Annual Report and Financial Statements

For the year ended 31 March 2014

DIRECTLY OPERATED RAILWAYS LIMITED
Registered Office:
Fourth Floor, 5 Chancery Lane
London EC4A 1BL
Company Number: 06950819

DIRECTLY OPERATED RAILWAYS

Directly Operated Railways Limited
Annual Report and Financial Statements
Contents

Directly Operated Railways Limited
Annual Report and Financial Statements
Company Information

Chairman	Doug Sutherland
Chief Executive	Michael Holden
Directors	Andy Cope David Walker Robert Mason
Company Secretary	David Walker
Registered Office	4th Floor 5 Chancery Lane London England EC4A 1BL
Independent Auditors	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors 1 Embankment Place London England WC2N 6RH

Chairman's Statement

I have pleasure in presenting the report and audited consolidated financial statements for the year ending 31 March, 2014. These results reflect the fourth full year of operations for Directly Operated Railways Limited ("DOR") (the "Company") and of East Coast Main Line Company Limited ("East Coast"). By delivering these results, DOR has achieved the objectives set for the Company by the Department for Transport ("DfT").

During the year, East Coast continued to make further good progress with the turnaround of the business. Whilst yield growth slowed in the late summer and autumn of 2013, volume remained strong overall with almost 20 million passenger journeys made in 2013/14. The First Class product had a particularly successful year, seeing revenue growth of 12% and journey growth of 17%. The overall trend of year-on-year improvement continued, with the lower rate of revenue growth offset by good cost control and performance receipts.

Operational safety performance showed signs of year-on-year continuous improvement, whilst train performance remained challenging, despite the fact that East Coast was able to demonstrate good progress in areas directly under its own control. The business has been working closely with its industry partners as it prepares for the introduction of future major projects, such as the new fleet of Hitachi-built state-of-the-art trains, the European Rail Traffic Management System, and the opening of the new Route Operating Centre in York.

East Coast continued to improve the journey experience for its customers during 2013/14 through the delivery of various new initiatives. These included the opening of a brand new station at Wakefield Westgate, the refresh of its Standard Class catering offer, the launch of a new uniform for staff, and other significant investments in the on-board environment of its train fleet, and station facilities.

New record levels of employee engagement were achieved in East Coast's 2013 survey, surpassing the very good result in 2012, and the business achieved a joint top score for Overall Satisfaction for a franchised Long Distance Operator in the autumn 2013 Passenger Focus National Rail Passenger Survey. I am pleased to report that after the year-end, this excellent result has again been sustained in the 2014 spring wave survey, the results of which were published by Passenger Focus in June.

In March 2013, the Secretary of State presented a new timetable for refranchising, including a programme for the return of East Coast to private sector operation. Following a period of prequalification, the DfT announced three shortlisted bidders for the East Coast franchise in mid-January 2014, and DOR has supported the refranchising competition by ensuring the bidders were well informed in a number of ways. It is expected that the successful bidder will be announced towards the end of 2014, with East Coast now planned to be returned to private sector ownership in March 2015.

DOR will continue to seek opportunities to enhance the value of the East Coast business during the remaining months of its ownership, and to meet all the DfT's objectives. Work will continue during 2014/15 to make further improvements to the customer experience, and to deliver strong returns to the taxpayer. A key focus during this remaining year will be the preparation of the East Coast business for transfer. This will embrace the adjustment of the employees to future change – to ensure a seamless handover to a new franchisee of a business in sound commercial and financial health.

As part of the DfT's franchise direct award programme, DOR continues to undertake contingency planning relating to potential transfers of franchises under section 30 of the Railways Act 1993. This work remains a significant part of the activities of the core team at DOR, and aims to minimise potentially nugatory costs whilst providing a credible capability to take over any franchise, if required, at reasonably short notice.

DOR's financial performance has been good throughout the year, with £225.3 million provided to the DfT in premium and dividend payments, in addition to making a profit before tax of £8.4 million. Given the improving economy and prevailing market conditions, I am confident that the plans we have in place will enable East Coast to continue to achieve sustainable growth during the year ahead.

Doug Sutherland
Chairman
8 September 2014

Board of Directors

Michael Holden started his early career with British Rail as a traffic student in 1974. He later became Divisional Operations Manager for the South West Division of Network South East, and in 1994, joined the newly created Railtrack as Production Manager for the South West Zone. He was then appointed Zone Director for East Anglia, and finally Regional Director Southern. In 2003 he became Managing Director of Connex South Eastern, and immediately found himself negotiating the transition from that franchise into a period of public sector ownership. He created South Eastern Trains and ran it successfully until it was re-franchised in April 2006. In his subsequent career as a railway management consultant, he specialised in providing strategic advice to clients and leading bid teams for franchise, concession and PFI competitions in the UK and Europe. He was appointed a Non Executive Director of DOR and East Coast in July 2009, and Chief Executive of DOR and Chairman of East Coast from January 2012. He is a member of the ATOC Management Board and an Alternate Member of the Rail Delivery Group. In April 2013 he was appointed as an inaugural Member of the Department for Transport's Franchise Advisory Panel.

Doug Sutherland is a Chartered Management Accountant who has held senior finance roles with Black & Decker, Grand Metropolitan and Dairy Crest. In 1995 he moved to the public sector, initially as Managing Director Finance for North of Scotland Water and then Managing Director Finance and Commercial for the Strategic Rail Authority. He was Chairman and Chief Executive of British Railways Board (Residuary) Ltd from 2003 to 2013. He served as Chairman of South Eastern Trains (Holdings) during its period of public ownership, and from 2006 to 2010 was a Non-Executive Director of OPD. He is a Member of the Rail Delivery Group.

Andy Cope is a Chartered Engineer who started work as an apprentice with the Birmingham Division of British Rail in 1972. His first job was as a fitter at Oxley Depot, Wolverhampton. He became a Supervisor at Duddeston Carriage in Birmingham, and then went to Derby working in the regional headquarters technical organisation. From there he spent five years as Shift Manager at Craigentinny train depot near Edinburgh, before moving to Bristol as Depot Engineer at St Philips Marsh. Following a period as Head of Engineering Production for First Great Western, he established the engineering function at First Capital Connect and became their first Engineering Director. Andy Cope is committed to the development of people in the business, and the championing of engineering techniques as an asset for every train operating company.

David Walker is a Fellow of the Chartered Association of Certified Accountants, who started his career with the National Coal Board. Then in 1979 he joined the then Trusthouse Forte Group initially as Management Accountant. David progressed through a number of senior financial positions before taking the position of Group Financial Controller with The Forte Group. In 1995 he joined Railtrack as Financial Controller of the East Anglia Zone before moving to the Southern Region as Business Development Manager, subsequently he was appointed as Investment Manager with responsibility for the development and delivery of all infrastructure projects across the Southern Region, transferring to Network Rail in 2002. In 2004 David joined the Scanmoor Group as Managing Director of its Rail Division and then set up and was appointed as Managing Director of its Romanian Division in 2005. Since 2007 he has run a number of business activities in the UK and Romania.

