern.

Further background as to the reasons for the termination can be found in the Strategic Report.

On 21 June 2018 the Parent Company Support loan of £165 million and associated interest was waived by Stagecoach Group plc.

25 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:

The Company Secretary

Stagecoach Group plc

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