Directly Operated Railways Limited

Annual Report and Financial Statements

For the year ended 31 March 2015

Company Number 06950819

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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, 2015. These results reflect the fifth period of operations for Directly Operated Railways Limited ("DOR") (the "Company") and the final year of operations (to 28 February 2015) for 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") and completed work on its turnaround of the East Coast business.

East Coast performed well with regard to both revenue and volume with 18.9 million passenger journeys made in the period to 28 February 2015 whilst operated under DOR control (2013/14 full year, 19.9 million, comparable basis, 18.3m). Operational performance improved strongly in the year leading to record punctuality in the last four week period and the lowest ever recorded annual figure for cancelled or seriously late trains. Safety performance also showed year-on-year improvement. During the year the business continued to work closely with its industry partners as it prepared for a number of major projects, including the introduction of the new fleet of trains and the European Rail Traffic Management System.

The East Coast Franchise

DOR acquired the East Coast franchise from National Express in November 2009, and the Company's primary objective has been to ensure that it met 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 was tasked with improving both the short and longer-term value of the East Coast franchise and its business plans were designed to support this objective.

On 27 November 2014, following a comprehensive competitive procurement process, the Transport Secretary Patrick McLoughlin MP, announced that he intended to award the East Coast franchise to Inter City Railways Limited, a joint venture between Stagecoach Transport Holdings Limited (90%), and Virgin Holdings Limited (10%). The new company would trade under the brand *Virgin Trains East Coast*. The new franchise term would run for eight years, with a further extension of one year granted at the Secretary of State's discretion.

DOR's obligations to the DfT have been met in full, and as a consequence, responsibilities for the East Coast franchise seamlessly passed to its successor, Inter City Railways Limited on 1 March 2015. It followed a period of close cooperation with the new incoming management team, and the DfT has indicated that such was the transparency and detail of the information provided through this arrangement, it was a model handover.

Investment in the East Coast Business

At the time of handover to DOR in November 2009, the East Coast franchise was struggling. Revenue growth had fallen short of plan, investment had stalled as operating costs were trimmed, and capability within the organisation was in decline. Safety performance lagged that of its competitors, and employee morale was low.

DOR's initial objective was to stabilise the East Coast business and to prepare it for a return to private sector ownership within 18 months. However, when the Secretary of State extended DOR's ownership to more than five years, this provided an opportunity for a slightly longer term approach to be taken. A series of initiatives was launched to win back customers, and to improve the customer experience and operational performance. An investment programme was developed which would total £75.3 million by 2014/15.This sum included £21.4 million of investment (mainly in property-related projects) undertaken by East Coast, but funded by others.

Dual pivotal initiatives were launched in May 2011. The timetable change was the most significant development in the East Coast business since the line was electrified and the passenger services privatised in the 1990s. With just two additional train sets, this allowed East Coast to run 19 new services each weekday – providing more than three million additional seats for sale each year. This major change provided a platform to re-launch the business, with a new complimentary catering offer in First Class. Research indicated that up to 24% of Standard Class customers would 'trade-up' to First if complimentary food and drink was introduced. Subsequently, the number of meals served on board each year rose from 200,000 to more than two million – and the catering drove the new First Class proposition, thus making much better use of available first class seating and allowing further growth in standard class.

Developing the Turnaround

The revised timetable and First Class offer were supported by a new advertising campaign, which helped to transform the perception of the travel experience with East Coast. The introduction of improved Wi-Fi on every train in the East Coast fleet, and the introduction of a Quiet Coach in First Class completed the first phase of the East Coast transformation. Within nine months the number of First Class journeys had risen to its highest point in five years. By February 2012 overall First Class journeys increased by 21%, with the Leeds services increasing by 31%, and on the London to Edinburgh route by 36%. These results were achieved through targeted marketing and the introduction of a new generation revenue management system, the first such system to be introduced by a UK rail operator.

In June 2011, East Coast also introduced a new loyalty scheme for both First and Standard Class customers, and at the point of handover to Inter City Railways on 1 March 2015, membership had grown to more than 670,000.

Further improvements followed for Standard Class customers, including an at seat catering service, and a re-branding of the buffet to the 'Foodbar', together with the introduction of new payment technology. As a result, sales per head, and satisfaction with the food offer both grew.

Looking back over the last five years, these have been three major success stories that stand out.

1. **Engineering**

Over the last five years, significant investments were made in the Engineering function, including the introduction of systems to remotely monitor the condition of trains, together with a new engineering management IT system. A project was established to help understand and improve the passenger experience during disruption.

Given the age of the East Coast fleet, a major component of the total investment made in the business was £18.8 million for improvements to the fleet, funded by the Rolling Stock Leasing Companies, but paid for by East Coast through increases in its rental costs. This work included upgrades to the on-board air conditioning systems, catering modifications, and the installation of CCTV.

Management structures at the two principal train maintenance depots were reshaped, roles were re-clarified, and with the benefit of an intensive re-skilling programme, critical expertise was restored. The company also reintroduced the Engineering Apprentice Programme.

2. **Engaging East Coast's People**

Whilst customer focus remains critically important for any business, it has been particularly so for East Coast, which largely relies on discretionary travel on what is arguably the most competitive route in the UK. East Coast's business model was predicated on the concept that it had to look after its customers.

To achieve that however meant that the business had to invest in its people, especially as employee morale was so low in 2009. Employee Satisfaction had dropped to 56% and staff were taking an average of 14 days a year off sick in 2009.

The management team at East Coast understood the underlying passion in the 'railway', and realised that the turnaround would depend on the re-kindling of the passion, and to do that would require an investment to change the culture and provide the right tools to do an excellent job. This was undertaken through more visible leadership, a closer relationship between leaders, management and staff – and a faster pace of change. The changes required for the May 2011 launch of the new timetable and introduction of the new First Class proposition galvanised focus and helped to restore a sense of pride. East Coast's people were able to believe in themselves once again – and to understand clearly the role each would play in driving improved performance across the whole of the business.

