East Coast Main Line Company Limited

Annual Report and Financial Statements

For the year ended 31 March 2013

Company number 04659708

Registered office:

4th Floor
One Kemble Street
London
United Kingdom
WC2B 4AN

East Coast Main Line Company Limited

Company Information

Company information for the year ended 31 March 2013.

Directors:	Karen Boswell Andy Cope Tim Hedley-Jones Michael Holden Tim Kavanagh Andrew Meadows Daniel Williams Doug Sutherland Peter Williams David Walker Robert Mason Jack Commandeur
Company Secretary:	David Walker
Registered Office:	4th Floor One Kemble Street London United Kingdom 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

Contents

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 2013.

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 2013-14 Safety Plan sets risk based and targeted objectives which will maintain, and further improve, the significant achievements in safety performance delivered during 2012/13(which have been recognised by East Coast being awarded the ROSPA 'Gold Medal' for safety performance improvement). The EC Safety Plan contains both strategic and tactical objectives which are reviewed at an Executive level to ensure the continuous improvement in safety performance.

East Coast Main Line Company Limited
Directors' Report

Environment
East Coast has met twelve of its fourteen Environment Plan objectives whilst supporting wider aims for business efficiency and cost reduction. In this context, the proportion of waste recycled increased from 12% to 47.5% by the end of the financial year. We have reduced our overall emissions of non-traction carbon by almost one tonne and achieved certification to an Environment Agency accredited carbon management scheme (Carbon Saver, Gold).

In support of its Environmental Policy commitments, East Coast will pursue ongoing commitments for the reduction of its 'carbon footprint', through investment in low carbon techniques, stakeholder engagement and consideration of 'embodied' carbon in the products and services we buy. Particular efforts will be applied to improving the sustainability of East Coast waste and recycling operations at stations and depots and in providing economic incentives to our commercial tenants to support energy efficiency and waste reduction. In additional we will complete a programme of Automatic Meter Reading for water, which will help us to identify and reduce leakage from underground pipes and support the development of investment cases for water efficiency.

Directors
The following Directors held office during the year:

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	
Philip Cameron	Director	Resigned 17 May 2013
Daniel Williams	Director	
Doug Sutherland	Non-Executive Director	
Peter Williams	Director	
David Walker	Non-Executive Director	
Rob Mason	Non-Executive Director	Appointed 19 April 2012
Jack Commandeur	Director	Appointed 12 July 2012

Company Secretary
The Company Secretary during the year was David Walker.

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.

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 £21,727 during the year ended 31 March 2013 (year ended 31 March 2012: £18,893). These include £20,000 in respect of National Rail Chaplain service, £1,627 for The Railway Children, and £100 for The Railway Mission. There were no political donations made in the year (year ended 31 March 2012: £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 2013, the number of creditor days outstanding for the Company was 28 days (2012: 26 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 five 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.

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

East Coast Main Line Company Limited
Directors' Report

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 Executive Safety Group 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 forum is chaired by the Managing Director. Michael Holden attends 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 the members of the Committee are the Non-Executive directors of the Company. The Managing Director, Finance Director and the Head of Risk and Revenue Protection attend meetings on a regular basis. 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 2013 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 is also responsible for reviewing and advising on internal control policies and systems for the identification, assessment and reporting of risk.

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.

The Committee met on two occasions during the year to agree the remuneration policy for the Company.

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.

East Coast Main Line Company Limited
Directors' Report

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. The economic environment is improving at a slow rate and growth levels remain fragile. Therefore the key strategic thrusts from a commercial perspective are around growing 'share of wallet' of existing customers and driving further modal shift. Key activities include targeted marketing campaigns, the loyalty programme, revenue management and offering a consistently good level of customer experience.

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

East Coast provided a flawless service during the summer of 2012 for the Olympic Games and the Paralympic Games. The company ran additional late night services to get people home from the Games, and the Business Disruption Centre, located at the headquarters in York, remained in operation throughout, ready to deal with any eventuality that might have occurred. More than 86,000 seats were provided by East Coast on 160 extra services.

