Annual Report and Financial Statements

For the year ended 31 March 2013

DIRECTLY OPERATED RAILWAYS

Directly Operated Railways Limited

Annual Report and Financial Statements

For the year ended 31 March 2013

Company Number: 06950819

Registered office:

4th Floor

One Kemble Street

London

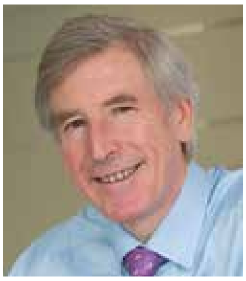
WC2B 4AN

Contents

Directors

Chairman:	Doug Sutherland
Chief Executive:	Michael Holden
Directors:	Andy Cope David Walker Rob Mason
Company Secretary:	Rowena Nixon
Registered Office:	4th Floor One Kemble Street London WC2B 4AN
Independent Auditors	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors 1 Embankment Place London WC2N 6RH

Chairman's Statement



I have pleasure in presenting the report and audited consolidated financial statements for the year ending 31 March, 2013.

These results reflect the third 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").

East Coast continued to make good progress in the year with the turnaround of the business with strong revenue growth recorded, improved operational and safety performance, improved internal business processes, strongly improved employee engagement, and the highest ever score for Overall Satisfaction for this franchise in the autumn 2012 National Passenger Survey.

East Coast was also proud to play its part in supporting rail travellers to and from the newly-opened King's Cross station in London for the 2012 Olympic and Paralympics Games.

During the year it became increasingly apparent that the previously planned date for the East Coast franchise to be transferred back into the private sector would not be met, and it was agreed with the Department for Transport ("DfT") that a five year business plan would be prepared to cover the period starting in April 2014, This five-year plan sets out how DOR believes the business should be developed during its final period of tenure and the early years under new ownership. In March 2013, the Secretary of State announced a new timetable for refranchising, with East Coast now planned to be returned to private sector ownership in February 2015.

DOR will continue to seek opportunities to enhance the value of the East Coast business and to meet all the DfT's objectives. We will continue to deliver service improvements and innovations for the benefit of customers and the taxpayer, and also to drive a continuing improvement of standards for staff across the operation. A key focus will be the preparation of the business for transfer. We are working closely with the Department for Transport to ensure as efficient a transfer as is practical.

In September 2012 we were asked by the DfT to undertake contingency planning relating to potential transfers of franchises under section 30 of the Railways Act 1993, and this has become a significant part of the workload for the core team at DOR. This work is continuing and a programme approach has been developed to support the DfT's Direct Award timetable. This 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 over £208m provided to DfT in premium and dividend payments whilst retaining a profit of £4.1m. Notwithstanding prevailing market conditions, I am confident that the plans we have put in place will enable East Coast to continue to achieve sustainable growth during the year ahead.

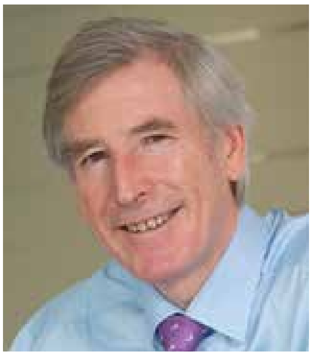
Doug Sutherland, Chairman
21 June 2013

Board of Directors

Chief Executive – Michael Holden

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 Chief Executive of DOR from January 2012.

Chairman – Doug Sutherland



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 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 and is currently Chairman of BRB (Residuary).

Andy Cope

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.

Board of Directors

David Walker

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.

Rob Mason

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.

.

Directors' report

The Directors present their annual report, business review, the consolidated financial statements and auditors' report for the year ended 31 March 2013.

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 2013 shows a profit on ordinary activities after tax of £4,191,000 (2012: profit of £4,981,000). This performance incorporates the results of East Coast for the year ended 31 March 2013.