An authentic leadership programme was introduced, as well as talent development and future leader initiatives. The management team believed that engagement plays to advocacy, and that there is a clear link between advocacy and profitability. The success of the people strategy over the five years has been reflected in a number of internal measures, including falling sickness rates, down to under 9 days in 2014/15. The company secured silver status for Investors in People, and the Top Employer award for each of the past four years. In February 2015 the business was ranked second out of 73 companies that have the Top Employers accreditation.

But perhaps the most striking evidence of the people turnaround at East Coast in the last five years have been the results of the annual employee survey (measured independently by *VaLUENTiS)* In 2010 the response was just 52%, but this increased year-on-year, to 88% in 2014. Similarly, the engagement score stood at 62% in 2010, and increased to 74% in 2014 – which is extremely high for the rail sector.

3. Customer Experience and Satisfaction

East Coast used insight and intelligence to develop targeted initiatives against priority customer needs. The twice yearly National Rail Passenger Survey conducted by the watchdog Transport Focus provided a useful benchmark.

East Coast scored 94% in the most recent survey (Spring 2015, for which the fieldwork was carried out prior to the end of the franchise). This was an all-time record for the franchise and the best result achieved by all the franchised long distance train operating companies.

The new Western Concourse at King's Cross opened in March 2012, with a new East Coast Travel Centre and First Class lounge. The construction of a brand new station at Wakefield Westgate was started in 2012 and was opened in January 2014. More improvements were introduced by East Coast, including new cycle access routes at York Station, a refurbishment of the Edinburgh Travel Centre, and the redevelopment of Peterborough Station, completed in 2011. During the London 2012 Games, 160 additional services were provided during July and August, enabling 83,000 extra journeys to be made.

In 2013, East Coast partnered with Twentieth Century Fox to help launch the Bond blockbuster movie, *Skyfall on DVD* and Blu-Ray. A complete train was wrapped in the style of *Skyfall* and the launch is estimated to have generated more than £10 million of media coverage. In the same year, East Coast launched a new advertising campaign, *Feel at Home with East Coast.* With newly-found confidence in the success of the turnaround, East Coast agreed to the commissioning by Sky 1 HD of a 10 episode series in 2013; *All Aboard East Coast* took viewers on a behind the scenes journey at East Coast. The series reached almost 3.4 million viewers earning more than £4.5 million in equivalent media value, and was a boost to East Coast's reputational profile. Some 79% of viewers believed the programme gave a positive impression of the organisation, and 73% believed that staff came across well.

Operational Performance

The East Coast Main Line is particularly exposed to extreme weather, with gales, flooding, sub-zero temperatures and landslides affecting track, signalling and overhead power lines. Its infrastructure assets are ageing and requiring more work to maintain an acceptable level of reliability. In addition, the route has become progressively busier year-on-year with more trains from many different operators all needing to be fitted onto the network. The fleet of trains operated by East Coast are between 26 and 38 years old, and work an intensive duty cycle – each travelling an average of 300,000 miles per year.

Over the five years of DOR's operation of the franchise operational performance went through a cycle: early deterioration, caused largely by periods of very bad weather and sustained poor performance of the infrastructure assets, followed by sustained efforts to establish a much closer working relationship with Network Rail – typically responsible for more than three quarters of all delays – in order to drive a step-change in the reliability of its assets and to reduce the impact of engineering work on performance.

During this period, an intensive effort was made to reduce the number of delays caused directly by East Coast, especially delays caused by faults on the trains. A major initiative on 'right time running' was developed and sustained over the last three years of the franchise, and this led to a significant improvement in on time arrivals to an MAA value of 59.6% by the end of the franchise. This represents the highest of all long distance operators.

A new tactical *Business Disruption Centre* was opened at East Coast's headquarters in York to provide improved coordination during times of severe disruption. Train Guards were each equipped with smartphones, staff were trained in how to communicate more effectively with customers, and in 2014 managing service disruption featured for the first time in all managers' performance objectives.

Performance gradually improved and recovered to levels not seen in recent years. The Public Performance Measure improved steadily over the last year and reached a Moving Annual Average (MAA) of 88.2% at the end of the franchise, the highest figure recorded during the DOR tenure. The Cancellations and Significant Lateness (CaSL) measure also improved strongly to its best ever MAA value of 3.9%.

DfT Direct Award Programme

DOR has continued to undertake contingency planning at the request of the Department for Transport relating to potential transfers of franchises under section 30 of the Railways Act 1993. This programme started in the early Autumn of 2013 since when a small team has been involved in a total of 10 different potential transfers. The work enables the Secretary of State's statutory obligation to provide Operator of Last Resort capability to be discharged, but also provides commercial leverage to Government in negotiations over Single Tender Awards.

This work has formed a significant part of the activities of the core team at DOR, and continues to do so. It 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

DOR's financial performance remained good throughout the year, with £215.7 million provided to the DfT in premium payments in addition to making a profit before tax of £11.5 million.

In the five years that East Coast was part of the DOR group a total of £1,047.3 million was paid to the Department for Transport. In addition to this dividends were paid to DOR of a further £18.6 million.

The entire shareholding that DOR held in East Coast Main Line Company Limited was sold to Inter City Railways Limited for £11.0 million on 28 February 2015.

Future Prospects for DOR

It is planned that following the completion of its programme of work supporting the DfT's Direct Award Programme the business will be paused and the trading activities will be significantly reduced. The current directors of DOR are expected to resign and pass on responsibility to DfT appointed directors. The Section 30 obligations that DOR currently fulfils will be contracted out by the department. This transition is planned to be completed during the next financial year.

Summary

And finally, for me personally, I would like to say it has been a great privilege and honour to be associated with East Coast, its turnaround and subsequent success. Our focus over the period of ownership has been on picking the business up, putting it back on its feet and giving it a great future.