Robert Mason has over 30 years' experience in the rail industry and holds a degree in Mathematics and Statistics and a Masters Degree from the Business School at Imperial College, London. Rob is a marketing expert in UK railways having held central directing roles in many of the more innovative advances made by passenger railways. In the run up to privatisation, Rob was the British Rail Director of Privatisation Studies helping to set the framework for the franchised railways and subsequently set up Gatwick Express as the first stand-alone passenger railway company where he was Managing Director. He carried out an interim role with the Strategic Rail Authority as the Franchise Director for the Western Region. He has been involved in developing marketing and commercial strategies for several franchise bids in the UK. He has worked with DOR on the transfer of the East Coast franchise and in leading a review of pricing opportunities.

The Directors present their strategic report for the year ended 31 March 2014.

Operating review – business overview

It is now more than four and a half years since DOR acquired the East Coast franchise from National Express in November 2009, the Company's primary objective has been to ensure that it meets its obligations to the DfT under a *Deed of Services* (similar to a conventional rail Franchise Agreement) as well as achieving best value for money for the taxpayer. The business is tasked with improving both the short and longer-term value of the East Coast franchise and its business plans are designed to support this objective.

The Company's strategy continues to focus on the completion of the turnaround for one of the UK's premier rail routes and ensuring that the business is improved significantly before it is returned to the private sector in March 2015. This timescale is considerably longer than initially anticipated, and followed the pausing of the re-franchising process by DfT in September 2012. The delay has enabled East Coast to undertake further investment in the business and other improvements, and results are now evident from the sustained levels of excellent customer satisfaction, record levels of employee engagement, and the provision of robust financial returns to the taxpayer.

Achieving an acceptable level of operational performance has long been a significant challenge for East Coast and its predecessors, and this has been and remains a critical area of focus for DOR. Around two thirds of all delays are typically due to causes which are the direct responsibility of Network Rail, and a majority of the remaining causes of delay have related to the ageing train fleet. Whilst East Coast met its own performance targets during the year, Network Rail's infrastructure performance delivery to East Coast continued to be unsatisfactory, with numerous major incidents including dewirements, possession overruns and extreme weather events. East Coast is working closely with Network Rail implementing a new performance management system with particular focus on asset reliability, Right Time Railway and service recovery. A claim against the Sustained Poor Performance provision of the Track Access Agreement was lodged with Network Rail in December 2013. Discussions are ongoing in order to achieve a satisfactory outcome to this claim. By the end of the year, delivery against the key industry metrics of Right Time, Passenger Performance Measure (PPM) and CaSL had improved. PPM was 84.2% MAA 84.2% at year end (2012/13: 83.9%).

Given the nature of the current rail infrastructure on the East Coast Main Line, delays to customers during disruption remains the single biggest challenge to East Coast. During the year nearly 6% of trains were either cancelled or arrived more than 30 minutes late, and this led to a significant level of refunds to customers under the Delay Repay arrangements. The Company continues to work closely with Network Rail to facilitate integrated working where possible, to mitigate such delays and to understand the root causes. It is pleasing to note however that since the year-end, infrastructure performance has begun to show signs of significant improvement.

The restructuring of the Engineering organisation was completed during the year, with some personnel changes and new processes implemented, *Maximo*, a comprehensive web asset management tool, was successfully embedded into the Engineering organisation, and substantial investment has been undertaken in improving train depot facilities. As a result, financial and operational performance started to improve, as has compliance with business processes. Significant improvements were made to train coach temperatures, especially during the summer of 2013, through a root and branch overhaul and upgrading of the fleet's on-board air conditioning equipment. Customer complaints have been significantly reduced as a result. The Engineering team also commenced an extensive programme for updating the on-board environment for customers, including the deep cleaning or replacement of seat covers, new carpeting and curtains in First Class, together with the installation of an upgraded Wi-Fi system, creating additional bandwidth, and faster 4G connectivity where this is available on the near 1,000 miles of route network.

By the end of the financial year more than 587,000 members had signed up for East Coast's Rewards scheme. The scheme allows members to redeem points earned for benefits, which may be either tickets for travel, or a variety of third party benefits. Tickets for travel account for the majority of points redeemed and during the year Rewards members accounted for 32% of all bookings through East Coast's own website, www.eastcoast.co.uk, and 59% of all spend through the channel.

East Coast continues to be recognised for its achievements. During 2013/14, the Company was the recipient of 12 industry awards, including retention of *Britain's Top Employer* status for the third year running, and since 2009 since it started operations, East Coast has won a total of 55 such awards, including in such areas as safety management, learning, development and training, marketing, and public relations. The business also secured *Superbrand* status for the second year running.

The *All Aboard: East Coast Trains* 10-part television series was commissioned by Sky1HD, and aired in the autumn of 2013 and early 2014. The reality television show was a popular initiative enhancing the Company's reputation, and appreciated by employees, customers, and the general public at large, providing an engaging window on the everyday life and challenges, for East Coast and its people.

Throughout 2013/14, East Coast has been successful in maintaining a good reputation for the business, during a further year when it has remained under intense scrutiny from a wide-ranging group of stakeholders. It has achieved this through maintaining a positive presence in the media and a systematic approach to providing all of its stakeholders with timely and transparent information about the business.

East Coast launched a social media presence in the autumn of 2011, and has continued to develop its capabilities in Twitter, Facebook, LinkedIn, Pinterest, YouTube, and in online blogging. The number of Twitter followers currently exceeds 60,000, and with additional resourcing in place from the early part of 2014, East Coast now provides an extended social media service for its customers from 06.00 until 23.00, daily, including at weekends and on Bank Holidays.

The Customer Experience

A total of 19.9 million passenger journeys were made with East Coast during 2013/14, which is an increase of more than 4.5% on the previous year.

The autumn 2013 customer satisfaction survey data for East Coast, as measured by Passenger Focus, showed that the Company scored the joint top position for a Long Distance franchised operator, at 91% overall. This was three percentage points higher than the 88% average for all Long Distance train operators. After the year-end, the results of the spring wave of the National Rail Passenger Survey were published in June 2014, showing that East Coast had maintained its score at 91%. This tangibly demonstrates that East Coast's continuing efforts to create a relentless focus on the customer throughout every part of its organisation is delivering sustainable results.

In February 2014, the Secretary of State for Transport opened a new East Coast station at Wakefield Westgate, following completion of an £8.6 million project to create a completely new gateway to the city. The station now has a number of facilities to improve the customer experience, including a new footbridge and lifts linking the platforms, making the station fully accessible, a new travel centre, First Class Lounge and Standard waiting area, four new retailers, ticket gates to improve passenger safety and combat fare evasion, improved integration with local buses and taxis, covered storage for 30 cycles, and free Wi-Fi across the station for all station users.