The Directors do not propose a dividend for the year (2012: £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:

Michael Holden	Chief Executive	
David Walker	Finance Director	
Doug Sutherland	Non-Executive Chairman	
Andy Cope	Non-Executive Director	
Robert Mason	Non Executive Director	Appointed 24 April 2012

The remuneration of the Directors for the year ended 31 March 2013 is as follows:

	Salary/fees	Pension contributions	Period to 31 March 2013	Period to 31 March 2012
	£'000	**£'000**	**£'000**	**£'000**
Elaine Holt	-		-	207.9
Michael Holden	224.8	-	224.8	156.1
David Walker	171.0	-	171.0	46.5
Andy Cope	97.0	-	97.0	87.6
Doug Sutherland	25.0	-	25.0	25.0
Robert Mason	36.7	-	36.7	-
	554.5	**-**	**554.5**	**523.1**

The figures above include payments in respect of services provided by Andy Cope to East Coast of £80,000 (2012: £134,325).

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 Company is committed to employee engagement and uses a variety of methods to inform and consult with its employees. These include the East Coast newspaper entitled 'Coast Life' and m@inline, the East Coast 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 donations

The Group 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 services, £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.

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 fourteen occasions in the year ended 31 March 2013.

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, 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 22.

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.

OPERATING AND FINANCIAL REVIEW

Operating Review – *Business Overview*

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. This is now expected to be in February 2015, which is longer than the timescale initially anticipated, and followed the pausing of the re-franchising process by DfT in September 2012.

Achieving an acceptable level of operational performance has long been a significant problem 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 the vast majority of the remaining causes of delay have related to the train fleet. During the year a comprehensive review of the engineering organisation was completed and significant overhaul to structure, people and processes resulted. By the end of the year this was beginning to deliver results, and this improving trend has continued to date. Much effort was also put into working closely with Network Rail to improve the operational management of what has become a steadily busier network, with a much stronger focus on "right time running" and revised train regulation practices designed to tackle underlying poor performance. However, the biggest cause of operational performance remains an inadequate level of reliability of the core railway infrastructure assets controlled by Network Rail, and East Coast worked closely with Network Rail to encourage improved maintenance and renewals activity.

These efforts showed signs of significant success during the first half of the year, when the train punctuality measure for East Coast achieved an all-time best result by any previous operator on the East Coast Main Line since records in their current form began. However, with one of the longest and wettest winters on record affecting many geographic parts of the East Coast network, coupled with a number of significant failures of Network Rail's infrastructure assets, this improved result deteriorated sharply in the second half of the year. East Coast is very conscious of the major impact that delays can have to its customers and the lost revenue growth that results from poor punctuality – and continues to work closely with Network Rail in an endeavour to produce a more acceptable level of punctuality and reliability.

East Coast has achieved very significant success over the last year which has established a positive trend across many areas of the Company. This success was also reflected during the year by that fact that the business was the recipient of no fewer than thirteen industry awards between April 2012 and March 2013, including one of 'Britain's top Employers'. East Coast was also given a top assessment under the European Foundation Quality Management (EFQM) excellence model. In all, the business has now won thirty-two awards since it started operations in November 2009.

London 2012

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 Customer Experience

The autumn 2012 customer satisfaction survey data for East Coast, as measured by Passenger Focus, showed that the Company scored 92% overall, representing a five percentage point improvement on the previous survey, and some three percentage points ahead of the long-distance train operator average. It was the best overall satisfaction score ever achieved by any franchisee on the East Coast Main Line.

The opening of the new Western Concourse at King's Cross at the end of March 2012 has proven to be very popular with customers. As the primary long-distance operator at King's Cross, a total of 152 East Coast services arrive and depart at the London terminus each weekday.
Customers also welcomed the new-look Peterborough Station which was completed in the summer of 2012, following a £3.3 million refurbishment.

The customer loyalty scheme, East Coast Rewards, was first introduced in the summer of 2011 and has proven to be very successful. The scheme now has a membership in excess of 400,000.