I would like to thank all the staff involved for their loyalty, dedication and drive. On my many trips out I often witnessed first-hand the strength and warmth of the relationship between them and our customers despite the occasional hassles. Over the past five years their efforts have put the pride and punch back into this great business.

It falls on our successors to take the journey forward in the story of one of Britain's key rail routes and I would like to wish them every success building on the foundations DOR has laid.

Doug Sutherland
Chairman
Date 29th October 2015

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 December 2011. He was a member of the ATOC Management Board and an Alternate Member of the Rail Delivery Group until March 2015. He is a 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 served as a Member of the Rail Delivery Group until March 2015. He was appointed a Non-Executive Director of DOR in July 2009 and Non-Executive Chairman in January 2012.

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 its 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. He was appointed as a Non-Executive Director of DOR in July 2009.

David Walker is a Fellow of the Chartered Association of Certified Accountants, who started his career with the National Coal Board. 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 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. He was appointed DOR's Finance Director in December 2011.

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. He was appointed a Non-Executive Director of DOR in April 2012.

The Directors present their strategic report for the year ended 31 March 2015.

OPERATING REVIEW
East Coast – business overview

The good results for East Coast in 2014/15 are evident from the sustained levels of excellent customer satisfaction, record levels of employee engagement, and the provision of robust financial returns to the taxpayer.

The final year of the East Coast franchise under DOR's ownership continued to see new investment in the business. During 2014/15, a total of £8.7 million was invested (including £2.2 million of works undertaken by East Coast, but funded by others).

A total of 18.9 million passenger journeys were made with East Coast during the period to 28 February 2015 (2013/14 full year, 19.9 million). East Coast has the highest average loadings per train mile of any UK operator. The average yield in 2014/15 was £32.86, which represented an increase of 2% on the previous year, with the yield on the West Yorkshire to London route growing by 5% in 2014/15.

East Coast has continued to be recognised for its achievements. During 2014/15, the Company was the recipient of 18 industry awards, including retention of *Britain's Top Employer* status for the fourth year running, and *Superbrand* for the third year running. Since 2009 East Coast has won a total of 73 such awards, including in such areas as safety management, learning and people development, marketing and public relations.

Throughout 2014/15, East Coast again successfully maintained a good public reputation for the business, during a further year when it remained under intense scrutiny from a wide-ranging group of stakeholders. It achieved this through maintaining an excellent level of 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 its 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. At the end of February 2015, the number of Twitter followers exceeded 90,000, with an extended social media service for its customers from 06.00 until 23.00 daily.

The Customer Experience

Since March 2013, there has been a significant improvement in the customer satisfaction survey results as measured by Transport Focus. The autumn 2014 national rail passenger satisfaction survey data showed that East Coast scored the joint top position for a long distance franchised operator, at 90% overall (autumn 2013: joint top 91%). For the 2015 spring wave survey, East Coast achieved an overall satisfaction score of 94%, which was the highest of any long-distance franchised operator. This tangibly demonstrates that East Coast's continuing efforts to create a relentless focus on the customer throughout every part of its organisation has continued to deliver sustainable results.

During the year the SQMS (Service Quality Management System) results for station and train presentation exceeded targets in each period of the year, apart from in April 2014, where they declined fractionally.

Overall, the number of customer complaints continued to fall during 2014/15, whilst praise from customers increased, with a ratio of one item of praise received for every 10 complaints. One consequence of improving train performance was the significant reduction in claims from customers for Delay Repay during the year, although there was a dramatic one-off surge in early 2015 as a result of Network Rail's overrunning engineering work at King's Cross on Boxing Day 2014.

East Coast's People

During the year staff morale continued to improve. East Coast's people remain at the heart of the service offered to almost 21 million customers served each year. The last five years produced substantial change for its employees, and the last year of the franchise saw 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.

In 2014, East Coast launched an innovation scheme for employees, called Bright Sparks. It was established to harness creative ways of doing things better and to encourage new ways of working, and also to determine more improvements for customers and new operational efficiencies. These were designed to result in even better customer service, and better engagement. By the end of February 2015, just over 500 ideas had been received, and more than 60 of these ideas had been implemented.

East Coast continued to develop its Authentic Leadership Programme during 2014/15. The purpose of the Programme was to create a sense of community and to build strong teams, and for employees to feel valued with a clear understanding of where each individual could directly contribute. It was conceived to address the gap in leadership and management capability by creating awareness for head of department grades, and team and shift leaders. Originally trialled on 55 customer service and guard managers, the third phase in 2014 focused on mindfulness and the preparation for change.

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

For the survey held in the autumn of 2014, the response rate reached 88% (2013: 78%), and the engagement score increased again to a figure of 74% (2013: 73%). This was the best ever result for East Coast, and is the highest score ever achieved by any East Coast Main Line predecessor operator.

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. With the implementation of a new sickness absence plan, levels have fallen consistently overall, and by the end of March 2015 this figure stood at 8.74 days.

Total number of employees

The total number of full-time equivalent employees has remained relatively stable since DOR took over the running of the franchise in November 2009. For 2014/15, the average number of people employed in the business had increased slightly to 2,925, (2013/14: 2,900).

Turnover of employees

During 2014/15, staff turnover was 4.8% (2013/14: 4.9%).

Safety, Environment, and Corporate Social Responsibility

Safety

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

The Safety Plan for 2014/15 was introduced in April 2014, with a focus on continuing improvement in safety through the proactive management of risk. During the year, there was good progress overall, building on the achievements of previous years.

There was year-on-year improvement in the overall Fatalities & Weighted Injuries (FAWI) MAA. This is partly a consequence of the new RIDDOR (Reporting of Injuries, Diseases and Dangerous Occurrences Regulations) reporting guidelines that were introduced in 2013, and partly due to an increased focus on preventable accidents by East Coast. The MAA for Trains Speeding (5-10 mph) achieved a 13 Period best performance of zero during Period 11. During the period there was a 53% reduction in passenger RIDDOR reportable accidents.