The primary measure of operational performance for the business is punctuality as reported in the National Rail Trends, Public Performance Measure (PPM). At the end of the year the Company's operational moving annual average (MAA) was 83.9% (2012: 86.6%). East Coast's delivery performance against own targets for delay minutes in the year were in line with plan with TOC on TOC impact being 807 minutes lower than target. Network Rail delay minutes on East Coast finished 2,533 minutes above agreed target. Cancellations were by far the largest contributor to the poor performance result with a total of 1,616 which was 794 higher than expectations, 701 of these is attributable to Network Rail. Weather, flooding and Overhead Line incidents were the most detrimental during the year for East Coast. The largest single incident being a landslide at Aycliffe in the Autumn which caused significant delays and cancellations. East Coast is working closely with Network Rail to review contingency plans and implement collaborative alliance schemes to address these failures in order to reduce the performance impact with specific focus on cancellations.

The customer loyalty scheme will be two years old in July 2013. By the end of March 2013 the scheme had grown to more than 383,000 members. During 2012/13 Rewards members accounted for 44% of all customers booking through eastcoast.co.uk and 53% of all spend through the channel. Engagement with the scheme is strong: by the end of the financial year 31% of all points issued through the scheme had been redeemed.

The results of the 2012 Employee Engagement Survey delivered another first for East Coast. The Company believes that engaged employees are very important for a successful business – as engaged people feel much more involved and 'connected'. In 2011, 55% of East Coast's employees took part in the survey. In 2012, the response rate was 69%, which represented a 14% improvement, and the most recent results are even more representative of what life is like working for the Company. At 71%, (2011: 66%, 2010: 62%), the most recent score was the best yet achieved.

It is anticipated the franchise will remain under the ownership of the Company until February 2015, during which time interested parties will be invited to bid to operate the Inter City East Coast franchise.

FINANCIAL REVIEW

The Company made a profit after tax in the year of £5.0m (year ended 31 March 2012: £5.8m); Turnover for the year ended 31 March 2013 was £692.5m (year ended 31 March 2012: £665.9m) 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 £688.1m (year ended 31 March 2012: £660.7m) with a profit before taxation of £7.0m (year ended 31 March 2012: £8.2m).

The Company generated an operating profit of £207.2m (year ended 31 March 2012: £193.7m), of which £202.8m (year ended 31 March 2012: £188.6m) was paid as franchise premium, overall operating profit was £4.4m (year ended 31 March 2012: £5.1m).

Overall revenue growth for the year was 4.5% with journey growth of 1% and yield growth of 4%. First Class revenue grew by 3% and Standard Class revenue grew by 5%.The key exceptional events in the year were the impact of the Olympics and the Queens Jubilee; when adjusted for these events the overall revenue growth was +5%. The average fare (yield) improved considerably through the second half of the year - boosted by a strengthening business market and the introduction of the industry leading Revenue Management Price Optimiser. Revenue grew across all regions this year with the exception of South Yorkshire to and from London where a loss of market share has occurred. The strongest performance was from Northern Flows where revenue grew over 9% from 2% journeys and 7% yield growth. Scotland<>London (after adjustments for Olympics effects) also performed very well. The 2 key markets (Newcastle and Edinburgh <> London) where East Coast compete with the airlines enjoyed further market share growth from the sustained and successful activity to drive modal share from air to rail.

Delay Repay payments of £6.0m during the year have been reclassified from Passenger Revenue to Operating costs, this reflects the penalty compensation to our customers arising from poor train performance as set out in the Passenger Charter. Prior year Delay Repay costs of £4.3m have not been restated and are included within Passenger income.

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. There was no requirement to draw on this facility during the year.