19.05 million passenger journeys were made with East Coast during 2012/13, an increase of 1% on the previous year. East Coast has the highest average train loadings of any British Operator, with average loads per train exceeding 225, more than 36% ahead of the next busiest Operator.

Engaging East Coast's People

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.

Safety and Environment

Safety

Safety continues to remain the top priority at East Coast. Progress over the last year was positive, with improvements in many of the occupational and operational targets. Several key indicators are now at all time lows. In particular, the number of accidents to employees has declined by 20%.

At the time of handover to East Coast in November 2009, safety performance had been deteriorating, targets were not being met, operational incidents were increasing and there was a poor safety 'culture' in the business. East Coast is now one of the best safety performers in the rail industry.

The Boards of both DOR and East Coast place a primary focus on ensuring that their safety responsibilities are met in full, and that East Coast continues to operate at all times within a safe railway environment.

Occupational Safety Performance highlights in 2012/13 compared to the previous year show:

- 25% reduction in passenger RIDDOR reportable accidents
- 16% reductions in employee accidents, and
- 33% reduction in employees physically assaulted

Further work is required in 2013/14 to reduce the number of accidents that East Coast customers have at stations, particularly when using station stairs. Whilst this result is in line with other train operators, this issue will be a key target for reversing in 2013/14.

Much work was undertaken during the year to re-engage employees and to change behaviours in a number of areas. Overall, the challenge for 2013/14 will be to build on the good work that has been undertaken to date, and to find new ways/ approaches to drive the continuous improvement in overall safety performance.

Encouragingly, the improvement in operational performance was rewarded with East Coast being presented for the second year running the prestigious 'Golden Whistle' award for best operational safety performance (driving) in 2012.

The Safety Plan for 2013/14 was introduced in April 2013, and during the coming year, East Coast will focus on continuous improvement in every area. The Plan was developed using historic data and an analysis of the wider rail industry risks and sets out East Coast's actions and strategy. It incorporates many of the important lessons learned over previous years. East Coast will further develop its functional plans for Engineering, Operations and Customer Services through the development of additional safety culture and leadership development initiatives, and through training and competence assessment.

Environment

During the year, East Coast met twelve of its fourteen Environment Plan objectives whilst the supporting wider aims for business efficiency and cost reduction. In this context, the proportion of waste recycled had increased from 12% to 47.5% by the end of March 2013. Overall emissions of non-traction carbon have been reduced by almost one tonne and the business achieved certification to an Environment Agency accredited carbon management scheme (Carbon Saver, Gold).

Supporting its Environmental Policy commitments, East Coast will continue to pursue its efforts related to the reduction of its 'carbon footprint', through investment in low carbon techniques, stakeholder engagement, and consideration of 'embodied' carbon in the products and services its buys. Particular emphasis will be applied to improving the sustainability of East Coast waste and recycling operations at its 12 managed stations and its train depots and in providing economic incentives to our commercial tenants to support energy efficiency and waste reduction. Additionally, The Company will complete a programme of Automatic Meter Reading for water, which will help to identify and reduce leakage from underground pipes and support the development of investment cases for water efficiency.

Employees

East Coast's people remain at the heart of the service offered by the Company to the more than nineteen million customers served each year. The last three years have seen substantial change for employees, and during the remaining period until the franchise is re-let again in February 2015 will see the consolidation of previous achievements, the development of further new initiatives and improvements, and continuation of efforts to find 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; an employee voluntary benefits package was re-launched during the year, and the number of 'Shine' Awards increased to 728 (2011/12: 385). The business has been focusing hard on the development of its leaders, as well as those aspiring leaders, and the excellent result from the 2012 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 turnaround. The continuing reduction in sickness absence is also a positive sign, and another significant indication that the pride has returned. The news that the franchise will now continue in its present form until February 2015 provided a further boost to employees.

Sickness absence

The average number of sickness absence days per employee per year stood at over 14 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 2013 this figure had reduced to just under 9.5 days . Work will continue during 2013/14 to drive this figure further downwards.