The investment at Wakefield follows other significant station modernisation projects on the route at London King's Cross and Peterborough, as well as current projects at York, Durham, Newcastle and Edinburgh Waverley.

Engaging East Coast's People

Each year, East Coast conducts an employee engagement survey of its people, and this work is undertaken by the independent assessor, *VaLUENTiS*, the leading firm in human capital management and organisation performance. East Coast believes that good people management should be on a par with other pivotal company functions such as customer relationship management or finance. We believe that engaged employees are very important for a successful business – as engaged people feel much more involved and 'connected' to an organisation.

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 this delivered an engagement score of 71%. In 2013 the participation rate increased again to 78%, producing an engagement score of 73%. This is a record result for East Coast, and is the highest score ever achieved by any East Coast Main Line operator.

Safety, Environment and Corporate Social Responsibility

Safety

The DOR Board places a primary focus on ensuring that its safety responsibilities are met in full, and that East Coast continues to operate at all times within a safe railway environment.

During 2013/14, there was good progress overall, building on the achievements of previous years. Notwithstanding this, there is still more work to be done to understand the causes and drivers behind accidents and to reduce the risk of these to both customers and employees. Good work was achieved to embed risks walls, and local safety forums into the East Coast management systems. There was increased usage during the year of safety validation of change processes.

During the year, East Coast achieved a satisfactory result in respect of its operational safety performance, with 13 of its 19 Key Performance Indicators (KPIs) fully met. A total of 11 of these recognised year-on-year improvements in the business.

In occupational safety, there were a number of highlights compared with the previous year, including:

- 9% reduction in passenger RIDDOR reportable accidents
- 75% reduction in passenger major accidents

Further work is still required to reduce the number of accidents that customers have at stations, particularly when using station staircases. Whilst the rate of these is in line with other train operators, this issue remains a key target for improvement in 2014/15.

East Coast was the recipient of the RoSPA Gold Award for the third year in succession.

The Safety Plan for 2014/15 was introduced in April 2014, with a focus on continuous improvement in safety through the proactive management of risk. A number of work streams will support this goal:

- Local safety plans and risk walls to drive accident reduction initiatives to support East Coast's preventability KPIs
- The roll out of work undertaken on safety behaviours and the embedding of a non-technical skills programme for all safety critical employees
- Implementation of an occupational health and well-being strategy through which East Coast can identify and put in place appropriate controls to reduce the risks to its employees
- Further embedding of safety validation of change within the business and in particular, the development of a joint safety validation process for property and projects changes with Network Rail

Environment

The last two years have seen a step change in East Coast's environment performance, almost 45% of the Company's wastes are now recycled, and the carbon footprint has been reduced by 6%. Effluent compliance was close to 100% during the year. During early 2014, East Coast opened the UK's first Building Research Establishment Environmental Assessment Methodology (BREEAM) 'excellent' mainline railway station at Wakefield, as referred to earlier. The new Wakefield Westgate station is approximately 70% more energy efficient than the station building it replaced, with sustainable features including rainwater harvesting and recycling, solar energy generation and *smart* systems to monitor water use.

This work will continue in 2014/15 to provide the framework from which East Coast will drive further environmental improvements for the benefit of all. As a low carbon business, East Coast's customers say that they expect the Company to demonstrate the very highest environmental standards in everything it does, from energy efficiency in its buildings, recycling its wastes – to making it simple to get to and from its stations using sustainable transport, such as cycling.

East Coast will continue to increase its recycling levels and will further reduce its carbon emissions, will develop plans to ensure protection of the natural environment around its depot sites and will promote accessible and sustainable travel through partnership with local authorities and local cycling groups.

Corporate Social Responsibility

DOR takes its responsibilities to the community seriously. East Coast plays an active part in supporting the initiatives of Business in the Community. Where possible, the business also provides support for other localised activities close to its route, where it is able to make a tangible difference to the community. East Coast's charity of choice is Railway Children, which provides direct support for the thousands of children across the UK, India and East Africa that each year run away or are forced to leave homes that have become unbearable through poverty, abuse, violence and neglect. In the UK, a child runs away from home every five minutes. Largely through the initiatives of its employees, East Coast has raised more than £135,000 for Railway Children in the last two years, and similarly, a number of significant fund-raising activities are planned in 2014/15.

Employees

East Coast's people remain at the heart of the service offered to almost twenty million customers served each year. The last four years has seen substantial change for the employees, and during the remaining period until the franchise is re-let again in March 2015 will see the consolidation of previous achievements, the development of further new initiatives and improvements, and continuation of efforts to find more efficient ways of doing things better.

During the year staff morale has continued to improve. Manager workshops have been held for the development of East Coast's Company Spirit programme; in addition to receiving Britain's Top Employer Award for the third year running, East Coast also won the UK's Best Employee Reward Programme in 2013/14. The number of 'Shine' Awards increased to 1079 in 2013/14 (2012/13: 728).

Innovation Programme

Early in 2014, East Coast introduced an employee innovation programme called *Bright Sparks* to encourage its people to come up with good ideas for creating new improvements for customers, to develop new ways of working, and to create new efficiencies of operation. Through a network of local panels at each of East Coast's principal locations, ideas are reviewed and considered for development. A seed-corn funding budget enables good ideas to get off the ground. By the year-end 2013/14 more than 200 ideas had been put forward and a number of these ideas have already been implemented. One such idea enabled the development of a Diesel Fuel Recovery System at Craigentinny depot to reduce fuel waste from the HST fleet. This works by pumping surplus fuel back into the power car following routine maintenance work, saving around £30,000 per year, and reducing the risk of pollution.

The business continues to focus on the development of its leaders and its aspiring leaders. The excellent result from the 2013 Employee Engagement Survey, the best of seven other Train Operating Companies, is further evidence that East Coast people are making a strong and tangible contribution towards the success of the business – and its transformation. The sense of pride has fully returned to the business, and the continuing reduction in sickness absence is another example of this.

Sickness absence

The average number of sickness absence days per employee per year stood at over 14 days immediately prior to handover in November 2009. The implementation of a new sickness absence plan has seen levels continue to fall consistently year-on-year, and by the end of March 2014 this figure had reduced to 8.74 days. Work continues during 2014/15 to drive this figure down further.

Total number of employees

The total number of full-time equivalent employees (FTEs) has remained relatively consistent since East Coast took over the running of the franchise in November 2009. The figures showed a modest increase in 2011 when the Company introduced its complimentary catering offer in First Class and commenced working the new enhanced timetable. For 2013/14, the average number of people employed in the business had increased slightly to 2,900, reflecting a move away from employing agency staff.

Turnover of employees

During 2013/14, the turnover of East Coast employees was 4.9%, against a target of 6%. The Company has Investors in People accreditation for a further year, and Performance Development Reviews and Time for You processes for managers and staff introduced in 2010 continues to work well, aligning with the Company's vision, values and its seven strategic goals.