During 2014/15, there were 194 passenger accidents where passenger behaviour had contributed to an accident; for example, through rushing, misjudgement, intoxication or general behaviour beyond the control of East Coast. 146 of the passenger accidents occurred on stations, with slip strips and falls accounting for 82% of non-movement accidents.

During the year, there were 118 employee accidents which were caused by behaviour outside of East Coast's control. 25 accidents were due to slips, trips, and falls, and a further 22 were where an employee has struck a fixed or stationary object.

Environment

East Coast has continued to increase its recycling levels and reduced its carbon emissions, ensuring the protection of the natural environment around its depot sites and the promotion of accessible and sustainable travel through partnership with local authorities and local cycling groups.

The last three years have seen a significant improvement in East Coast's environment performance; almost 47% of waste is now recycled (2013/14: 45%). The company's carbon footprint has also been reduced during the year by 13.5% (2013/14: 6%).

During the year, East Coast started working with the rail industry on the adoption of a special tool to establish the embodied carbon in station infrastructure and procured goods and services. The tool will support the process of data gathering and life-cycle impacts, as well as compliance with ESOS (Energy Saving Opportunities Scheme) and ISO14001:2015.

Corporate Social Responsibility

DOR has taken its responsibilities to the community seriously too. East Coast played an active part in supporting the initiatives of Business in the Community. Where possible, the business also provided support for other localised activities close to its route, where it was able to make a tangible difference to the community. East Coast's charity of choice was 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, since 2012 East Coast has raised more than £200,000 for Railway Children, £65,000 of which was raised in 2014/15.

Operations

Operating performance improved dramatically during the year, reflecting the results of initiatives within Network Rail, much closer collaboration by East Coast with Network Rail, improving fleet performance within East Coast, an improved focus on "Right Time " running and relatively benign weather.

The Public Performance Measure reached an all-time high of 93.5% in the last period of operation, with the MAA reaching 88.2%, well above the target for the year. The percentage of trains arriving exactly on time improved to a MAA of 59.6%, and the highest value of all the Long Distance Operators. The percentage of trains Cancelled or Seriously Late (CaSL) was reduced as low as 2.0% in the final four weeks, and an MAA of just 3.9%, the lowest on record.

Two Golden Whistles were awarded to East Coast during the year for Best Performing Operator for Right Time Arrivals (MAA) and Best Operational Performance for Delay Minutes reduction.

A major overrun of Network Rail's engineering work occurred at Holloway, just outside King's Cross station, on 27 December 2014. Due to the location of the work, and the timing of notification of the expected overrun, it was extremely difficult to arrange for effective contingencies to be put in place to carry the large volumes of passengers expected on this day. It was agreed with Network Rail that

Finsbury Park would be utilised to operate two services per hour, with a further service starting / terminating at Peterborough. In the event the emergency train service put in place was overwhelmed by intending passengers at Finsbury Park, with long delays and overcrowding the result for many customers.

Despite these circumstances, East Coast managed to operate all planned 96 services on the day and ensured that all of its customers got home to their destination. East Coast carried out its own investigation, as did other affected Operators, as well as Network Rail, the Rail Delivery Group, Transport Focus, and the Office of Rail Regulation. The ORR found that East Coast was not in breach of its passenger licence agreement in respect of Passenger Information During Disruption (PIDD) and customer information.

Network Rail's new Route Operating Centre, adjacent to York Station, was completed towards the end of 2014, and East Coast's Control personnel moved into the new facility in January 2015.

A claim against the Sustained Poor Performance provision of the Track Access Agreement was lodged with Network Rail in December 2013. Following discussions with Network Rail and fresh guidance issued by the Office of Rail Regulation during 2014, the claim was reformatted and re-submitted in January 2015. At the time of writing it remains unsettled and the Directors are continuing to pursue the claim appropriately.

Engineering and Fleet

During the year, the East Coast Engineering team continued to significantly improve the reliability overall of its ageing fleet of diesel and electric trains. As at the end of the franchise it was performing much better than target for both cancellations and delay minutes.

The principal focus for 2014/15 was to continue to ensure that enough trains are available for service each day and that they performed reliably. Particular efforts were made to focus attention on train presentation during 2014/15, improving the condition of the on-board customer environment. By the end of the year (February 2015) SQMS scores for maintenance and train cleaning gave rise to an overall MAA score of 90.89% in the year, which exceeded the target of 90%.

New trains

East Coast 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 onto its network between 2018 and 2020. The Class 800 test train arrived in the UK early in 2015. It is being tested on the East Coast Main Line in the summer of 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 which is due to open later in 2015.

Directly Operated Railways - business overview
Refranchising

During 2014 and early 2015, DOR continued to provide substantial support to the DfT throughout the franchise competition process. DOR ensured that all the bidders were fully informed regarding the state of the business, and after the announcement of the successful new operator in the autumn of 2014, by working closely with Inter City Railways Limited in the period leading up to transition.

As a result, the franchise was seamlessly transferred to the new operator, *Virgin Trains East Coast*, on 1 March 2015 as planned.

Direct Awards programme

Following the announcement by the 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. At the close of the year the Direct Awards team remained busy with ongoing work.

Summary

Guided by DOR, East Coast delivered another solid financial performance during 2014/15 for the Government and the taxpayer, and it made further significant progress for customers during the final 12 periods of its ownership of the franchise. DOR has transformed the company into a successful, valuable, and sustainable business, with record levels of employee engagement and the best possible customer service record given the prevailing condition of the assets – a strong position for handover to the new owner.