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 of the new timetable. For 2012/13, the average number of people employed in the business had fallen again slightly, returning to pre-2011 levels of approximately 2,865.

Turnover of employees

During 2012/13, the turnover of employees remained stable at 4.4%, and this figure was similar to the previous at 4.5% (MAA), against a target of 6%. The Company has Investors in People accreditation for a further year, and Performance Development Review's and Time for You processes for managers and staff introduced in 2010 continue to work well, aligning with the Company's vision, values and its seven strategic goals.

Performance

Whilst four-fifths of all delays remain as a direct result of factors outside of the control of East Coast, train punctuality has steadily improved, especially since the summer of 2012. The Moving Annual Average (MAA) public Performance Measure (PPM) percentage of trains arriving at their destination on time places east Coast ahead in comparable terms with the operator on the InterCity West Coast route In December 2012, the industry also published Right Time data for Train Operating Companies for the first time (calculated over 366 days to 8 December). The result showed that East Coast achieved a MAA result of 68% which was better than the results of seven other Operators. Whilst there is still room for much improvement, East Coast's performance was almost ten percentage points ahead of the long distance average.

The number of Delay Minutes has shown some fluctuation during each Period of the year, due to specific incidents affecting the railway network; but the long-term trend however has been one of continuous improvement.

Whilst the first half of the year saw the best operational performance on the line since records began, the long and wet winter had an adverse affect on the result in the second half.

Engineering and fleet

As part of the East Coast turnaround, which started early in 2010, the Engineering function was substantially re-organised and significant advances have been made. This includes a revitalised Engineering Management System and a review of maintenance practice. The lack of investment in previous years has been reversed; and as a consequence, this investment has started to translate into improved performance.

Despite the age of the East Coast train fleet, the investment has continued during the year and several projects have been implemented that will improve the efficiency of the engineering function, and in particular, the introduction of a remote system that monitors the condition and functions of each train whilst it is in service. A major programme has also now been completed to upgrade or replace the air-conditioning units across the fleet.

During 2012, the Government decided that a new fleet of diesel trains would replace East Coast's diesel fleet from 2018/19, as part of the Inter City Express Programme "IEP"). Both the HST diesel trains and the MKIV 225 electric fleets have leases terminating by 2015 and to ensure best value for money for lease extensions, there is a need to complete successful negotiations. Whilst DOR will not be the shareholder of the business in the future, decisions made now will affect the future operation of the franchise. As a consequence, DOR has worked closely with the DfT to determine options for the upgrading or replacement of the electric fleet. In July 2013 DfT announced that new electric trains would be procured to replace the 225 fleet as part of the IEP.

Projects

The year saw the completion and/ or substantial completion of a number of major projects, including a new station development for Peterborough.

The following projects are expected to be completed or substantially advanced during 2013/14:

- Wakefield station re-development
- Newcastle station enhancement

Direct Award programme

DOR worked closely with the DfT during the second half of the year on a number of contingency planning exercises in the wake of the decision to pause the refranchising programme. This included significant work on both West Coast and Essex Thameside franchises, as well as developing an outline framework approach for the programme of Direct Awards announced by the DfT in March 2013. It is considered that the work performed on the remits provided by the DfT was helpful in enabling the DfT to make 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.

Whilst there is more work to be done, the success so far with East Coast has been transformational. Customer satisfaction reached an all time high in the autumn wave of 2012. Train punctuality delivered the best result since records began. And employee engagement – is now better than at least seven other rail operators.

The business plan for April 2013 to the end of the franchise will see this work continuing, with the twin aims of ensuring a successful transfer of the business back to the private sector in good condition and maximising the value achieved by the Government at re-franchising.

DOR assisted DfT in securing success on a number of Direct Awards by creating a capability to take over a number of franchises at short notice if required.

Operating review - financial review

Operating performance

Turnover for the year ending 31 March 2013 amounted to £693.8m (2012: £665.8m) 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 £690.0m (2012: £661.0m), 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 £208.7m (2012: £195.7m) and an operating profit after DfT Service Payments before taxation of £5.9m (2012: £7.1m).

