East Coast Main Line Company Limited

Annual Report and Financial Statements

For the year ended 31 March 2012

Company number 04659708

Registered office:

4th Floor
One Kemble Street
London
WC2B 4AN

East Coast Main Line Company Limited

Company Information

Company information for the year ended 31 March 2012.

Directors:	Karen Boswell Andy Cope Tim Hedley-Jones Michael Holden Tim Kavanagh Andrew Meadows Philip Cameron Daniel Williams Doug Sutherland Peter Williams David Walker Robert Mason
Company Secretary:	David Walker
Registered Office	4th Floor One Kemble Street London WC2B 4AN
Registered Number:	04659708
Independent Auditors	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors 1 Embankment Place London WC2N 6RH

East Coast Main Line Company Limited

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East Coast Main Line Company Limited
Directors' Report

The Directors present their annual report and the audited financial statements for the year ended 31 March 2012.

Principal activities
The principal activity of East Coast Main Line Company Limited ("the Company") is to manage and operate the East Coast railway franchise until such a time when ownership of the Company is returned to the private sector.

Visit the website www.eastcoast.co.uk for information on timetables, fares and further information on the business.

History and background
The East Coast main line is a 920 mile long electrified high-speed railway linking London, Peterborough, Doncaster, Leeds, Lincoln, York, Newcastle, Edinburgh and beyond and operates a frequent high speed passenger service along this route. The route forms a key north-south artery on the eastern side of Britain and carries key commuter flows for the north side of London It handles cross-country, commuter and local passenger services, as well as freight traffic

The line dates back to 1846 and was built by three railway companies, The North British Railway, the North Eastern Railway and the Great Northern Railway, each serving their own area – but with the intention of linking up to form the through route that became the East Coast Main Line

Company name
The Company was incorporated on 7 February 2003 On 15 July 2009 the Company changed its name from Abbey Rail Limited to East Coast Main Line Company Limited.

Corporate structure
The Company is a wholly owned subsidiary of Directly Operated Railways Limited which is the company set up by the Department for Transport to oversee any train operating company temporarily returning to the public sector Directly Operated Railways Limited is itself a wholly owned subsidiary of the Secretary of State for Transport.

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 will continue 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. To this end, East Coast's 2012-14 Safety Plan sets risk based and targeted objectives which will maintain, and further improve, the significant achievements in safety performance delivered during 2011/12 (which have been recognised by East Coast being awarded the ROSPA 'Gold Medal' for safety performance improvement during 2011). Each objective is aligned to four safety themes which enshrine the company's Vision for Safety In particular, the Plan contains 17 Corporate Objectives to improve safety on a generic basis and a further 23 objectives targeted at improving safety within Engineering, Customer Services and Operations.

East Coast Main Line Company Limited
Directors' Report

Environment
East Coast intends to actively combat climate change in three ways: making its own operations more carbon-efficient, working with Government and other bodies such as the WWF and the Climate Group to help shape lower carbon transport policies and directly encouraging people to switch to public transport East Coast is working towards improving efficiency and reducing energy consumption in its rolling stock, train depots, stations and offices and is actively taking part in the Government's scheme for Carbon Reduction (CRC). East Coast's 2012-14 Environment Plan sets challenging targets for improving environmental performance, which will be achieved by investing in new technologies, putting in place simple new processes to reduce the use of natural resources, and increasing awareness amongst employees and third parties

Directors
The following Directors have held office since 1 April 2011 and up to the date of this report unless stated otherwise:

Elaine Holt	Chairman	Resigned 23 December 2011
Karen Boswell	Managing Director	
Michael Holden	Non-Executive Chairman	
Andy Cope	Non-Executive Director	
Ian Duncan	Director	Resigned 20 April 2012
Tim Hedley-Jones	Director	
Tim Kavanagh	Director	
Andrew Meadows	Director	
Neil Clucas	Director	Resigned 24 June 2011
Philip Cameron	Director	
Daniel Williams	Director	
Doug Sutherland	Non-Executive Director	
Peter Williams	Director	
Graeme Wright	Employee Director	Resigned 16 June 2011
David Walker	Non-Executive Director	Appointed 27 January 2012
Rob Mason	Non-Executive Director	Appointed 19 April 2012

Michael Holden was appointed as Non-Executive Chairman on 23 December 2011. Prior to this date he was a Non-Executive Director

Company Secretary
The Company Secretary during the year was Rowena Nixon who was appointed on 8 February 2010 and resigned on 5 April 2012 David Walker was appointed as Company Secretary on 5 April 2012.