Engineering and Fleet

During the year, the East Coast Engineering team has sought to significantly improve the reliability of the ageing fleet of diesel and electric trains, and 75 fewer cancellations than target was achieved as a result.

The HST diesel C4 and C6 maintenance programmes, and the Mk4 electric fleet OH1 programme started during the year and these initiatives will continue to sustain the reliability and presentation of the current fleet of trains. Significant improvements were also been made to maintaining appropriate train coach temperatures during 2013/14.

Some restructuring of the depot teams was undertaken in 2013/14 and considerable investments have been made in depot facilities. The principal focus for the coming year will continue to ensure that enough trains are available for service each day and that they perform reliably. Particular efforts have been made to focus attention on train presentation during 2013/14, improving the condition of the on-board customer environment, and this work will continue during the remaining term of the franchise.

New trains

During 2012, the Government decided that a new fleet of diesel trains would replace East Coast's ageing diesel fleet as part of the InterCity Express Programme (IEP). This was followed by a further announcement from the DfT in July 2013 that new electric trains would also be procured to replace the current Mk4 225 fleet as part of the IEP. East Coast has established a project team to work with the manufacturers Hitachi, both on issues affecting the final design, and to facilitate the introduction of the fleet on its network between 2018 and 2020. The first Class 800 test train is currently being built in Japan and will be proved on the East Coast Main Line during 2015, during out of service hours. The bulk of the new train requirements will be built by Hitachi Rail Europe at its new assembly facility in Newton Aycliffe, County Durham.

Refranchising

DOR has provided substantial support to DfT through the franchise competition process, ensuring that all three bidders have been fully informed regarding the state of the business. This has included

1. Preparation of information for the Long Form Report and the Prospectus
2. Collation of comprehensive information to populate the data room
3. A substantial programme of engagement with each of the bidders including site visits and substantive bilateral information sharing sessions ahead of the bid phase
4. Responding to over 700 bidder clarification questions during the bid phase

This has ensured that the bidders are better informed about the business than in previous franchise competition and was designed to ensure that DfT receives the highest quality bids possible.

Direct Awards programme

Following announcement by DfT in March 2013 of a programme of franchise Direct Awards through to 2017, DOR moved to establish its existing team of experts onto a more structured footing for the whole year, providing better value and more security of capability. This team worked in sequence on all of the Direct Awards during the year on remits provided by DfT, carrying out contingency planning for any potential transfer under Railways Act 1993 Section 30 powers. It is considered that the work performed was very helpful in enabling DfT to make each of the Direct Awards on acceptable terms, as well as ensuring the Secretary of State was able to fulfil his duties under Section 30 of the Railways Act 1993.

Summary

Guided by DOR, East Coast made further significant progress during the year on its turnaround and a solid financial performance has again been achieved in a challenging economic environment. Many improvements were made to managerial capability across the business, and additional investment was made in facilities, equipment, systems and people, and improved processes were put in place to ensure clear measurement and effective control exists across the business.

As in all previous years, East Coast developed a new Business Plan in the final quarter of 2013/14, this time in order to set out its priorities during the remaining year of the franchise. With DOR's guidance, the success so far with East Coast has been transformational. Customer satisfaction has been sustained at an all time high, employee engagement is the highest of any previous franchise in the history of the East Coast Main Line, and better than at least seven other rail operators, and the business continues to deliver strong financial returns to the taxpayer.

During the remaining part of 2014/15, DOR's twin objectives are to ensure a seamless and successful transfer of the East Coast business back to the private sector, in good condition, and to maximise the value achieved by the Government at such re-franchising.

Operating review - financial review

Operating performance

Turnover for the year ending 31 March 2014 amounted to £720.0m (2013: £693.8m) which in the main reflects ticket revenue earned from passenger services at East Coast and associated income earned from catering, car parks and commission from the sale of tickets on other train operators' services.

The operating expenditure reported in the year was £715.3m (2013: £690.0m), comprising access charges payable to Network Rail for stations and depots, rolling stock lease costs, staff costs and other operating costs, generating an operating profit before DfT Service Payments and taxation of £225.3m (2013: £208.7m) and an operating profit after DfT Service Payments before taxation of £8.4m (2013: £5.9m).

Despite difficult general economic market conditions prevailing during the year East Coast was able to secure year on year growth in passenger revenue of 4.5% which compares to the average for all Long Distance Operators of 4.9%. It is considered that the slightly weaker revenue performance than the peer group can be attributed to variations in regional market dynamics, and the impact of open access competition on the route.

Balance sheet

At 31 March 2014 the Group had net assets of £15.1m (2013: £9.1m) and DOR had net liabilities of £3.5m (2013: £2.7m).

Cash flow

The Group has incurred a net cash inflow of £7.5m in the year (2013: £13.8m inflow) leaving a cash balance of £46.0m at 31 March 2014 (2013: £38.5m).

On 11 November 2009 DOR entered into a £40m Working Capital Facility Agreement between the Secretary of State for Transport, DOR and its subsidiary, East Coast. This facility was entered into for the purposes of ensuring the Company has the necessary funding in place to meets its supplier commitments during the first six months following incorporation and to enable East Coast to satisfy its obligations under the Service Agreement following commencement of delivery of passenger rail services from 14 November 2009 onwards. At the year end there was £10m outstanding to the Secretary of State for Transport (2013: £10m).

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.

(a) Legislation and regulation
East Coast 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 a significant adverse impact on financial performance. To mitigate these risks we work closely with both government and railway groups.

(b) Revenue
East Coast is very highly dependent upon discretionary travel for its income base. This is in turn heavily dependent upon the wider economy and affected by competition from other rail operators, including open access operators, as well as other modes of travel, but is also amenable to stimulation through product quality, fares and marketing initiatives. The economy is on an upward trajectory currently and this has been factored into revenue projections. East Coast closely monitors and analyses its revenue performance and is heavily engaged in demand management and a wide range of marketing initiatives to maximise revenue.

(c) Terrorism
Terrorist incidents or a terrorist campaign (direct or an attack on other public transport) could adversely impact operations and passenger demand. The Group has a security programme in place which meets TRANSEC requirements and the Group attends ATOC Emergency Planning Meetings. The Group also has a rigorous, ongoing training and inspection regime in place.

(d) Key personnel
The retention and recruitment of key personnel is essential to ensure that the Group has the correct level of expertise and industry knowledge. Plans to facilitate the retention of key staff during a future transition period are in place.

(e) Schedule 8 flows
Schedule 8 is the mechanism contained within East Coast's Track Access Agreement with Network Rail which controls the payments between the parties reflecting relative performance against pre-set benchmarks. Benchmarks and payment rates were reset by the Office of Rail Regulation for the five year Control Period 5 which started in April 2014, with the likely twin outcomes of greater volatility in cash payments each period and a significantly higher level of net outpayments should Network Rail exceed its benchmark level of performance. Relative performance is closely monitored daily and the budget has been set to reflect targeted levels of performance.