Despite difficult general economic market conditions prevailing during the year East Coast was able to secure year on year growth in passenger revenue of 4.3% 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 2013 the Group had net assets of £9.1m (2012: £7.0m) and the Company, net liabilities of £2.7m (2012: £1.9m).

Cash Flow

The Group has incurred a net cash inflow of £13.8m in the year (2012: £36.4m outflow) leaving a cash balance of £38.5m at 31 March 2013 (2012: £24.7m).

On 11 November 2009 the Company entered into a £40m Working Capital Facility Agreement between the Secretary of State for Transport, the Company 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 at the year end to the Secretary of State for Transport (2012: £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

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 a significant adverse impact on the Company's financial performance.

To mitigate the risk from such changes the Company works closely with both government and railway groups.

(b) Economic outlook

The downturn in the UK economy has affected travel patterns resulting in lower than expected passenger numbers. This trend may continue for some time to come. Procedures are in place to mitigate this risk through the use of market research activities, weekly revenue reports and analysis, and innovative marketing campaigns.

(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 underway.

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.

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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and 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
26 September 2013 Registered Office: One Kemble Street, London, WC2B 4AN

Independent auditors' report to the members of Directly Operated Railways Limited

We have audited the Group and Parent Company financial statements of Directly Operated Railways Limited for the year ended 31 March 2013 which comprise of the Consolidated Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Consolidated and Company Balance Sheets, the Consolidated Cash Flow 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 15 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 Group's and parent 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 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 Group's and Parent Company's affairs as at 31 March 2013 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.

Opinion on other matter 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 by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company 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
26 September 2013

Consolidated Profit and Loss Account

	Note	Year ended 31 March 2013 £'000	Year ended 31 March 2012 £'000
Turnover	2		
Passenger income		**625,757**	594,788
Other operating income		**68,018**	71,099
		693,775	665,887
Operating expenditure		**(689,979)**	(661,031)
Operating profit		**3,796**	4,856
Interest receivable and similar charges	6	**208**	424
Interest payable and similar charges	6	**(506)**	(907)
Other finance income	20	**2,425**	2,738
Profit on ordinary activities before taxation		**5,923**	7,111
Taxation on profit on ordinary activities	7	**(1,732)**	(2,130)
Profit for the financial year		**4,191**	4,981

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 £827,766 (2012: £796,126 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.

Statement of Total Recognised Gains and Losses

	Year ended 31 March 2013 £'000	Year ended 31 March 2012 £'000
Profit for the financial year	**4,191**	4,981
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 period	2,129	4,419

Consolidated Balance Sheet

As at 31 March 2013

	Note	Year ended 31 March 2013 £'000	Year ended 31 March 2012 £'000
Fixed assets			
Tangible assets	8	**17,317**	17,407
Investments	9	**-**	-
		17,317	17,407
Current assets			
Stock	10	**4,441**	4,757
Debtors	11	**70,337**	65,319
Cash at bank and in hand		**38,465**	24,652
		113,243	94,728
Creditors: amounts falling due within one year	12	**(118,751)**	(101,915)
Net current liabilities		**(5,508)**	(7,187)
Total assets less current liabilities		**11,809**	10,220
Creditors: amounts falling due after more one year	13	**-**	(988)
Provisions for liabilities	14	**(587)**	(542)
Net assets excluding net pension liability		**11,222**	8,690
Net pension liability	20	**(2,128)**	(1,725)
Net assets including net pension liabilities		**9,094**	6,965
Capital and reserves			
Called up share capital	16	**-**	-
Profit and loss account	17	**9,094**	6,965
Total shareholders' funds		**9,094**	6,965

The notes on pages 29 to 45 form an integral part of these financial statements.