Employees
The Company is a non-discriminatory employer operating an Equal Opportunities Policy which aims to eliminate 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's policy is to continue to employ those who become disabled in service, together with some recruitment where circumstances permit. Training is adjusted to cater for an individual's disability and they share the same conditions of service as other staff in relation to career development and promotion

East Coast Main Line Company Limited
Directors' Report

The Company is committed to employee engagement and uses a variety of methods to inform and consult with its employees These include the Company newspaper entitled 'Coast Life' and m@inline, the Company intranet Informal communication across the Company includes briefings and meetings with staff supported by posters and weekly bulletins The Company has regular dialogue with employees and representatives from trades unions

Charitable and political contributions
The Company made charitable donations totalling £18,893 during the year ended 31 March 2012 (year ended 31 March 2011 £23,790) These include £15,000 in respect of National Rail Chaplain services, £3,031 for The Railway Children, £500 for the British Transport Pensioners Federation memorial fund and £362 for the MS Society There were no political donations made in the year (year ended 31 March 2011 £nil)

Supplier payment policy
It is the Company's policy to agree terms of payment prior to commencing trade with any supplier and to abide by those terms based on the timely submission of invoices. At 31 March 2012, the number of creditor days outstanding for the Company was 26 days (2011: 29 days).

CORPORATE GOVERNANCE

The Company seeks to adhere to the principles of good corporate governance where appropriate for a Company of its size and operations.

The Board of Directors:

The Board
The board currently consists of the Non-Executive Chairman, seven Executive Directors and four Non-Executive Directors The board met on thirteen occasions during the year and is responsible for monitoring the operational and financial performance of the Company, reviewing progress against the Company's budgets and setting and reviewing its business plans.

The Directors are satisfied that the current board has the breadth of business, financial and operational experience necessary to manage effectively an organisation of the size and type of the Company

Information and board development
The board receives detailed briefing papers and reports on the business to be conducted at each meeting one week in advance of the meeting

All Directors have access to the advice and services of the Company Secretary and, if necessary, can seek independent professional advice at the Company's expense in the furtherance of their duties

Directors receive induction training on appointment to the board which is tailored to their individual needs and experience Information is provided to Directors on their responsibilities, and regulatory and legal obligations

Directors' and Officers' liability insurance
The Company has Directors' and Officers' liability insurance cover in place as permitted by the Companies Act 2006

East Coast Main Line Company Limited
Directors' Report

Board Committees
The board has delegated certain matters to committees of the board The principal committees are as follows:

Executive Committee
The Executive Committee comprises the Executive Directors and meets on a weekly basis to consider matters which arise in the ordinary course of the Company's business. The Committee is chaired by the Managing Director

Safety Committee
The Safety Committee comprises the Executive Directors and meets on a four weekly basis to consider safety matters which arise in the course of the Company's operations. The Committee is chaired by the Managing Director Michael Holden and Andy Cope attend the Safety Committee on a quarterly basis. The Committee may request other managers and officers of the Company to attend if necessary

Audit Committee
The Audit Committee is chaired by Doug Sutherland and includes Michael Holden, Andy Cope and David Walker. Karen Boswell and Tim Kavanagh also attend meetings of the Committee when appropriate The Committee may request the Executive Directors and any other officers of the Company to attend its meetings but none has the right of attendance.

The Committee met on three occasions during the year ended 31 March 2012 and it is anticipated that the Committee will meet at least three times during each year The Company's external auditors are invited to attend all meetings of the Committee.

Under its terms of reference the Committee keeps under review the Company's internal and external financial statements and reports to ensure that they reflect best practice.

The Committee ensures that the internal audit department is adequately resourced and has appropriate access to information to enable it to perform its function effectively and in accordance with relevant professional standards and has adequate standing within the Company It considers audit reports on the Company from the internal auditors and reviews and monitors management's responsiveness to the findings and recommendations.

The Committee is responsible for making recommendations to the board in respect of the appointment and re-appointment of the Company's external auditors and recommends to the board the audit fee to be paid to the external auditors

Remuneration Committee

The Remuneration Committee is chaired by Doug Sutherland and includes the Non-Executive Directors. The Executive Directors attend as required

This group met a number of times during the year to agree the terms and conditions of the Executive Directors

East Coast Main Line Company Limited
Directors' Report

Financial reporting
The Directors have a commitment to best practice in the Company's financial reporting and systems. A statement of the Directors' responsibilities for preparing the financial statements may be found on page 8

Internal controls
The board is responsible for establishing the Company's goals and objectives, and overseeing the establishment, implementation and review of the Company's risk management system. The Company has in place a risk management policy which is available on our website, the purpose of which is to ensure that risk management is an integral part of day-to-day operations for all staff

The board is also responsible for maintaining a sound system of internal control that supports the achievement of these goals and objectives It sets appropriate policies on internal control and seeks regular assurance that will enable it to satisfy itself that the system is functioning effectively.