Financial Risk Management
DOR's activities expose it to a variety of financial risks. Price risk is managed by East Coast having a solid understanding of the markets that it operates within and setting appropriate fares for each of these markets. A proportion of its fares are 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 managed through the credit facilities that the group has with HM Treasury. This ensures 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.

By order of the Board

David Walker
Finance Director
8 September 2014

Registered Office: 4th Floor, 5 Chancery Lane, London, England, EC4A 1BL

Directors' Report

The Directors present their annual report, business review, the audited consolidated financial statements and auditors' report for the year ended 31 March 2014.

History and background

DOR ("the Company") is a limited company which was incorporated on 2 July 2009 by the Secretary of State for Transport to manage Train Operating Companies that are returned to temporary public ownership. On 14 November 2009, following termination of the NXEC Trains Limited (NXEC) Franchise Agreement, DOR took over the management and operation of the business, now East Coast, and its principal activity is the management and support of train companies that are returned to temporary public ownership.

The Company is wholly owned by the Secretary of State for Transport and has one wholly owned trading subsidiary, East Coast Main Line Company Limited. There are also a number of inactive subsidiary companies established in case a franchise takeover under Section 30 of the Railways Act 1993 should be required. DOR is the intermediate holding company for all of these.

DOR and East Coast comprise the Group (the "Group").

Results and dividend

The Group's reported financial performance for the year ended 31 March 2014 shows a profit for the financial year of £6,193,000 (2013: profit of £4,191,000). This performance incorporates the results of East Coast for the year ended 31 March 2014.

The Directors do not propose a dividend for the year (2013: £nil) and there were none paid during the year.

Directors

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

Doug Sutherland	Non-Executive Chairman
Michael Holden	Chief Executive
David Walker	Finance Director
Andy Cope	Non-Executive Director
Robert Mason	Non Executive Director

The remuneration of the Directors for the year ended 31 March 2014 is as follows:

	Salary/fees	Pension contributions	Year ended 31 March 2014	Year ended 31 March 2013
	£'000	£'000	£'000	£'000
Doug Sutherland	98.8	-	98.8	25.0
Michael Holden	236.8	-	236.8	224.8
David Walker	181.5	30.0	211.5	171.0
Andy Cope	49.0	-	49.0	97.0
Robert Mason	33.0	-	33.0	36.7
	599.1	**30.0**	**629.1**	**554.5**

The figures above include payments in respect of services provided by Andy Cope to East Coast of £4,500 (2013: £80,000).

Employees

The Group seeks to adhere to the principles of good governance as appropriate for a Group of its size and operations.

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 Board of Directors

The Board currently consists of the Non-Executive Chairman, two Executive Directors in the Chief Executive and the Finance Director together with two further Non-Executive Directors. It meets at least twelve times each year and is responsible for monitoring the operational and financial performance of the Company and its subsidiary, East Coast, reviewing progress against the Company's budgets and setting and reviewing its business plans.

The Board of the Company met on thirteen occasions in the year ended 31 March 2014.

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 who, if necessary, has access to external legal advice. Each Director can, if necessary, 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, regulations and legal obligations.

Audit Committee

The Group Audit Committee is chaired by Doug Sutherland and includes Robert Mason and Andy Cope. Michael Holden (Chief Executive of DOR) and David Walker (Finance Director of DOR) also attend meetings of this Committee when appropriate.

The Committee met three times during the year. The Company's external and internal 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 has appropriate access to information to enable it to perform its function effectively and in accordance with relevant professional standards, and that it 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 Group Remuneration Committee is chaired by Doug Sutherland and includes the Non-Executive Directors. The Executive Directors attend as required.

This group met on two occasions during the year to agree the terms and conditions of the Executive Directors.

Directors and their Interests

The current Directors of the DOR Board are listed on page 5. A Register of Directors' Interests is maintained by the Company Secretary through whom public inspection can be arranged. Doug Sutherland, Robert Mason and Andy Cope are Non-Executive Directors. None of the Directors have any interests, such as shares in the companies within the Group.

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 17.

Directors' and Officers' liability insurance

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

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, 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 its policies are being complied with and 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.

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual 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 Group and parent company 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 Group and the Company and of the profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make 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 and the group will continue in business.

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

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent Auditors

In accordance with Section 487 of the Companies Act 2006, the auditors shall be deemed to be re-appointed as the Company's auditors 28 days after the financial statements are sent to members.

Directors' statement as to disclosure of information to auditor

Each Director who held office at the date of approval of the Directors' Report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- he/she has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

By order of the Board

David Walker
Finance Director
8 September 2014

Registered Office: 4th Floor, 5 Chancery Lane, London, England, EC4A 1BL

Independent Auditors' Report to the members of Directly Operated Railways Limited

Report on the financial statements

Our opinion

In our opinion the financial statements, defined below:

- give a true and fair view of the state of the group's and of the company's affairs as at 31 March 2014 and of the group's profit and cash flows 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.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited

The group financial statements and company financial statements (the "financial statements"), which are prepared by Directly Operated Railways Limited, comprise:

- the consolidated and company balance sheet as at 31 March 2014;
- consolidated profit and loss account and statement of total recognised gains and losses for the year then ended;
- the consolidated cash flow statement for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

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).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). 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 group's and the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Annual Report and Financial Statements (the "Annual Report") to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or

- the company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration
Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors
As explained more fully in the Statement of Directors' Responsibilities set out on page 16, 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 ISAs (UK & 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.

Tony Nicol (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
8 September 2014

Directly Operated Railways Limited
Annual Report and Financial Statements
Consolidated Profit and Loss Account
For the year ended 31 March 2014

	Note	**2014**	2013
		£'000	£'000
Turnover			
Passenger income	2	**654,341**	625,757
Other operating income		**65,690**	68,018
Total turnover		**720,031**	693,775
Operating expenditure		**(715,251)**	(689,979)
Operating profit	3	**4,780**	3,796
Interest receivable and similar income	6	**204**	208
Interest payable and similar charges	6	**(502)**	(506)
Other finance income	19	**3,956**	2,425
Profit on ordinary activities before taxation		**8,438**	5,923
Tax on profit on ordinary activities	7	**(2,245)**	(1,732)
Profit for the financial year		**6,193**	4,191

As permitted by Section 408 of the Companies Act 2006, the company has not presented its own income statement. The loss of the company for the financial year was £828,009 (2013: £827,766 loss).

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 profit for the financial years stated above and their historical cost equivalents.