Operating review - financial review

Operating performance

Turnover for the year ending 31 March 2015 was £695.9 million (2014: £720.0 million) 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 £703.4 million (2014: £715.3 million), comprising access charges payable to Network Rail for stations and depots, rolling stock lease costs, staff costs, other operating costs and £215.7 million (2014: £216.8 million) paid to the DfT as a franchise premium.

Profit before taxation and DfT franchise premium was £227.2 million (2014: £225.2 million) with a net profit before taxation of £11.5 million (2014: £8.4 million).

Balance sheet

At 31 March 2015 DOR Group had net assets of £26.2 million (2014: £15.1 million net assets).

Cash flow

The Group has incurred a net cash outflow of £19.9 million in the year (2014: £7.5 million inflow) leaving a cash balance of £26.1 million at 31 March 2015 (2014: £46.0 million).

On 11 November 2009 DOR entered into a £40 million Working Capital Facility Agreement between the Secretary of State for Transport, DOR and its subsidiary, East Coast. This facility was closed on 28 February 2015.

Key risks and uncertainties

The Group's systems of control and protection are designed to help manage and control risks to an appropriate level rather than to eliminate them.

With the DfT's Direct Award programme nearing completion the Directors consider that the principal risk and uncertainty for DOR is the transition of the company into its revised role. The Directors are in discussions with the DfT to determine how the handover will be successfully achieved and are confident this will be achieved.

The Directors have formed a judgement, at the time of approving the financial statements, the Group has access to adequate resources to continue in operational existence for the foreseeable future.

By order of the Board

David Walker
Finance Director
Date 29th October 2015

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

The Directors present their annual report, business review, the audited consolidated financial statements for the year ended 31 March 2015.

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 had one wholly owned trading subsidiary, East Coast Main Line Company Limited. The shareholding in East Coast Main Line Company Limited was sold to Inter City Railways Limited on 28 February 2015 for consideration of £11,000,000. 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 2015 shows a profit for the financial year of £9,904,000 (2014: profit of £6,193,000). This performance incorporates the results of East Coast for the period ended 28 February 2015.

The Directors do not propose a dividend for the year (2014: £Nil). A dividend of £18,628,000 (2014: £Nil) was received from East Coast Main Line 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 Officer
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 2015 is as follows:

	Salary/fees	Pension contributions	Year ended 31 March 2015	Year ended 31 March 2014
	£'000	£'000	£'000	£'000
Doug Sutherland	100.3	-	100.3	98.8
Michael Holden	250.0	-	250.0	236.8
David Walker	190.0	40.0	230.0	211.5
Andy Cope	44.5	-	44.5	49.0
Robert Mason	40.3	-	40.3	33.0
	625.2	**40.0**	**665.2**	**629.1**

The figures above include payments in respect of services provided by Andy Cope to East Coast of £4,500 (2014: £4,500).

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 companies, 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 2015.

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 8. 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
Date 29th October 2015

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, Directly Operated Railways Limited's group financial statements and company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the company's affairs as at 31 March 2015 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.

What we have audited

The financial statements comprise:

- the Consolidated Balance Sheet as at 31 March 2015;
- the Consolidated Profit & 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 the preparation of the financial statements 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.

Opinion on other matter 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 17, 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) ("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.

What an audit of financial statements involves

We conducted our audit in accordance with 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.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

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 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.

Timothy McAllister (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
Date 29th October 2015

Directly Operated Railways Limited
Annual Report and Financial Statements
Consolidated Profit and Loss Account
For the year ended 31 March 2015

	Note	2015 £'000	2014 £'000
Turnover			
Continuing operations:			
Passenger income	2	**-**	654,341
Other operating income		**803**	65,690
Discontinued operations		**695,107**	-
Total turnover		**695,910**	720,031
Cost of Sales		**(703,443)**	(715,251)
Continuing operations:			
Operating profit		**206**	4,780
Discontinued operations		**(7,739)**	-
Total Operating profit	3	**(7,533)**	4,780
Profit on sale of subsidiary	6	**15,400**	-
Interest receivable and similar income	7	**211**	204
Interest payable and similar charges	7	**(153)**	(502)
Other finance income	20	**3,552**	3,956
Profit on ordinary activities before taxation		**11,477**	8,438
Tax on profit on ordinary activities	8	**(480)**	(2,245)
Profit for the financial year		**10,997**	6,193

As permitted by Section 408 of the Companies Act 2006, the company has not presented its own income statement. The profit of the company for the financial year was £11,087,000 (2014: £828,000 loss).

The profit and loss account has been prepared on a going concern basis.

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.

The notes on pages 25 to 36 form part of these financial statements.

Statement of Total Recognised Gains and Losses
For the year ended 31 March 2015

	2015 £'000	2014 £'000
Profit for the financial year	**10,997**	6,193
Actuarial gain /(loss) on defined benefit pension scheme	**113**	(249)
Movement on deferred tax relating to defined benefit pension scheme	**(23)**	50
Total recognised gains and losses relating to the year	**11,087**	5,994

The notes on pages 25 to 36 form part of these financial statements.

Directly Operated Railways Limited
Annual Report and Financial Statements
Consolidated Balance Sheet
As at 31 March 2015

	Note	**2015**	2014
		£'000	£'000
Fixed assets			
Tangible assets	9	**-**	22,766
Investments	10	**-**	-
		-	22,766
Current assets			
Stock	11	**-**	5,643
Debtors	12	**663**	85,853
Cash at bank and in hand		**26,050**	45,958
		26,713	137,454
Creditors: amounts falling due within one year	13	**(538)**	(143,312)
Net current assets/(liabilities)		**26,175**	(5,858)
Total assets less current liabilities		**26,175**	16,908
Provisions for liabilities	14	**-**	(493)
Net assets excluding net pension liability		**26,175**	16,415
Net pension liability	20	**-**	(1,328)
Net assets including net pension liability		**26,175**	15,087
Capital and reserves			
Called up share capital	16	**-**	-
Profit and loss account	17	**26,175**	15,087
Total shareholders' funds	17	**26,175**	15,087

The financial statements on pages 20 to 36 were approved by the Board of Directors on 10th September 2015 and signed on its behalf by

Doug Sutherland
Chairman
Date 29th October 2015

Company number 06950819

The notes on pages 25 to 36 form part of these financial statements.