The system of internal control is designed to manage risk rather than eliminate it completely and can only provide reasonable rather than absolute assurance against material misstatement or loss

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 uses its parent company, Directly Operated Railways Limited, to engage both Government and railway groups

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 This is of particular concern due to the short term nature of the franchise. To mitigate this risk a talent management and succession planning review has been undertaken to identify key posts and individuals. Further to this a high potential and future leaders development strategy is in place to ensure retention and that successors are in place and equipped for the role

One of the main challenges for the coming year is the ongoing economic conditions Generating modal shift is key in delivering long term growth for the North East and Scotland markets Further work will be carried out to develop the West Yorkshire market which is performing less strongly than the Anglo Scottish market. With the shift to Advance Purchase products the close combination of targeted marketing activity and revenue management will be key in maintaining revenue growth

Financial risk management

The Company's activities expose it to a variety of financial risks. Price risk is managed by the Company having fixed prices where possible 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

Independent Auditors

PricewaterhouseCoopers LLP have expressed their willingness to continue in office as auditors and in accordance with Section 487 of the Companies Act 2006, PricewaterhouseCoopers LLP shall be deemed to be re-appointed as the Company's auditors 28 days after the financial statements are sent to members

OPERATIONAL REVIEW

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 86.6% (2011 83 3%) The key drivers for this year on year improvement were a significant reduction in operational incidents which won for East Coast the Golden Whistle award for operational safety, a much improved autumn and winter period with no significant fleet failures, and a 3% reduction in overall delay minutes of which East Coast contributed an 8,000 minute year-on-year saving

The new timetable change which was launched on 22 May 2011 was the biggest railway change on the East Coast Main Line since privatisation and a fundamental change to the delivery of our service and the first class offer The change included an additional 19 services per week day and delivered improved customer services and an enhanced first class experience by including a complimentary meal within the ticket price to attract more travellers to first class

The customer loyalty scheme was launched 25 July 2011 and at year end there were 243,000 members, this is marginally higher than expected at this point. The scheme is progressing well and the early signs are very positive

The telesales and related call centre activity contract previously undertaken by National Express Services was awarded to Serco (UK) Services Limited and ATOS Origin and transferred early July 2011 Customer relations and the assisted travel functions transferred to Serco (UK) Services Limited and relocated to Plymouth, telesales functions to Mumbai in India and delay repay to Plymouth with the back office elements to Mumbai The web support function transferred to ATOS Origin

It is anticipated the franchise will remain under the ownership of the Company until December 2013, during which time interested parties will be invited to bid to operate the Inter City East Coast franchise

East Coast Main Line Company Limited
Directors' Report

FINANCIAL REVIEW

The Company made a profit after tax in the year of £5 8m (year ended 31 March 2011 £5 1m); Turnover for the year ended 31 March 2012 was £665 9m (year ended 31 March 2011· £644.6m) 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 operators services The operating expenditure reported in the year was £660 7m (year ended 31 March 2011 £640 1m) with a profit before taxation of £8.2m (year ended 31 March 2011 £7 9m)

The Company generated an operating surplus of £193.7m (year ended 31 March 2011 £180 9m), of which £188 6m (year ended 31 March 2011 £176 3m) was paid as franchise premium, giving an operating profit of £5 1m (year ended 31 March 2011 £4 6m).

Overall revenue growth for the year was 3% with journey growth of 2% and yield level growth of 1% The key exceptional event in the year was the impact of the ash cloud at the start of the year which generated approximately £5m in additional revenue 2011/12 has presented East Coast with some major challenges, economic conditions have been weak particularly in the latter part of the year however there was significant success in generating modal shift from airlines to offset this in some areas The launch of the new timetable in May provided strong improvement in the overall growth rate and in part driven the improvement in First Class revenue and volume

The Company has a £40m Working Capital Facility Agreement in place with Directly Operated Railways Limited to ensure sufficient funds are available in order to meet its supplier commitments During the year one draw down was made for £5m for a period of 5 days after which it was repaid in full

The Directors do not recommend the payment of any dividend for the year ended 31 March 2012 (year ended 31 March 2011: £nil) and none were paid during the year

East Coast Main Line Company Limited
Directors' Report

Statement of Directors' Responsibilities
The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the 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.