Directly Operated Railways Limited
Annual Report and Financial Statements
Statement of Total Recognised Gains and Losses
For the year ended 31 March 2014

	2014 **£'000**	2013 £'000
Profit for the financial year	**6,193**	4,191
Actuarial loss on defined benefit pension scheme	**(249)**	(2,678)
Movement on deferred tax relating to defined benefit pension scheme	**50**	616
Total recognised gains and losses relating to the year	**5,994**	2,129

Directly Operated Railways Limited
Annual Report and Financial Statements
Consolidated Balance Sheet
As at 31 March 2014

	Note	**2014** **£'000**	2013 £'000
Fixed assets			
Tangible assets	8	**22,766**	17,317
Investments	9	**-**	-
		22,766	17,317
Current assets			
Stock	10	**5,643**	4,441
Debtors	11	**85,853**	70,337
Cash at bank and in hand		**45,958**	38,465
		137,454	113,243
Creditors: amounts falling due within one year	12	**(143,312)**	(118,751)
Net current liabilities		**(5,858)**	(5,508)
Total assets less current liabilities		**16,908**	11,809
		-	-
Provisions for liabilities	13	**(493)**	(587)
Net assets excluding net pension liability		**16,415**	11,222
Net pension liability	19	**(1,328)**	(2,128)
Net assets including net pension liabilities		**15,087**	9,094
Capital and reserves			
Called up share capital	15	**-**	-
Profit and loss account	16	**15,087**	9,094
Total shareholders' funds	16	**15,087**	9,094

The financial statements on pages 19 to 36 were approved by the Board of Directors on 4 September 2014 and signed on its behalf by

Doug Sutherland
Chairman
8 September 2014

Company number 06950819

Directly Operated Railways Limited
Annual Report and Financial Statements
Company Balance Sheet
For the year ended 31 March 2014

	Note	2014 £'000	2013 £'000
Fixed assets			
Investments	9	-	-
		-	-
Current assets			
Debtors	11	552	481
Cash at bank and in hand		9,714	9,997
		10,266	10,478
Creditors: amounts falling due within one year	12	(13,806)	(13,189)
Net current liabilities		(3,540)	(2,711)
Total assets less current liabilities		(3,540)	(2,711)
Net liabilities		(3,540)	(2,711)
Capital and reserves			
Called up share capital	15	-	-
Profit and loss account	16	(3,540)	(2,711)
Total shareholders' deficit	16	(3,540)	(2,711)

The financial statements on pages 19 to 36 were approved by the Board of Directors on 4 September 2014 and signed on its behalf by

Doug Sutherland
Chairman
8 September 2014

Company number 06950819

Directly Operated Railways Limited
Annual Report and Financial Statements
Consolidated Cash Flow Statement
For the year ended 31 March 2014

	Note	**2014 £'000**	2013 £'000
Net cash inflow/(outflow) from operating activities	20	**19,409**	20,378
Returns on investments and servicing of finance			
Interest received		**204**	208
Interest paid		**(1)**	-
Net cash inflow from returns on investment and servicing of finance		**203**	208
Taxes paid		(1,738)	(245)
Capital expenditure and financial investment			
Fixed asset purchases		(10,381)	(5,046)
Net cash outflow from capital expenditure and financial investment		(10,381)	(5,046)
Financing			
Repayment of loans		**-**	(1,482)
Net cash outflow from financing		**-**	(1,482)
Increase/(decrease) in cash at bank and in hand		**7,493**	13,813
Net cash at 1 April		**38,465**	24,652
Net cash at 31 March		**45,958**	38,465

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.

At the balance sheet date, the Company has net liabilities. The ultimate shareholder, the Secretary of State for Transport, has confirmed that the Company will continue to be supported for at least twelve months from the date of signing these financial statements. Accordingly, the Directors are satisfied that the going concern basis remains appropriate for the preparation of these financial statements.

c) 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 period of the relevant season ticket.

(ii) Other income is derived from ticket commissions, station trading income, depot and station access payments, performance regime payments, and the provision of goods or services to other train operating companies and the Department for Transport 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.

d) 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.

e) 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.

1 Accounting policies (continued)

f) 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

g) 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.

h) Stocks

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

i) 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.

j) Retirement benefits

The Company contributes to a defined benefit pension scheme on behalf of the majority of employees. Full details are provided in note 19.

The Company participates in the Railway Pension Scheme (“RPS”), 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 profit and loss account. Past service costs are included in operating costs where the benefits have vested, otherwise they are amortised on a straight-line basis over the vesting period. The expected return on assets of funded defined benefit schemes and the interest on pension scheme liabilities comprise the finance element of the pension cost and are included in interest costs. Actuarial gains and losses arising from experience adjustments, changes in actuarial assumptions and amendments to pension plans are charged or credited to the statement of total recognised gains and losses in the period in which they arise.

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

1 Accounting policies (continued)

k) 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.

l) Fixed asset 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 asset 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

	2014	2013
	£'000	£'000
Operating profit is stated after charging/(crediting):		
Staff costs (note 5)	**135,821**	128,067
Depreciation – owned assets	**3,982**	5,137
Delay Repay costs	**6,699**	5,992
Amortisation of fixed asset grants	**-**	(93)
Operating lease rentals		
– Fixed track access	**66,916**	48,839
– Land and buildings	**6,553**	6,242
– Rolling stock costs	**65,011**	83,026
– Plant and machinery	**2,216**	2,158
– Other	**5,151**	4,957
Auditors' remuneration – audit fees	**80**	80
Auditors' remuneration – (non audit services)		
– taxation compliance	**33**	32
– other compliance reporting	**10**	10

4. Directors' emoluments

	2014	2013
	£'000	£'000
Aggregate emoluments in respect of qualifying services to the Company	**599**	555
Company contributions made to money purchase pension schemes	**30**	-
Total	**629**	555

4 Directors' emoluments (continued)

The emoluments excluding pension contributions of the highest paid Director were £236,817 (Year ended 31 March 2013: £224,825).
The pension contributions of the highest paid Director were £Nil (Year ended 31 March 2013: Nil).

5. Staff costs

	2014 **£'000**	2013 £'000
Wages and salaries	**110,563**	106,486
Social security costs	**8,412**	8,234
Other pension costs	**13,463**	10,486
Other costs	**3,383**	2,861
	135,821	128,067

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

	2014 **Number**	2013 Number
Managerial and administrative	482	459
Operational	2,429	2,412
	2,911	2,871

6. Interest receivable and similar income / Interest payable and similar charges

	2014 **£'000**	2013 £'000
Interest receivable		
Bank interest	**203**	200
Other interest receivable	**1**	8
	204	208
Interest payable		
Bank interest	**-**	-
Interest payable to group undertakings	**501**	506
Other interest payable	**1**	-
	502	506

7. Tax on profit on ordinary activities

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

	2014 **£'000**	2013 £'000
Current taxation:		
UK corporation tax on profits of the year	**1,902**	1,966
Adjustment in respect of previous years	**134**	(22)
	2,036	1,944
Deferred taxation:		
Origination and reversal of timing differences (note 14)	**(95)**	(234)
Defined benefit pension	**304**	22
	209	(212)
Tax charge on profit on ordinary activities	**2,245**	1,732

(b) The tax for the year is higher (2013: higher) than the standard effective rate of corporation tax in the UK of 23% (2013: 24%). The current tax charge is made up as follows:

	2014 **£'000**	2013 £'000
Profit on ordinary activities before taxation	**8,438**	5,923
Notional charge at UK corporation tax rate of 23% (2013: 24%)	**1,941**	1,422
Non deductible expenses	**196**	385
Income not subject to tax	**-**	-
Capital allowances (in excess of)/lower than depreciation	**(131)**	223
Other short-term timing differences	**(104)**	(64)
Adjustment in respect of previous years	**134**	(22)
Current tax charge for the year	**2,036**	1,944

In addition to the changes in rates of corporation tax disclosed above the main rate of corporation tax was reduced to 21% from 1 April 2014 and to 20% from 1 April 2015. Deferred tax has been provided at 20% (2013: 23%).