The Directors do not recommend the payment of any dividend for the year ended 31 March 2013 (year ended 31 March 2012: £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;
- 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
02 July 2013

Registered Office
4th Floor
One Kemble Street
London
United Kingdom
WC2B 4AN

East Coast Main Line Company Limited
Independent Auditors' Report to the members of East Coast Main Line Company Limited
For the year ended 31 March 2013

We have audited the financial statements of East Coast Main Line Limited for the year ended 31 March 2013 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 9 of 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 2013 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
02 July 2013

East Coast Main Line Company Limited
Profit and Loss Account
For the year ended 31 March 2013

	Note	**2013 £'000**	2012 £'000
Turnover			
Passenger income		**625,757**	594,788
Other operating income		**66,741**	71,076
Total Turnover	2	**692,498**	665,864
Operating costs		**(688,085)**	(660,721)
Operating profit	3	**4,413**	5,143
Net interest receivable and similar income	6	**174**	306
Other finance income	20	**2,425**	2,738
Profit on ordinary activities before taxation		**7,012**	8,187
Taxation on profit on ordinary activities	7	**(1,995)**	(2,415)
Profit for the financial year		**5,017**	5,772

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 2013

	2013	2012
	£'000	£'000
Profit for the financial year	**5,017**	5,772
Actuarial loss on defined benefit pension scheme	**(2,678)**	(759)
Movement on deferred tax relating to defined benefit pension scheme	**616**	197
Total recognised gains and losses relating to the year	**2,955**	5,210

East Coast Main Line Company Limited
Balance Sheet
As at 31 March 2013

	Note	**2013 £'000**	2012 £'000
Fixed assets			
Tangible assets	8	**17,317**	17,407
Investments	9	**-**	-
Total fixed assets		**17,317**	17,407
Current assets			
Stocks	10	**4,441**	4,757
Debtors	11	**70,153**	65,024
Cash at bank and in hand		**28,468**	14,017
Total current assets		**103,062**	83,798
Creditors: amounts falling due within one year	12	**(105,859)**	(89,100)
Net current liabilities		**(2,797)**	(5,302)
Total assets less current liabilities		**14,520**	12,105
Creditors: amounts falling due after more than one year	13	**-**	(988)
Provisions for liabilities	14	**(587)**	(542)
Net assets excluding net pension liability		**13,933**	10,575
Net pension liability	20	**(2,128)**	(1,725)
Net assets including net pension liability		**11,805**	8,850
Capital and reserves			
Called up share capital	16	**-**	-
Profit and loss account	17	**11,805**	8,850
Total shareholders' funds	17	**11,805**	8,850

On behalf of the Board

Tim Kavanagh
Finance Director
02 July 2013

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

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.

1 Accounting policies (continued)

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

1 Accounting policies (continued)

l) Retirement benefits (continued)

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.

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

	2013	2012
	£'000	£'000
Operating profit is stated after charging/(crediting):		
Staff Costs (note 5)	**127,608**	114,347
Depreciation – owned assets	**5,137**	3,454
Delay Repay costs	**5,992**	4,281
Amortisation of fixed asset grants	**(93)**	(135)
Operating lease rentals		
- Fixed track access	**48,839**	45,258
- Land and buildings	**6,242**	6,450
- Rolling stock costs	**83,026**	82,277
- Plant and machinery	**2,158**	2,116
- Other	**4,957**	4,553

Operating profit (continued)

Auditors' remuneration – audit fees	**70**	68
Auditors' remuneration – (non audit services)		
– taxation compliance	**27**	18
– other compliance reporting	**8**	8

4. Directors' emoluments

	2013	2012
	£'000	£'000
Emoluments in respect of qualifying services to the Company	**1,122**	1,235
Company pension contributions	**131**	145
	1,253	1,380

The emoluments excluding pension contributions of the highest paid Director were £214,780 (Year ended 31 March 2012: £234,191).
The pension contributions of the highest paid Director were £26,241 (Year ended 31 March 2012: £24,064).

Doug Sutherland received no (2012: £nil) remuneration from the Company in the year to 31 March 2013.

The figures above include services provided to East Coast by Andy Cope and Michael Holden of £94,397 (2012: £134,325).