Directors' statement of disclosure of information to auditor

The Directors who held office at the date of approval of the Directors' report confirm that:

- so far as the Directors are aware, there is no relevant audit information of which the company's auditors are unaware, and
- they have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information

By order of the Board

Tim Kavanagh
Finance Director
21 June 2012
Registered Office
4th Floor
One Kemble Street
London
WC2B 4AN

Independent Auditors' Report to the members of East Coast Main Line Company Limited For the year ended 31 March 2012

We have audited the financial statements of East Coast Main Line Limited for the year ended 31 March 2012 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, and the related notes 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)

Respective responsibilities of Directors and Auditors
As explained more fully in the Statement of Directors' Responsibilities set out 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

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

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 Directors' Report to identify material inconsistencies with the audited financial statements 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 2012 and of its profit 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

Opinion on other matters prescribed by the Companies Act 2006
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, 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

Tony Nicol (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
21 June 2012

East Coast Main Line Company Limited
Profit and Loss Account
For the year ended 31 March 2012

	Note	2012 £'000	2011 £'000
Turnover			
Passenger income		**594,788**	578,387
Other operating income		**71,076**	66,259
Total Turnover	2	**665,864**	644,646
Operating costs		**(660,721)**	(640,087)
Operating profit	3	**5,143**	4,559
Net interest receivable	6	**306**	247
Other finance income	20	**2,738**	3,129
Profit on ordinary activities before taxation		**8,187**	7,935
Taxation on profit on ordinary activities	7	**(2,415)**	(2,827)
Profit for the financial year		**5,772**	5,108

The profit and loss account has been prepared on the basis that all operations are continuing operations.

There are no material differences between the profit on ordinary activities before taxation and the profits for the financial years stated above and their historical cost equivalents

East Coast Main Line Company Limited
Statement of Total Recognised Gains and Losses
For the year ended 31 March 2012

	2012	2011
	£'000	£'000
Profit for the financial year	**5,772**	5,108
Actuarial loss on defined benefit pension scheme	**(759)**	(3,829)
Movement on deferred tax relating to defined benefit pension scheme	**197**	995
Total recognised gains and losses relating to the year	**5,210**	2,274

East Coast Main Line Company Limited
Balance Sheet
As at 31 March 2012

	Note	2012 £'000	2011 £'000
Fixed assets			
Tangible assets	8	**17,407**	7,769
Investments	9	-	-
Total fixed assets		**17,407**	7,769
Current assets			
Stocks	10	**4,757**	4,453
Debtors	11	**65,024**	72,912
Cash at bank and in hand		**14,017**	39,919
Total current assets		**83,798**	117,284
Creditors: amounts falling due within one year	12	**(89,100)**	(116,206)
Net current assets/(liabilities)		**(5,302)**	1,078
Total assets less current liabilities		**12,105**	8,847
Creditors: amounts falling due after more than one year	13	**(988)**	(1,576)
Provisions for liabilities	14	**(542)**	(372)
Net assets excluding net pension liability		**10,575**	6,899
Net pension liability	20	**(1,725)**	(3,259)
Net assets including net pension liability		**8,850**	3,640
Capital and reserves			
Called up share capital	16	-	-
Profit and loss account	17	**8,850**	3,640
Total shareholders' funds	17	**8,850**	3,640

On behalf of the Board

Tim Kavanagh
Finance Director
21 June 2012

Company number 04659708
The notes on pages 13 to 25 form an integral part of these financial statements.

East Coast Main Line Company Limited
Notes to the Financial Statements
For the year ended 31 March 2012

1. Accounting policies

a) Fundamental accounting concept

The financial statements have been prepared on a going concern basis. The Directors have reviewed the subsequent trading results and the forecasts for future trading. The Company is expected to trade profitably for the foreseeable future and to be able to meet all its liabilities as they fall due. Consequently, the Directors believe that it is appropriate to prepare these financial statements on a going concern basis.

b) Basis of preparation

The financial statements are prepared under the historical cost convention and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom. The principal accounting policies which have been applied consistently are set out below.

c) Related party transactions

The Company has taken advantage of the exemption under FRS 8 from providing details of related party transactions with fellow group undertakings, which are wholly owned, as they are included within the consolidated financial statements of its immediate parent company, Directly Operated Railways Limited, which are publicly available.

d) Cash flow statement

The Company is a wholly-owned subsidiary of Directly Operated Railways Limited (a Company registered in England & Wales) and is included in the consolidated financial statements of that company which are publically available Consequently, the Company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 1, "Cash Flow Statements (revised 1996)".

e) Turnover

(i) 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 profit and loss account over the year of the relevant season ticket.