8. Tangible fixed assets

	Leasehold Land & Buildings	**Plant and Equipment**	**Total**
	£'000	**£'000**	**£'000**
Cost			
At 1 April 2013	6,302	22,219	28,521
Additions at cost	483	8,948	9,431
Disposals	-	(5)	(5)
At 31 March 2014	**6,785**	**31,162**	**37,947**
Accumulated depreciation			
At 1 April 2013	2,284	8,920	11,204
Charge for the year	622	3,360	3,982
Disposals	-	(5)	(5)
At 31 March 2014	**2,906**	**12,275**	**15,181**
Net book amount at 31 March 2014	**3,879**	**18,887**	**22,766**
Net book amount at 31 March 2013	**4,018**	**13,299**	**17,317**

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

9. Fixed asset investments

The Group held the following unlisted investments at 31 March 2014:

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

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

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

The Company held the following unlisted investment at 31 March 2014:

	Country of registration	No. of shares held	Class of share	Proportion held
East Coast Main Line Company Limited	UK	1	Ordinary (£1)	100%

10. Stocks

	Group		Company	
	2014	2013	**2014**	2013
	£'000	£'000	**£'000**	£'000
Raw materials and consumables	**5,643**	4,441	**-**	-

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

11. Debtors

	Group		Company	
	2014	2013	**2014**	2013
	£'000	£'000	**£'000**	£'000
Trade debtors	**67,128**	46,509	**-**	-
Amounts owed by group undertakings	**-**	-	**37**	21
Amounts owed by parent undertakings	**153**	142	**153**	142
Corporation tax	**-**	-	**247**	263
Deferred tax	**388**	293	**-**	-
Other debtors	**3,004**	5,020	**17**	29
Prepayments and accrued income	**15,180**	18,373	**98**	26
	85,853	70,337	**552**	481

12. Creditors: amounts falling due within one year

	Group		Company	
	2014	2013	**2014**	2013
	£'000	£'000	**£'000**	£'000
Trade creditors	**94,711**	76,816	**-**	-
Amounts owed to group undertakings	**-**	-	**27**	12
Amounts owed to parent organisation	**13,344**	12,844	**13,344**	12,844
Deferred season ticket income	**4,349**	4,149	**-**	-
Other taxation and social security	**2,606**	2,492	**63**	9
Other creditors	**4,020**	3,726	**-**	72
Corporation tax	**1,185**	667	**-**	-
Accruals and deferred income	**23,097**	18,057	**372**	252
	143,312	118,751	**13,806**	13,189

Included within the amounts owed to parent organisation is a loan balance outstanding at the balance sheet date of £10,000,000 (2013: £10,000,000) provided to the Company under a £40,000,000 working capital facility entered into on 9 November 2009 with the Secretary of State for Transport for the purpose of providing the Group with day to day working capital. This facility is a revolving credit arrangement provided on an unsecured basis and is repayable on demand. Interest is payable at LIBOR + 4.5%.

13. Provisions for liabilities

	Group		Company	
	2014	2013	**2014**	2013
	£'000	£'000	**£'000**	£'000
At 1 April	**587**	542	**-**	-
Provided in the year	**(94)**	45	**-**	-
At 31 March	**493**	587	**-**	-

14. Deferred tax

(a) The deferred tax at a rate of 20% (2013: 23%) excluding tax on the pension liability provision movement in the year is as follows:

	Group		Company	
	2014	2013	**2014**	2013
	£'000	£'000	**£'000**	£'000
Opening balance	**293**	59	-	-
Increase in the year	**95**	234	-	-
Closing balance	**388**	293	**-**	-

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

	Group		Company	
	2014	2013	**2014**	2013
	£'000	£'000	**£'000**	£'000
Other timing differences	**78**	204	**-**	-
Short term timing differences	**310**	89	**-**	-
	388	293	**-**	-

15. Called up share capital

	Group and Company	Group and Company
	2014	2013
Authorised	**£**	£
Ordinary shares of £1 each	**100**	100
Allotted, called up and fully paid		
Ordinary shares of £1 each	**1**	1

16. Reserves and reconciliation of movements in shareholders' funds/(deficit)

	Group		**Company**	
	2014	2013	**2014**	2013
	£'000	£'000	**£'000**	£'000
Shareholders' funds/(deficit) at 1 April	**9,094**	6,965	**(2,711)**	(1,885)
Actuarial loss on defined benefit pension scheme	**(249)**	(2,678)	**-**	-
Movement on deferred tax relating to defined benefit pension scheme	**50**	616	**-**	-
Profit/(loss) for the financial year	**6,193**	4,191	**(828)**	(826)
Shareholders' funds/(deficit) at 31 March	**15,087**	9,094	**(3,540)**	(2,711)

17. Capital commitments

	Group		**Company**	
	2014	2013	**2014**	2013
	£'000	£'000	**£'000**	£'000
Contracted	**3,288**	1,818	**-**	-
Authorised but not contracted	**1,734**	4,332	**-**	-

18. Operating lease commitments

The Group has the following annual commitments due under non-cancellable operating leases which expire as follows:

	2014			2013		
	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	**-**	**26,723**	**-**	-	66,916	-
Rolling stock	**56,080**	**8,916**	**-**	-	79,793	-
Land and buildings	**6**	**6,283**	**170**	553	5,673	247
Plant and machinery	**406**	**1,777**	**-**	-	2,229	-
Other	**-**	**4,921**	**-**	-	5,110	-
	56,492	**48,620**	**170**	553	159,721	247

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

The Company has no annual commitment due under operating leases.

19. Retirement benefits

The Company's subsidiary, East Coast, 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 ending 31 March 2014 are 17.85% of section pay for "Category 60 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.