Company Balance Sheet
As at 31 March 2015

	Note	**2015 £'000**	2014 £'000
Fixed assets			
Investments	10	**-**	-
		-	-
Current assets			
Debtors	12	**663**	552
Cash at bank and in hand		**26,050**	9,714
		26,713	10,266
Creditors: amounts falling due within one year	13	**(538)**	(13,806)
Net current assets/(liabilities)		**26,175**	(3,540)
Total assets less current liabilities		**26,175**	(3,540)
Net assets/(liabilities)		**26,175**	(3,540)
Capital and reserves			
Called up share capital	16	**-**	-
Profit and loss account	17	**26,175**	(3,540)
Total shareholders' funds/(deficit)	17	**26,175**	(3,540)

The financial statements on pages 20 to 36 were approved by the Board of Directors on 10th September 2015 and signed on its behalf by

Doug Sutherland
Chairman
Date 29th October 2015

Company number 06950819

The notes on pages 25 to 36 form part of these financial statements.

Directly Operated Railways Limited
Annual Report and Financial Statements
Consolidated Cash Flow Statement
For the year ended 31 March 2015

	Note	**2015**	2014
		£'000	£'000
Net cash (outflow)/ inflow from operating activities	21	**(880)**	19,409
Returns on investments and servicing of finance			
Interest received		211	204
Interest paid		(3,498)	(1)
Net cash (outflow)/ inflow from returns on investment and servicing of finance		**(3,287)**	203
Taxes paid		**(2,113)**	(1,738)
Capital expenditure and financial investment			
Fixed asset purchases		(3,404)	(10,381)
Net cash inflow/ (outflow) from capital expenditure and financial investment		**(3,404)**	(10,381)
Disposals			
Consideration received for subsidiary undertaking		11,000	-
Net cash disposed of with subsidiary undertaking		(11,224)	-
Net cash inflow from disposals	6	**(224)**	-
Financing			
Repayment of loans		(10,000)	-
Net cash outflow from financing		**(10,000)**	-
(Decrease)/increase in cash at bank and in hand		**(19,908)**	7,493
Net opening cash balance at 1 April		**45,958**	38,465
Net closing cash balance at 31 March		**26,050**	45,958

The notes on pages 25 to 36 form part of these financial statements.

1. Accounting policies

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.

a) 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 assets. 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.

b) Turnover

(i) Passenger income represents amounts agreed as attributed to East Coast 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) East Coast 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.

c) 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.

d) 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)

e) 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

f) 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.

g) 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.

h) 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.

i) Retirement benefits

East Coast contributes to a defined benefit pension scheme on behalf of the majority of employees. Full details are provided in note 20.

East Coast 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. East Coast has no legal or constructive obligation to pay further contributions into a defined contribution scheme if the fund has insufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

1 Accounting policies (continued)

j) 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.

k) 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 (loss)/profit

	2015	2014
	£'000	£'000
Operating (loss)/profit is stated after charging/(crediting):		
Staff costs (note 5)	**128,914**	135,821
Depreciation – owned assets	**5,353**	3,982
Delay Repay costs	**4,161**	6,699
Operating lease rentals		
– Fixed track access	**24,667**	66,916
– Land and buildings	**6,190**	6,553
– Rolling stock costs	**59,687**	65,011
– Plant and machinery	**2,049**	2,216
– Other	**4,526**	5,151
Auditors' remuneration – audit fees	**83**	80
Auditors' remuneration – (non audit services)		
– taxation compliance	**21**	33
– other compliance reporting	**51**	10

4. Directors' emoluments

	2015	2014
	£'000	£'000
Aggregate emoluments in respect of qualifying services to the Company	**625**	599
Company contributions made to money purchase pension schemes	**40**	30
Total	**665**	629

4. Directors' emoluments (continued)

The emoluments excluding pension contributions of the highest paid Director were £250,000 (Year ended 31 March 2014: £236,817).
The pension contributions of the highest paid Director were £Nil (Year ended 31 March 2014: Nil).

5. Staff costs

	2015	2014
	£'000	£'000
Wages and salaries	**105,175**	110,563
Social security costs	**8,126**	8,412
Other pension costs	**12,376**	13,463
Other costs	**3,237**	3,383
	128,914	135,821

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

	2015	2014
	Number	Number
Managerial and administrative	**490**	482
Operational	**2,438**	2,429
	2,928	2,911

6. Profit on sale of subsidiary

Disposal of East Coast Main Line Company Limited	**£'000**
Tangible Fixed Assets	20,817
Stocks	5,914
Debtors	63,560
Creditors & Provisions	(105,915)
Cash	11,224
Net Liabilities	(4,400)
Profit on disposal	15,400
Cash Consideration	11,000
Discontinued Operations	
Profit on disposal of subsidiary	15,400

On 28 February, the group sold East Coast Main Line Company Limited, a wholly-owned subsidiary, for £11 million in cash. The consideration was received on 2 March 2015. East Coast Main Line Company Limited was the group's only train operating company, and the disposal completed the exit from these activities. As a result of the material change in the nature and focus of the group's operations that the disposal represented, it has been treated as a discontinued operation in the profit and loss account.