(ii) Other 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.

(iii) The Company operates a loyalty programme which operates through the East Coast Mainline web site 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 to.

f) Taxation

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

g) 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.

h) Tangible fixed assets and depreciation

Tangible fixed 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 & buildings	3 - 10 years or lease term
Plant and equipment	3 - 10 years or lease term

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 profit and loss account over the period of the lease in accordance with the interest rate inherent in the lease.

Operating lease rentals are charged to the profit and loss account on a straight-line basis over the lease term.

j) Stocks

Stocks 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 stocks. Where necessary, provision is made for obsolete, slow moving and defective stocks.

k) Grants

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

l) Retirement benefits

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. Actuarial gains and losses arising from experience adjustments, changes in actuarial assumptions and amendments to pension plans are

Retirement benefits (continued)

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. Restructuring provisions comprise lease termination penalties and employee termination payments. 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.

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

2. Turnover

All turnover 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 Profit and Loss Account

3. Operating profit

	2012	2011
	£'000	£'000
Operating profit is stated after charging/(crediting):		
Staff Costs (note 5)	**114,347**	114,519
Depreciation – owned assets	**3,454**	2,161
Impairment charge	**-**	7,800
Amortisation of goodwill	**-**	(2,278)
Amortisation of fixed asset grants	**(135)**	(185)
Operating lease rentals		
- Fixed track access	**45,258**	43,524
- Land and buildings	**6,450**	5,597
- Rolling stock costs	**82,277**	83,132
- Plant and machinery	**2,116**	2,034
- Other	**4,553**	4,844

Operating profit (continued)

Auditors' remuneration – audit fees	**68**	68
Auditors' remuneration – (non audit services)		
– taxation compliance	**18**	12
– other compliance reporting	**8**	6

4. Directors' emoluments

	2012	2011
	£'000	£'000
Emoluments in respect of qualifying services to the Company	**1,352**	1,173
Company pension contributions	**145**	159
	1,380	1,332

The emoluments excluding pension contributions of the highest paid Director were £234,191 (Year ended 31 March 2011: £205,712)
The pension contributions of the highest paid Director were £24,064 (Year ended 31 March 2011: £24,101)

Elaine Holt and Doug Sutherland received no (2011 £nil) remuneration from the Company in the year to 31 March 2012

The figures above include services provided to East Coast by Andy Cope and Michael Holden of £134,325 (2011: £98,300).

5. Staff costs

	2012	2011
	£'000	£'000
Wages and salaries	**95,360**	94,267
Social security costs	**7,821**	6,704
Pension costs	**8,827**	10,939
Other costs	**2,339**	2,609
	114,347	114,519

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

	2012	2011
Managerial and administrative	**454**	449
Operational	**2,334**	2,276
	2,788	2,725

6. Net interest receivable

	2012	2011
	£'000	£'000
Interest receivable		
Bank interest	**354**	82
Other interest receivable	**-**	246
	354	328
Interest payable		
Bank interest	**(31)**	(81)
Interest payable to group undertakings	**(3)**	-
Other interest payable	**(14)**	-
Total interest payable	**(48)**	(81)
Net interest receivable	**306**	247

7. Tax on profit on ordinary activities

(a) The tax charge on the profit on ordinary activities before taxation is made up as follows

	2012	2011
	£'000	£'000
Current taxation:		
UK corporation tax on profits of the year	**886**	1,217
Adjustment in respect of previous years	**596**	1,288
Group relief	**286**	375
	1,768	2,880
Deferred taxation:		
Origination and reversal of timing differences (note 15)	**45**	(78)
Defined benefit pension	**602**	25
	647	(53)
Tax charge on profit on ordinary activities	**2,415**	2,827

(b) The tax for the year is lower (2011 higher) than the standard effective rate of corporation tax in the UK of 26% (2011 28%). The current tax charge is made up as follows

	2012	2011
	£'000	£'000
Profit on ordinary activities before taxation	**8,187**	7,935
Notional charge at UK corporation tax rate of 26% (2011: 28%)	**2,129**	2,222
Not deductible expenses	**405**	-
Income not subject to tax	**-**	(637)
Capital allowances (higher)/lower than depreciation	**(68)**	444
Other timing differences	**(1,294)**	(437)
Adjustment in respect of previous years	**596**	1,288
Current tax charge for the year	**1,768**	2,880

During the year, as a result of the change in the UK main corporation tax rate from 26% to 24% that is effective from 1 April 2012, the relevant deferred tax balances have been re-measured.