Doug Sutherland, Chairman

26 September 2013

Company number 06950819

Company Balance Sheet

As at 31 March 2013

	Note	2013 £'000	2012 £'000
Fixed assets			
Investments	9	–	–
		–	–
Current assets			
Debtors	11	**481**	299
Cash at bank and in hand		**9,997**	10,635
		10,478	10,934
Creditors: amounts falling due within one year	12	**(13,189)**	(12,819)
Net current liabilities		**(2,711)**	(1,885)
Total assets less current liabilities		**(2,711)**	(1,885)
Net liabilities		**(2,711)**	(1,885)
Capital and reserves			
Called up share capital	16	**–**	–
Profit and loss account	17	**(2,711)**	(1,885)
Total shareholders' deficit	17	**(2,711)**	(1,885)

The notes on pages 29 to 45 form an integral part of these financial statements.

Doug Sutherland, Chairman

26 September 2013

Company number 06950819

Consolidated Cash Flow Statement
As at 31 March 2013

	Note	2013 £'000	2012 £'000
Net cash inflow/(outflow) from Operating Activities	21	**20,378**	(7,924)
Returns on Investments and Servicing of Finance			
Interest received		**208**	174
Interest paid		**-**	(32)
Net cash inflow from Returns on Investment and Servicing of Finance		**208**	142
Taxes paid		**(245)**	-
Capital Expenditure and Financial Investment			
Fixed asset purchases		**(5,046)**	(13,096)
Net cash outflow from Capital Expenditure and Financial Investment		**(5,046)**	(13,096)
Financing			
Loan from parent organisation		**-**	-
Repayment of loans		**(1,482)**	(15,518)
Net cash inflow/(outflow) from Financing		**(1,482)**	(15,518)
Increase / (decrease) in cash at bank and in hand		**13,813**	(36,397)
Net cash at 1 April		**24,652**	61,049
Net cash at 31 March		**38,465**	24,652

Notes to the 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.

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.

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 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 20.

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.

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/(loss)

	Year ended 31 March 2013 £'000	Year ended 31 March 2012 £'000
Operating profit is stated after charging:		
Staff costs (note 5)	**128,067**	114,796
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 & Buildings	**6,242**	6,450
– Rolling stock costs	**83,026**	82,277
– Plant and machinery	**2,158**	2,116
– Other	**4,957**	4,553
Auditors' remuneration - audit fees	**80**	80
Auditors' remuneration - (non-audit sevices)		
- taxation compliance	**32**	22
- other compliance reporting	**10**	10

4. Directors' emoluments

	Year ended 31 March 2013 £'000	Year ended 31 March 2012 £'000
Aggregate emoluments in respect of qualifying services to the Company	**555**	490
Company contributions made to money purchase pension schemes	**-**	33
	555	523

The emoluments excluding pension contributions of the highest paid Director were £224,825 (Year ended 31 March 2012: £175,125). The pension contributions of the highest paid Director were £Nil (Year ended 31 March 2012: £32,805).

5. Staff costs

	Year ended 31 March 2013 £'000	Year ended 31 March 2012 £'000
Wages and salaries	**106,486**	95,725
Social security costs	**8,234**	6,752
Pension costs	**10,486**	8,865
Other Costs	**2,861**	2,339
	128,067	114,796

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

	Year ended 31 March 2013 Number	Year ended 31 March 2012 Number
Managerial and administrative	**459**	457
Operational	**2,412**	2,334
	2,871	2,791

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

	Year ended 31 March 2013 £'000	Year ended 31 March 2012 £'000
Interest receivable		
Bank interest	**200**	424
Other interest received	**8**	-
	208	424
Interest payable		
Bank interest	**-**	31
Interest payable to Group undertakings	**506**	862
Other	**-**	14
	506	907

7. Taxation

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

	Year ended 31 March 2013 £'000	Year ended 31 March 2012 £'000
Current taxation:		
UK corporation tax on profits of the year	**1,966**	886
Adjustment in respect of previous years	**(22)**	597
	1,944	1,483
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	**1,732**	2,130

(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:

	Year ended 31 March 2013 £'000	Year ended 31 March 2012 £'000
Profit on ordinary activities before taxation	**5,923**	7,111
Notional charge at UK corporation tax rate of 24% (2012: 26%)	**1,422**	1,849
Not deductible expenses	**385**	405
Income not subject to tax	**-**	(3)
Capital allowances (in excess of)/lower depreciation	**223**	(71)
Other short-term timing differences	**(64)**	(1,294)
Adjustment in respect of previous years	**22**	597
Current tax charge for the year	**1,944**	1,483

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.