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

	2015 £'000	2014 £'000
Interest receivable		
Bank interest	**200**	203
Other interest receivable	**11**	1
	211	204
Interest payable		
Interest payable to group undertakings	**153**	501
Other interest payable	**-**	1
	153	502

8. Tax on profit on ordinary activities

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

	2015 £'000	2014 £'000
Current taxation:		
UK corporation tax on profits of the year	**172**	1,902
Adjustments in respect of prior years	**49**	134
	221	2,036
Deferred taxation:		
Origination and reversal of timing differences (note 15)	**(50)**	(95)
Defined benefit pension	**309**	304
	259	209
Tax charge on profit on ordinary activities	**480**	2,245

(b) The tax for the year is lower (2014: higher) than the standard effective rate of corporation tax in the UK of 21% (2014: 23%). The current tax charge is made up as follows:

	2015 £'000	2014 £'000
Profit on ordinary activities before taxation	**11,477**	8,438
Notional charge at UK corporation tax rate of 21% (2014: 23%)	**2,410**	1,941
Non deductible expenses	**1,366**	196
Income not subject to tax	**(3,233)**	-
Capital allowances (in excess of)/lower than depreciation	**257**	(131)
Other short-term timing differences	**(628)**	(104)
Adjustment in respect of previous years	**49**	134
Current tax charge for the year	**221**	2,036

Changes to the UK corporation tax rates were announced in the Chancellor's Budget on 8 July 2015. These include reductions to the main rate to reduce the rate to 19% from 1 April 2017 and to 18% from 1 April 2020.

As the changes had not been substantively enacted at the balance sheet date their effects are not included in these financial statements.

9. Tangible fixed assets

	Leasehold Land & Buildings	Plant and Equipment	Total
	£'000	£'000	£'000
Cost			
At 1 April 2014	6,785	31,162	37,947
Additions at cost	1,037	2,367	3,404
Disposals	(7,822)	(33,529)	(41,351)
At 31 March 2015	-	-	-
Accumulated depreciation			
At 1 April 2014	2,906	12,275	15,181
Charge for the year	807	4,546	5,353
Disposals	(3,713)	(16,821)	(20,534)
At 31 March 2015	-	-	-
Net book amount at 31 March 2015	-	-	-
Net book amount at 31 March 2014	**3,879**	**18,887**	**22,766**

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

The disposals are all due to the sale of the subsidiary, East Coast.

10. Investments

Details of the Company's subsidiaries as at 31 March 2015 are as follows:

Name of Company and country of registration	Type and number of shares at 31 March 2014	Type and number of shares at 31 March 2015	Percentage interest at 31 Dec 2014	Nature of business
West Coast Main Line Company Limited – United Kingdom	1 ordinary of £1	1 ordinary of £1	100%	Dormant Company.
London Midland Trains Limited – United Kingdom	1 ordinary of £1	1 ordinary of £1	100%	Dormant Company
Thameslink Limited – United Kingdom	1 ordinary of £1	1 ordinary of £1	100%	Dormant Company
GW Railways – United Kingdom	1 ordinary of £1	1 ordinary of £1	100%	Dormant Company
South Eastern Trains Limited – United Kingdom	1 ordinary of £1	1 ordinary of £1	100%	Dormant Company
Cross Country Trains Limited	1 ordinary of £1	1 ordinary of £1	100%	Dormant Company
EM Trains Limited	1 ordinary of £1	1 ordinary of £1	100%	Dormant Company

11. Stocks

	Group		Company	
	2015	2014	**2015**	2014
	£'000	£'000	**£'000**	£'000
Raw materials and consumables	**-**	5,643	**-**	-

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

12. Debtors

	Group		Company	
	2015	2014	**2015**	2014
	£'000	£'000	**£'000**	£'000
Trade debtors	**14**	67,128	**14**	-
Amounts owed by group	**-**	-	**-**	37
undertakings	**555**	153	**555**	153
Amounts owed by parent organisation undertakings				
Corporation tax	**-**	-	**-**	247
Deferred tax	**14**	388	**14**	-
Other debtors	**10**	3,004	**10**	17
Prepayments and accrued income	**70**	15,180	**70**	98
	663	85,853	**663**	552

13. Creditors: amounts falling due within one year

	Group		Company	
	2015	2014	**2015**	2014
	£'000	£'000	**£'000**	£'000
Trade creditors	**-**	94,711	**-**	-
Amounts owed to group undertakings	**-**	-	**-**	27
Amounts owed to parent organisation	**-**	13,344	**-**	13,344
Deferred season ticket income	**-**	4,349	**-**	-
Other taxation and social security	**100**	2,606	**100**	63
Other creditors	**-**	4,020	**-**	-
Corporation tax	**27**	1,185	**27**	-
Accruals and deferred income	**411**	23,097	**411**	372
	538	143,312	**538**	13,806

A loan from the parent organisation was repaid during the year with a loan balance outstanding at the balance sheet date of £Nil (2013: £10,000,000). The loan was 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.

14. Provisions for liabilities

	Group		Company	
	2015	2014	**2015**	2014
	£'000	£'000	**£'000**	£'000

At 1 April	**493**	587	**-**	-
Provided in the year	**70**	(94)	**-**	-
Movement arising from disposal of business	**(563)**	-	**-**	-
At 31 March	**-**	493	**-**	-

15. Deferred tax

(a) The deferred tax at a rate of 20% (2014: 20%) excluding tax on the pension liability provision movement in the year is as follows:

	Group		**Company**	
	2015	2014	**2015**	2014
	£'000	£'000	**£'000**	£'000
Opening balance	**388**	293	-	-
Increase in the year	**50**	95	14	-
Movement arising from disposal of business	**(424)**	-	-	-
Closing balance	**14**	388	**14**	-

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

	Group		**Company**	
	2015	2014	**2015**	2014
	£'000	£'000	**£'000**	£'000
Other timing differences	**10**	78	**10**	-
Short term timing differences	**4**	310	**4**	-
	14	388	**14**	-

16. Called up share capital

	Group and Company	Group and Company
	2015	2014
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/(deficit)