Tax on profit on ordinary activities (continued)

In addition to the changes in rates of corporation tax disclosed above a number of further changes to the UK corporation tax system were announced in the March 2012 UK Budget Statement. Legislation to reduce the main rate of corporation tax from 24% to 23% from 1 April 2013 is expected to be included in the Finance Act 2012. Further reductions to the main rate are proposed to reduce the rate to 22% from 1 April 2014 These further changes had not been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements. The proposed reduction of the main rate of corporation tax to 22% from 1 April 2014 is expected to be enacted separately.

8. Tangible fixed assets

	Leasehold Land & Buildings	Plant and Equipment	Total
	£'000	**£'000**	**£'000**
Cost			
At 1 April 2011	2,898	7,726	10,624
Additions at cost	3,345	9,751	13,096
Disposals	-	(245)	(245)
At 31 March 2012	**6,243**	**17,232**	**23,475**
Depreciation			
At 1 April 2011	702	2,153	2,855
Charge for the year	685	2,769	3,454
Disposals	-	(241)	(241)
At 31 March 2012	**1,387**	**4,681**	**6,068**
Net book amount at 31 March 2012	**4,856**	**12,551**	**17,407**
Net book amount at 31 March 2011	**2,196**	**5,573**	**7,769**

There were no assets held under finance leases at the year end.

9. Fixed asset investments

The Company held the following unlisted investments at 31 March 2012:

	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.

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10. Stocks

	2012 £'000	2011 £'000
Raw materials and consumables	**4,757**	4,453

There is no material difference between the replacement value of stocks and its cost.

11. Debtors

	2012 £'000	2011 £'000
Trade debtors	**46,261**	49,160
Amounts owed by group undertakings	**-**	58
Other debtors	**4,656**	8,330
Deferred consideration	**-**	6,639
Prepayments and accrued income	**13,804**	7,188
Corporation tax	**244**	1,433
Deferred tax	**59**	104
	65,024	72,912

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

12. Creditors: amounts falling due within one year

	2012 £'000	2011 £'000
Bank loans	**494**	4,549
Trade creditors	**64,733**	70,484
Amounts owed to group undertakings	**5**	-
Deferred season ticket income	**4,134**	4,148
Social security and other taxation	**2,323**	2,139
Other creditors	**3,183**	11,427
Deferred fixed asset grants	**93**	135
Accruals and deferred income	**14,135**	23,324
	89,100	116,206

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

13. Creditors: amounts falling due after more than one year

	2012 £'000	2011 £'000
Bank loans	**988**	1,483
Deferred fixed asset grants	**-**	93
	988	1,576

The bank loan is guaranteed by the Department for Transport. The rate of interest payable is LIBOR plus 0.25 per cent.

14. Provisions for liabilities

	Insurance £'000
At 1 April 2011	372
Provided in the year	170
At 31 March 2012	**542**

Insurance provision

The £542,000 (2011: £372,000) provision relates to customer and employee claims against the Company for compensation for injuries occurring whilst on East Coast Main Line property

15. Deferred tax

(a) The deferred tax at rate of 24% (2011: 26%), excluding tax on the pension liability provision movement, in the year is as follows

	2012 £'000	2011 £'000
At 1 April 2011	**104**	26
Increase in the year	**(45)**	78
At 31 March 2012	**59**	104

b) The major components of the deferred taxation asset are as follows:

	2012 £'000	2011 £'000
Decelerated/(accelerated) capital allowances	**4**	30
Other timing differences	**55**	74
Short term timing differences	**59**	104

16. Called up share capital

	2012 £	2011 £
Authorised		
Ordinary shares of £1 each	**100**	100
Allotted and fully paid		
Ordinary shares of £1 each	1	1

17. Reserves and reconciliation of movements in shareholders' funds

	2012 £'000	2011 £'000
Shareholders' funds at 1 April 2011	**3,640**	1,366
Actuarial loss on defined benefit pension scheme	**(759)**	(3,829)
Movement on deferred tax relating to defined benefit pension scheme	**197**	995
Retained profit for the year	**5,772**	5,108
Shareholders' funds at 31 March 2012	**8,850**	3,640