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 £'000	Plant and Equipment £'000	Total £'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**
Accumulated 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 Group 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.

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

The Company holds the following investments at 31 March 2013:

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

10. Stock

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

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

11. Debtors

	Group		Company	
	2013	2012	**2013**	2012
	£'000	£'000	**£'000**	£'000
Trade debtors	**46,509**	46,261	**-**	-
Amounts owed by group undertakings	**-**	-	**21**	5
Amounts owed by parent undertakings	**142**	-	**142**	-
Corporation tax	**-**	531	**263**	286
Deferred tax	**293**	59	**-**	-
Other debtors	**5,020**	4,664	**29**	8
Prepayments and accrued income	**18,373**	13,804	**26**	-
	70,337	65,319	**481**	299

12. Creditors: amounts falling due within one year

	Group		Company	
	2013	2012	**2013**	2012
	£'000	£'000	**£'000**	£'000
Bank loans	**-**	494	**-**	-
Trade creditors	**76,816**	64,733	**-**	-
Amounts owed to group undertakings	**-**	-	**12**	-
Amounts owed to parent organisation	**12,844**	12,338	**12,844**	12,338
Deferred season ticket income	**4,149**	4,134	**-**	-
Other taxation and social security	**2,492**	2,332	**9**	9
Other creditors	**3,726**	3,192	**72**	8
Deferred fixed asset grants	**-**	93	**-**	-
Corporation tax	**667**	14,599	**-**	-
Accruals and deferred income	**18,057**	-	**252**	464
	118,751	101,915	**13,189**	12,819

Included within the amounts owed to parent organisation is a loan balance outstanding at the balance sheet date of £10,000,000 (2012: £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. Creditors: amounts falling due after one year

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

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

14. Provisions for liabilities

		Group		Company
	2013	2012	**2013**	2012
	£'000	£'000	**£'000**	£'000
At 1 April	**542**	372	**-**	-
Provided in the year	**45**	170	**-**	-
At 31 March 2012	**587**	542	**-**	-

15. Deferred tax

(a) The deferred tax at a rate of 23% (2012: 24%) excluding tax on the pension liability provision movement in the year is as follows:

		Group		Company
	2013	2012	**2013**	2012
	£'000	£'000	**£'000**	£'000
Opening balance	**59**	104	**-**	-
Increase in the year	**234**	(45)	**-**	-
Closing balance	**293**	59	**-**	-

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

		Group		Company
	2013	2012	**2013**	2012
	£'000	£'000	**£'000**	£'000
Other timing differences	**204**	4	**-**	-
Short term timing differences	**89**	55	**-**	-
	293	59	**-**	-

16. Called up share capital

	Group and Company 2013	Group and Company 2012
Authorised	**£**	£
Ordinary shares of £1 each	**100**	100
Allotted, called up and fully paid		
Ordinary shares of £1 each	**1**	1

17. Reserves and reconciliation of movements in shareholders' funds

	Group		Company	
	2013	2012	**2013**	2012
	£'000	£'000	**£'000**	£'000
Shareholder funds/(deficit) at 1 April 2011	**6,965**	2,546	**(1,885)**	(1,094)
Actuarial loss on defined benefit pension scheme	**(2,678)**	(759)	**-**	-
Movement on deferred tax relating to defined benefit pension scheme	**616**	197	**-**	-
Profit/(loss) for the financial year	**4,191**	4,981	**(828)**	(791)
Shareholders' funds/(deficit) at 31 March	**9,094**	6,965	**(2,713)**	(1,885)

18. Capital commitments

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

19. Operating lease commitments

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

	2013			2012		
	Under 1 year £000	**1-5 years £000**	**5 years and over £000**	Under 1 year £000	1-5 years £000	5 years and over £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 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.