	Group		**Company**	
	2015	2014	**2015**	2014
	£'000	£'000	**£'000**	£'000
Shareholders' funds/(deficit) at 1 April	**15,088**	9,094	**(3,540)**	(2,712)
Actuarial loss on defined benefit pension scheme	**113**	(249)	**-**	-
Movement on deferred tax relating to defined benefit pension scheme	**(23)**	50	**-**	-
Dividend received	**-**	-	**18,628**	-
Profit/(loss) for the financial year	**10,997**	6,193	**11,087**	(828)
Shareholders' funds/(deficit) at 31 March	**26,175**	15,088	**26,175**	(3,540)

18. Capital commitments

	Group		**Company**	
	2015	2014	**2015**	2014
	£'000	£'000	**£'000**	£'000
Contracted	**-**	3,288	**-**	-
Authorised but not contracted	**-**	1,734	**-**	-

19. Operating lease commitments

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

	2015			2014		
	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	-
Rolling stock	**-**	**-**	**-**	56,080	8,916	-
Land and buildings	**-**	**-**	**-**	6	6,283	170
Plant and machinery	**-**	**-**	**-**	406	1,777	-
Other	**-**	**-**	**-**	-	4,921	-
	-	**-**	**-**	56,492	48,620	170

The Company has no annual commitment due under operating leases. All lease commitments in 2014 were held by East Coast Main Line Company Ltd.

20. Retirement benefits

East Coast operated a final salary pension scheme and was part of the Railways Pension Scheme. The assets and liabilities were identified separately from the remainder of the Scheme. The pension liability was transferred on the disposal of East Coast.

Pension scheme liability at end of year

	Year ended 31 March 2015 £'000	Year ended 31 March 2014 £'000
Total asset value	**-**	352,270
Present value of scheme liabilities	**-**	(519,117)
Total deficit	**-**	(166,847)
Members' share of deficit	**-**	66,739
Deficit expected to be recovered after the end of East Coast's involvement with the section	**-**	98,449
Pension scheme deficit attributable to the employer before deferred tax	**-**	(1,659)
Deferred tax	**-**	332
Pension scheme deficit attributable to the employer after deferred tax	**-**	(1,327)

Reconciliation of pension scheme liability

	Year ended 31 March 2015 £'000	Year ended 31 March 2014 £'000
Opening pension scheme liability	**(1,659)**	(2,763)
Employer's share of pension cost	**(8,694)**	(9,558)
Employer contributions	**10,240**	10,911
Total loss recognised in STRGL	**113**	(249)
Closing pension scheme liability	**-**	(1,659)

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

Disclosed pension cost

	Year ended 31 March 2015 £'000	Year ended 31 March 2014 £'000
Employer's share of service cost	**12,246**	13,514
Employer's share of interest cost	**12,533**	13,513
Interest on short term adjustment	**(3,874)**	(4,573)
Employer's share of expected return on assets	**(12,211)**	(12,896)
Employer's share of pension cost	**8,694**	9,558

Actuarial gains and losses

The cumulative amount of actuarial losses recognised in the statement of recognised gains and losses is £7,637,000 (2014: £7,750,000).

Defined contribution scheme

The cost of contributions to the defined contribution scheme amounts to £837,000 (2014: £894,000).

20. Retirement benefits (continued)

Historic information

	Year ended 31 March 2015 £'000	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
Section liabilities	-	519,117	507,262	377,717	344,838	384,093
Assets	-	352,270	325,410	289,901	279,594	251,702
Deficit	-	(166,847)	(181,852)	(87,816)	(65,244)	(132,391)
Experience loss (liabilities)	-	645	6,128	(2,675)	7,526	6,862
Experience gain (assets)	-	976	(5,458)	11,615	(1,270)	(6,496)

21. Consolidated cash flow statement

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

Continuing operations	**2015 £'000**	2014 £'000
Operating profit	**206**	4,780
Depreciation and amortisation	**-**	3,982
Difference between pension charge and cash contributions	**-**	2,603
Increase in stock and debtors	**(111)**	(16,662)
Increase in creditors and provisions	**62**	24,706
Net cash inflow from continuing operations	**157**	19,409

Discontinued operations	**2015 £'000**	2014 £'000
Operating (loss)/profit	**(7,739)**	-
Depreciation and amortisation	**5,353**	-
Difference between pension charge and cash contributions	**2,006**	-
Decrease in stock and debtors	**21,454**	-
Decrease in creditors and provisions	**(22,111)**	-
Net cash (outflow)/inflow from discontinued operations	**(1,037)**	-
Total net cash (outflow)/inflow from operating activities	**(880)**	19,409

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

	2015 £'000	2014 £'000
(Decrease)/increase in cash in the year	**(9,908)**	7,493
Change in net cash resulting from cash flows	**(9,908)**	7,493
Net cash at 1 April	**35,958**	28,465
Net cash at 31 March	**26,050**	35,958

21. Consolidated cash flow statement (continued)

(c) Analysis of net funds

	1 April 2014	Cash flow	Non Cash Movements	**31 March 2015**
	£'000	£'000	£'000	**£'000**
Cash at bank and in hand	45,958	(19,908)	**-**	**26,050**
Loan from parent organisation	(10,000)	10,000	**-**	**-**
Net cash in hand	35,958	(9,908)	-	**26,050**

22. Related party transactions

Directly Operated Railways Limited is a company wholly owned by the Secretary of State for Transport.

The Company's subsidiary until 28 February 2015, 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 period to the 28 February 2015, amounted to £215,730,000 (2014: £216,816,000).

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 2015. The consolidated financial statements of the Secretary of State for Transport can be obtained from Great Minster House, 33 Horseferry Road, London, SW1 P4DR.

24. Post Balance Sheet Events

On 28 February 2015, the Group completed the sale of East Coast Main Line Company Limited to Inter City Railways Limited for a total consideration of £11m. The Group is currently in negotiation with the Inter City Railways Limited in relation to certain warranty claims, however, management considers it unlikely that a liability will arise.