18. Capital commitments

	2012	2011
	£'000	£'000
Contracted	**1,779**	1,771
Authorised but not contracted	**409**	7,380

19. Operating lease commitments

The Company has the following annual commitments due under operating leases which expire as follows

	2012			2011		
	Under 1 year	**1 – 5 years**	**5 years and over**	Under 1 year	1 – 5 years	5 years and over
	£'000	**£'000**	**£'000**	£'000	£'000	£'000
Fixed track access	**-**	**48,839**	**-**	-	45,262	-
Rolling stock	**-**	**82,658**	**-**	-	85,619	-
Land and buildings	**3,126**	**924**	**244**	83	5,556	170
Plant and machinery	**968**	**533**	**-**	18	2,093	-
Other	**1,806**	**-**	**-**	-	4,816	-
	5,900	**132,954**	**244**	101	143,346	170

The Company has contracts with Network Rail Infrastructure Limited for access to the railway infrastructure (track, stations and depots).

20. Retirement benefits

Information about the scheme and the Company's accounting policies

General description of scheme: East Coast Main Line Company Limited operates 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 section is a shared cost arrangement whereby the Company is only responsible for a share of the cost. The scheme is a shared cost section because any surplus or deficit is met in the ratio of 60%/40% by the employer and employees respectively

The figures reported below therefore represent only the Company's share of the cost, except that the tables reconciling the section liabilities and assets from the start to the end of the year are presented before the deduction of the members' share of the defined benefit cost, or the surplus or deficit This is for simplicity of presentation and for consistency with the liabilities and assets quoted in the table showing the pension scheme liability or asset at the end of the year

Employer contributions for the year ending 31 March 2012 are 15 84% (2011 15 84%) of section pay. This rate will continue until 30 June 2012 when the employer contribution rate will change to a maximum of 60% of the long-term joint contribution rate of 29.75% of section pay This rate is effective from 1st July 2012 and will apply until 30th June 2027.

The section is open to new members

20 Retirement benefits (continued)

An actuarial valuation of the East Coast Main Line pension scheme using the projected unit basis, was carried out at 31 March 2012 by Towers Watson, independent consulting actuary. The major assumptions determined by the Company were

Summary of assumptions

	31 March 2012 % pa	31 March 2011 % pa
Discount rate	**5.1**	5.6
Price inflation (RPI measure)	**3.2**	3.6
Increases to deferred pensions (2011: CPI measure)	**2.2**	2.6
Pension increases (2011: CPI measure)	**2.2**	2.6
Salary increases	**3.7**	4.1
Expected return on section assets	**6.7**	7.5

The assets in the scheme and expected rates of return were:

	Long-term rate of return expected on 31 March 2012 % pa	**Value at 31 March 2012 £'000**	Long-term rate of return expected on 31 March 2011 % pa	Value at 31 March 2011 £'000
Equities	**7.1**	**243,553**	7.8	237,459
Government bonds	**3.1**	**14,341**	4.4	15,467
Non-government bonds	**4.6**	**14,703**	5 5	13,851
Property	**6.7**	**13,188**	7.5	12,348
Other assets	**2.5**	**4,116**	3.8	469
Total asset value	**6.7**	**289,901**	7.5	279,594

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

		31 March 2012	31 March 2011
Male currently age 65	Pension under £9,300* pa or pensionable pay under £35,000** pa	**20.5**	19.8
	Others	**22.6**	21 5
Male currently age 45	Pension under £9,300* pa or pensionable pay under £35,000** pa	**22.8**	22.2
	Others	**24.9**	23 7
Female currently age 65	Pension under £9,300*** pa or pensionable pay under £35,000** pa	**22.4**	21 7
	Others	**24.8**	22.7
Female currently age 45	Pension under £9,300*** pa or pensionable pay under £35,000** pa	**24.9**	23.2
	Others	**27.1**	24.2

*2011 life expectancy figures * under £8,500, ** under £30,000, *** under £3,000*

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20 Retirement benefits (continued)

Reconciliation of present value of scheme liabilities

	Year ended 31 March 2012 £'000	Year ended 31 March 2011 £'000
Opening section liabilities	**344,838**	384,093
Service cost	**15,372**	17,805
Interest cost	**19,953**	21,872
Interest on short term adjustment	**(1,946)**	(4,300)
Loss/(gain) on section liabilities	**6,681**	(66,802)
Actual benefit payments	**(7,181)**	(7,830)
Closing section liabilities	**377,717**	344,838