5. Staff costs

	2013	2012
	£'000	£'000
Wages and salaries	**106,157**	95,360
Social security costs	**8,210**	7,821
Other pension costs	**10,480**	8,827
Other costs	**2,761**	2,339
	127,608	114,347

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

	2013	2012
Managerial and administrative	**455**	454
Operational	**2,412**	2,334
	2,867	2,788

6. Net interest receivable and similar income

	2013	2012
	£'000	£'000
Interest receivable		
Bank interest	**166**	354
Other interest receivable	**8**	-
	174	354
Interest payable		
Bank interest	-	(31)
Interest payable to group undertakings	-	(3)
Other interest payable	-	(14)
Total interest payable	-	(48)
Net interest receivable	**174**	306

7. Tax on profit on ordinary activities

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

	2013	2012
	£'000	£'000
Current taxation:		
UK corporation tax on profits of the year	**1,966**	886
Adjustment in respect of previous years	**(22)**	596
Group relief	**263**	286
	2,207	1,768
Deferred taxation:		
Origination and reversal of timing differences (note 15)	**(235)**	45
Defined benefit pension	**23**	602
	(212)	647
Tax charge on profit on ordinary activities	**1,995**	2,415

(b) The tax for the year is higher (2012: lower) than the standard effective rate of corporation tax in the UK of 24% (2012: 26%). The current tax charge is made up as follows:

	2013	2012
	£'000	£'000
Profit on ordinary activities before taxation	**7,012**	8,187
Notional charge at UK corporation tax rate of 24% (2012: 26%)	**1,683**	2,129
Not deductible expenses	**384**	405
Capital allowances (higher)/lower than depreciation	**226**	(68)
Other timing differences	**(64)**	(1,294)
Adjustment in respect of previous years	**(22)**	596
Current tax charge for the year	**2,207**	1,768

During the year, as a result of the change in the UK main corporation tax rate from 24% to 23% that is effective from 1 April 2013, 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 2012 Autumn Statement and the March 2013 Budget. These include further reductions to the main rate to reduce the rate to 21% from 1 April 2014 and to 20% from 1 April 2015. These changes had not been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements. The proposed reductions to the main rate of corporation tax are both expected to be enacted as part of the Finance Act 2013.

8. Tangible fixed assets

	Leasehold Land & Buildings	Plant and Equipment	Total
	£'000	**£'000**	**£'000**
Cost			
At 1 April 2012	6,243	17,232	23,475
Additions at cost	1,487	3,560	5,047
Disposals	-	(1)	(1)
At 31 March 2013	**7,730**	**20,791**	**28,521**
Depreciation			
At 1 April 2012	1,387	4,681	6,068
Charge for the year	938	4,199	5,137
Disposals	-	(1)	(1)
At 31 March 2013	**2,325**	**8,879**	**11,204**
Net book amount at 31 March 2013	**5,405**	**11,912**	**17,317**
Net book amount at 31 March 2012	**4,856**	**12,551**	**17,407**

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 2013:

	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.

10. Stocks

	2013 £'000	2012 £'000
Raw materials and consumables	**4,441**	4,757

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

11. Debtors

	2013 £'000	2012 £'000
Trade debtors	**46,510**	46,261
Amounts owed by group undertakings	**12**	-
Other debtors	**4,991**	4,656
Prepayments and accrued income	**18,347**	13,804
Corporation tax	**-**	244
Deferred tax	**293**	59
	70,153	65,024

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

12. Creditors: amounts falling due within one year

	2013 £'000	2012 £'000
Bank loans	**-**	494
Trade creditors	**76,817**	64,733
Amounts owed to group undertakings	**21**	5
Deferred season ticket income	**4,149**	4,134
Other taxation and social security	**2,483**	2,323
Other creditors	**3,654**	3,183
Deferred fixed asset grants	**0**	93
Accruals and deferred income	**17,805**	14,135
Corporation Tax	**930**	-
	105,859	89,100

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

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

	2013 £'000	2012 £'000
Bank loans	**-**	988
Deferred fixed asset grants	**-**	-
	-	988