20. 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 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.

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 (2011: CPI measure)	2.6	2.2
Pension increases (2011: CPI measure)	2.6	2.2
Salary increases	3.9	3.7
Expected return on Section assets	6.5	6.7

	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 £9,000* 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 £9,300*** pa or pensionable pay under £35,000** pa	**22.5**	22.4
	Others	**24.9**	24.8
Female currently age 45	Pension under £9,300*** pa or pensionable pay under £35,000** pa	**25.0**	24.9
	Others	**27.3**	27.1

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

Reconciliation of present value of scheme liabilities

	Year ended 31 March 2013	Period ended 31 March 2012
	£000	£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 at end of year

	Year ended 31 March 2013	Period ended 31 March 2012
	£000	£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 before 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

	Year ended 31 March 2013	Period ended 31 March 2012
	£000	£000
Opening Pension Scheme (Liability)/Asset	(2,268)	(4,404)
Employer's share of pension (cost)/income	(8,074)	(6,733)
Employer contributions	10,257	9,628
Total Gain/(Loss) recognised in STRGL	(2,678)	(759)
Closing Pension Scheme liability	**(2,763)**	**(2,268)**

Sensitivity analysis of scheme liabilities

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

	Change in assumption	Impact on scheme liabilities
Discount rate	Increase/decrease by 0.1%	Increase/decrease by 0.5%
Rate of inflation	Increase/decrease by 0.1%	Increase/decrease by 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	Period ended 31 March 2012
	£000	£000
Opening value of Section assets	**289,901**	279,594
Expected return on assets	**19,627**	21,274
(Loss)/Gain 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	Period ended 31 March 2012
	£000	£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**

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	Period ended 31 March 2011 £000	Period ended 31 March 2010 £000	At 14 Nov. 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

23. Consolidated Cash Flow Statement

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

	2013	2012
	£'000	£'000
Operating profit	3,796	4,856
Depreciation and Amortisation	5,044	3,319
Difference between pension charge and cash contributions	242	(157)
(Decrease)/Increase in stock and debtors	(4,999)	6,684
(Decrease)/Increase in creditors and provisions	16,295	(22,626)
Net cash inflow from operating activities	20,378	7,924

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

	2013	2012
	£'000	£'000
Increase in cash in the period	13,813	(36,397)
Loan from parent organisation	-	11,000
Change in net debt resulting from cash flows	13,813	(25,397)
Net cash at 1 April	14,652	40,049
Net debt at 31 March	28,465	14,652

(c) Analysis of net funds

	1 April 2012	Cashflow	Non Cash Movements	31 March 2013
	£'000	£'000	£'000	£'000
Cash at bank and in hand	24,652	13,813	-	38,465
Loan from parent organisation	(10,000)	-	-	(10,000)
Net cash in hand	14,652	13,813	-	28,465

22. 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 2013, the Company had an outstanding balance of £12,844,000 (2012: £12,338,000) comprising £10,000,000 (2012: £10,000,000) loan balance and £2,844,000 (2012: £2,338,000) 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 2013, amounted to £202,808,000 (2012: £188,614,000).

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

23. 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 2013. The consolidated financial statements of the Secretary of State for Transport can be obtained from Great Minster House, 33 Horseferry Road, London, SW1 P 4DR.

Directly Operated Railways Limited
4th Floor | One Kemble Street | London WC2B 4AN

General enquiries: 020 7904 5043

enquiries@directlyoperatedrailways.co.uk

DIRECTLY OPERATED RAILWAYS LIMITED
Registered Office:
4th Floor, One Kemble Street
London WC2B 4AN
Company Number: 06950819

DIRECTLY OPERATED RAILWAYS