Pension scheme (liability)/asset at end of year

	Year ended 31 March 2012 £'000	Year ended 31 March 2011 £'000
Total asset value	**289,901**	279,594
Present value of scheme liabilities	**(377,717)**	(344,838)
Total deficit	**(87,816)**	(65,244)
Members' share of deficit	**35,126**	26,098
Deficit expected to be recovered after the end of East Coast's involvement with the section	**50,422**	34,742
Pension scheme deficit attributable to the employer before deferred tax	**(2,268)**	(4,404)
Deferred tax	**544**	1,145
Pension scheme deficit attributable to the employer after deferred tax	**(1,725)**	(3,259)

The total scheme deficit of £87 8m is shared between the members and the franchise owner. As East Coast is only expected to operate the franchise until December 2013, only this proportion of the pension scheme deficit has been recognised, with the remainder taken by the members of the scheme and the future operators of the franchise.

Reconciliation of pension scheme (liability)/asset

	Year ended 31 March 2012 £'000	Year ended 31 March 2011 £'000
Opening pension scheme (liability)/asset	**(4,404)**	(1,247)
Employer's share of pension (cost)/income	**(6,733)**	(7,805)
Employer contributions	**9,628**	8,477
Total (Loss)/gain recognised in STRGL	**(759)**	(3,829)
Closing pension scheme (liability)/asset	**(2,268)**	(4,404)

20 Retirement benefits (continued)

Sensitivity analysis of scheme liabilities

The sensitivity of the present value of scheme liabilities to changes in the principle assumptions used is set out below.

	Change in assumption	Impact on scheme liabilities
Discount rate	Increase/ decrease by 0.1%	Increase/ decrease by 0 5%
Rate of inflation	Increase/ decrease by 0.1%	Increase/ decrease by 14.6%

The effect of changing the discount rate is small due to the offsetting impact of the short term adjustment for this section

The effect of changing the inflation rate is also small due to the offsetting impact of the short term adjustment for this section. The liability decreases rather than increases as would normally be expected because the deficit projected to 8 December 2013 is larger, resulting in a larger credit from the adjustment relating to East Coast's short term involvement in this operation.

Reconciliation of fair value of scheme assets

	Year ended 31 March 2012 £'000	Year ended 31 March 2011 £'000
Opening value of section assets	**279,594**	251,702
Expected return on assets	**21,274**	19,920
(Loss)/gain on assets	**(19,359)**	2,116
Employer contributions	**9,628**	8,477
Employee contributions	**5,945**	5,209
Actual benefit payments	**(7,181)**	(7,830)
Closing value of section assets	**289,901**	279,594

Analysis of the amount charged to profit or loss are as follows:

Disclosed pension cost

	Year ended 31 March 2012 £'000	Year ended 31 March 2011 £'000
Employer's share of service cost	**9,471**	10,934
Employer's share of interest cost	**11,972**	13,123
Interest on short term adjustment	**(1,946)**	(4,300)
Employer's share of expected return on assets	**(12,764)**	(11,952)
Employer's share of pension cost	**6,733**	7,805

20 Retirement benefits (continued)

Actuarial gains and losses

The cumulative amount of actuarial losses recognised in the statement of recognised gains and losses is £4,823,000 (2011: £4,064,000).

Defined contribution scheme

The cost of contributions to the defined contribution scheme amounts to £877,000 (2011: £861,000)

Historic information

	Year ended 31 March 2012 £'000	Year ended 31 March 2011 £'000	Period ended 31 March 2010 £'000	At 14 November 2009 £'000
Section liabilities	377,717	344,838	384,093	322,595
Assets	289,901	279,594	251,702	231,764
Deficit	(87,816)	(65,244)	(132,391)	(90,831)
Experience loss (liabilities)	(2,675)	7,526	6,862	n/a
Experience gain (assets)	11,615	(1,270)	(6,496)	n/a

21. Ultimate parent undertakings

The Company is a wholly owned subsidiary of Directly Operated Railways Limited which is the Company set up by the Department for Transport to oversee any Train Operating Company temporarily returning to the public sector. Directly Operated Railways Limited is itself a wholly owned subsidiary of the Secretary of State for Transport.

The results of the Company are included in the consolidated financial statements of Directly Operated Railways Limited for the year ended 31 March 2012, copies of these financial statements are available from the registered office.