14. Provisions for liabilities

	Insurance £'000
At 1 April 2012	542
Provided in the year	45
At 31 March 2013	**587**

Insurance provision
The £587,000 (2012: £542,000) 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 23% (2012: 24%), excluding tax on the pension liability provision movement, in the year is as follows:

	2013 £'000	2012 £'000
At 1 April 2012	**59**	104
Increase in the year	**234**	(45)
At 31 March 2013	**293**	59

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

	2013 £'000	2012 £'000
Decelerated/(accelerated) capital allowances	**204**	4
Other timing differences	**89**	55
Short term timing differences	**293**	59

16. Called up share capital

	2013 £	2012 £
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

	2013 £'000	2012 £'000
Shareholders' funds at 1 April 2012	**8,850**	3,640
Actuarial loss on defined benefit pension scheme	**(2,678)**	(759)
Movement on deferred tax relating to defined benefit pension scheme	**616**	197
Retained profit for the year	**5,017**	5,772
Shareholders' funds at 31 March 2013	**11,805**	8,850

18. Capital commitments

	2013	2012
	£'000	£'000
Contracted	**1,818**	1,779
Authorised but not contracted	**4,332**	409

19. Operating lease commitments

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

	2013			2012		
	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	**-**	**66,916**	**-**	-	48,839	-
Rolling stock	**-**	**79,793**	**-**	-	82,658	-
Land and buildings	**553**	**5,673**	**247**	3,126	924	244
Plant and machinery	**-**	**2,229**	**-**	968	533	-
Other	**-**	**5,110**	**-**	1,806	-	-
	553	**159,722**	**247**	5,900	132,954	244

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 period up to 30 June 2012 are 15.84% (2012: 15.84%) of section pay for all members. Thereafter the employer will pay 17.85% of section pay for "Category 60 Members" and 15.84% for "Category 64 Members". These rates are expected to continue until 30 June 2027 when the employer contribution rate will revert to 60% of the long-term joint contribution rate of 25.3% of section pay for "Category 60 Members" and 21.2% for "Category 64 Members".

The section is open to new members.

East Coast Main Line Company Limited
Notes to the Financial Statements
For the year ended 31 March 2013

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 2013 by Towers Watson, independent consulting actuary. The major assumptions determined by the Company were:

Summary of assumptions

	31 March 2013 % pa	31 March 2012 % pa
Discount rate	**4.3**	5.1
Price inflation (RPI measure)	**3.4**	3.2
Increases to deferred pensions (CPI measure)	**2.6**	2.2
Pension increases (CPI measure)	**2.6**	2.2
Salary increases	**3.9**	3.7
Expected return on section assets	**6.5**	6.7

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

	Long-term rate of return expected on 31 March 2013 % pa	**Value at 31 March 2013 £'000**	Long-term rate of return expected on 31 March 2012 % pa	Value at 31 March 2012 £'000
Equities	**6.9**	**291,865**	7.1	243,553
Government bonds	**2.8**	**15,098**	3.1	14,341
Non-government bonds	**4.1**	**15,094**	4.6	14,703
Property	**6.9**	**-**	6.7	13,188
Other assets	**2.5**	**3,353**	2.5	4,116
Total asset value	**6.5**	**325,410**	6.7	289,901

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

		31 March 2013	31 March 2012
Male currently age 65	Pension under £9,300* pa or pensionable pay under £35,000** pa	**20.6**	20.5
	Others	**22.8**	22.6
Male currently age 45	Pension under £9,300* pa or pensionable pay under £35,000** pa	**23.0**	22.8
	Others	**25.0**	24.9
Female currently age 65	Pension under £3,300*** pa or pensionable pay under £35,000** pa	**22.5**	22.4
	Others	**24.9**	24.8
Female currently age 45	Pension under £3,300*** pa or pensionable pay under £35,000** pa	**25.0**	24.9
	Others	**27.3**	24.2

*2012 life expectancy figures: * under £9,300; ** under £35,000; *** under £9,300*