An actuarial valuation of the East Coast Main Line pension scheme using the projected unit basis, was carried out at 31 March 2014 by Towers Watson, independent consulting actuary. The major assumptions determined by the Company were:

Summary of assumptions

	31 March 2014 % pa	31 March 2013 % pa
Discount rate	**4.3**	4.3
Price inflation (RPI measure)	**3.3**	3.4
Increases to deferred pensions (CPI measure)	**2.3**	2.6
Pension increases (CPI measure)	**2.3**	2.6
Salary increases	**3.8**	3.9
Expected return on section assets	**6.3**	6.5

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

	Long-term rate of return expected on 31 March 2014 % pa	**Value at 31 March 2014 £'000**	Long-term rate of return expected on 31 March 2013 % pa	Value at 31 March 2013 £'000
Equities	**6.6**	**316,294**	6.9	291,865
Government bonds	**3.4**	**16,896**	2.8	15,098
Non-government bonds	**4.3**	**16,923**	4.1	15,094
Other assets	**2.8**	**2,157**	2.5	3,353
Total asset value	**6.3**	**352,270**	6.5	325,410

19 Retirement benefits (continued)

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

		31 March 2014	31 March 2013
Male currently age 65	Pension under £9,300 pa or pensionable pay under £35,000 pa	**20.7**	20.6
	Others	**22.9**	22.8
Male currently age 45	Pension under £9,300 pa or pensionable pay under £35,000 pa	**23.1**	23.0
	Others	**25.1**	25.0
Female currently age 65	Pension under £3,300 pa or pensionable pay under £35,000 pa	**22.6**	22.5
	Others	**25.0**	24.9
Female currently age 45	Pension under £3,300 pa or pensionable pay under £35,000 pa	**25.1**	25.0
	Others	**27.4**	27.3

Reconciliation of present value of scheme liabilities

	Year ended 31 March 2014 £'000	Year ended 31 March 2013 £'000
Opening section liabilities	**507,262**	377,717
Service cost	**22,180**	17,154
Interest cost	**22,522**	19,872
Loss/(gain) on section liabilities	**(22,029)**	102,447
Actual benefit payments	**(10,818)**	(9,928)
Closing section liabilities	**519,117**	507,262

Pension scheme liability at end of year

	Year ended 31 March 2014 £'000	Year ended 31 March 2013 £'000
Total asset value	**352,270**	325,410
Present value of scheme liabilities	**(519,117)**	(507,262)
Total deficit	**(166,847)**	(181,852)
Members' share of deficit	**66,739**	72,741
Deficit expected to be recovered after the end of East Coast's involvement with the section	**98,449**	106,348
Pension scheme deficit attributable to the employer before deferred tax	**(1,659)**	(2,763)
Deferred tax	**332**	636
Pension scheme deficit attributable to the employer after deferred tax	**(1,328)**	(2,128)

The total scheme deficit of £166.8m 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.

19 Retirement benefits (continued)

Reconciliation of pension scheme liability

	Year ended 31 March 2014 £'000	Year ended 31 March 2013 £'000
Opening pension scheme liability	**(2,763)**	(2,268)
Employer's share of pension cost	**(9,558)**	(8,074)
Employer contributions	**10,911**	10,257
Total loss recognised in STRGL	**(249)**	(2,678)
Closing pension scheme liability	**(1,659)**	(2,763)

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 14.5%

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 2014 £'000	Year ended 31 March 2013 £'000
Opening value of section assets	**325,410**	289,901
Expected return on assets	**21,493**	19,627
Gain/(loss) on assets	**(1,626)**	9,096
Employer contributions	**10,911**	10,257
Employee contributions	**6,900**	6,457
Actual benefit payments	**(10,818)**	(9,928)
Closing value of section assets	**352,270**	325,410

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

Disclosed pension cost

	Year ended 31 March 2014 £'000	Year ended 31 March 2013 £'000
Employer's share of service cost	**13,514**	10,499
Employer's share of interest cost	**13,513**	11,923
Interest on short term adjustment	**(4,573)**	(2,572)
Employer's share of expected return on assets	**(12,896)**	(11,776)
Employer's share of pension cost	**9,558**	8,074

19 Retirement benefits (continued)

Actuarial gains and losses

The cumulative amount of actuarial losses recognised in the statement of recognised gains and losses is £7,750,000 (2013: £7,501,000).

Defined contribution scheme

The cost of contributions to the defined contribution scheme amounts to £894,000 (2013: £857,000).

Historic information

	Year ended 31 March 2014 £'000	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	519,117	507,262	377,717	344,838	384,093	322,595
Assets	352,270	325,410	289,901	279,594	251,702	231,764
Deficit	(166,847)	(181,852)	(87,816)	(65,244)	(132,391)	(90,831)
Experience loss (liabilities)	645	6,128	(2,675)	7,526	6,862	n/a
Experience gain (assets)	976	(5,458)	11,615	(1,270)	(6,496)	n/a

20. Consolidated cash flow statement

(a) Reconciliation of operating profit to net cash inflow from operating activities

	2014 £'000	2013 £'000
Operating profit	**4,780**	3,796
Depreciation and amortisation	**3,982**	5,044
Difference between pension charge and cash contributions	**2,603**	242
Increase in stock and debtors	**(16,662)**	(4,999)
Increase in creditors and provisions	**24,706**	16,295
Net cash inflow from operating activities	**19,409**	20,378

(b) Reconciliation of net cash flow to movement in net funds

	2014 £'000	2013 £'000
Increase in cash in the year	**7,493**	13,813
Change in net cash resulting from cash flows	**7,493**	13,813
Net cash at 1 April	**28,465**	14,652
Net cash at 31 March	**35,958**	28,465

(c) Analysis of net funds

	1 April 2013 £'000	Cash flow £'000	Non Cash Movements £'000	**31 March 2014 £'000**
Cash at bank and in hand	38,465	7,493	**-**	**45,958**
Loan from parent organisation	(10,000)	-	**-**	**(10,000)**
Net cash in hand	28,465	7,493	-	**35,958**

21. Related party transactions

Directly Operated Railways Limited is a company wholly owned by the Secretary of State for Transport. In November 2009, the Company received direct funding by way of a loan under a £40,000,000 Working Capital Facility agreed with the Secretary of State for Transport. At the 31 March 2014, the Company had an outstanding balance of £13,344,000 (2013: £12,844,000) comprising £10,000,000 (2013: £10,000,000) loan balance and £3,344,000 (2013: £2,844,000) of accrued interest.

The Company's subsidiary, East Coast, operates for the east coast main line rail franchise under licence via a Services Agreement with the Department for Transport following the transfer of the business from National Express East Coast Limited on termination of their Franchise Agreement on 13 November 2009. Under the Services Agreement East Coast is required to pay a financial premium to the Department for Transport, which for the year to the 31 March 2014, amounted to £216,816,000 (2013: £202,808,000).

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

22. Ultimate parent undertakings

The immediate and ultimate parent undertaking and controlling party is the Secretary of State for Transport. The Secretary of State for Transport is the parent undertaking of the largest & smallest group of undertakings to consolidate these financial statements at 31 March 2014. The consolidated financial statements of the Secretary of State for Transport can be obtained from Great Minster House, 33 Horseferry Road, London, SW1 P4DR.

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