20 Retirement benefits (continued)

Reconciliation of present value of scheme liabilities

	Year ended 31 March 2013 £'000	Year ended 31 March 2012 £'000
Opening section liabilities	**377,717**	344,838
Service cost	**17,154**	15,372
Interest cost	**19,872**	19,953
Loss/(gain) on section liabilities	**102,447**	4,735
Actual benefit payments	**(9,928)**	(7,181)
Closing section liabilities	**507,262**	377,717

Pension scheme (liability)/asset at end of year

	Year ended 31 March 2013 £'000	Year ended 31 March 2012 £'000
Total asset value	**325,410**	289,901
Present value of scheme liabilities	**(507,262)**	(377,717)
Total deficit	**(181,852)**	(87,816)
Members' share of deficit	**72,741**	35,126
Deficit expected to be recovered after the end of East Coast's involvement with the section	**106,348**	50,422
Pension scheme deficit attributable to the employer before deferred tax	**(2,763)**	(2,268)
Deferred tax	**636**	544
Pension scheme deficit attributable to the employer after deferred tax	**(2,128)**	(1,725)

The total scheme deficit of £181.9m is shared between the members and the franchise owner. As East Coast is only expected to operate the franchise until February 2015, 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 2013 £'000	Year ended 31 March 2012 £'000
Opening pension scheme liability	**(2,268)**	(4,404)
Employer's share of pension (cost)/income	**(8,074)**	(6,733)
Employer contributions	**10,257**	9,628
Total loss recognised in STRGL	**(2,678)**	(759)
Closing pension scheme liability	**(2,763)**	(2,268)

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 0.2%
Rate of inflation	Increase/ decrease by 0.1%	Increase/ decrease by 17.9%

The effect of changing the inflation or discount rate is small due to the offsetting impact of the short term adjustment for this section. In addition, the short term adjustment causes the liabilities to move in the opposite direction from that which would normally be expected due to the effect changing the assumptions on the balance sheet credit for this adjustment.

Reconciliation of fair value of scheme assets

	Year ended 31 March 2013 £'000	Year ended 31 March 2012 £'000
Opening value of section assets	**289,901**	279,594
Expected return on assets	**19,627**	21,274
Gain/(Loss) on assets	**9,096**	(19,359)
Employer contributions	**10,257**	9,628
Employee contributions	**6,457**	5,945
Actual benefit payments	**(9,928)**	(7,181)
Closing value of section assets	**325,410**	289,901

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

Disclosed pension cost

	Year ended 31 March 2013 £'000	Year ended 31 March 2012 £'000
Employer's share of service cost	**10,499**	9,471
Employer's share of interest cost	**11,923**	11,972
Interest on short term adjustment	**(2,572)**	(1,946)
Employer's share of expected return on assets	**(11,776)**	(12,764)
Employer's share of pension cost	**8,074**	6,733

20 Retirement benefits (continued)

Actuarial gains and losses

The cumulative amount of actuarial losses recognised in the statement of recognised gains and losses is £7,501,000 (2012: £4,823,000).

Defined contribution scheme

The cost of contributions to the defined contribution scheme amounts to £857,000 (2012: £877,000).

Historic information

	Year ended 31 March 2013 £'000	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	507,262	377,717	344,838	384,093	322,595
Assets	325,410	289,901	279,594	251,702	231,764
Deficit	(181,852)	(87,816)	(65,244)	(132,391)	(90,831)
Experience loss (liabilities)	6,128	(2,675)	7,526	6,862	n/a
Experience gain (assets)	(5,458)	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.

The ultimate parent and controlling party is the Secretary of State for Transport.

The Secretary of State for Transport is the parent undertaking of the largest group of undertakings to consolidate these financial statements at 31 March 2013. The consolidated financial statements of the Secretary of State for Transport can be obtained from Great Minster House, 33 Horseferry Road, London, SW1 P4DR.

Directly Operated Railways Limited is the parent undertaking of the smallest group of undertakings to consolidate these financial statements; copies of these financial statements are available from the registered office.