c2c Rail Limited

Directors' Report and Accounts

For the year ended 31 December 2008

Company number 2938993

Registered office:

7 Triton Square
London
NW1 3HG

Contents

c2c Rail Limited
Directors' Report

The Directors present their annual report, business review, the financial statements and auditors' report for the year ended 31 December 2008.

Principal activities

The principal activity of the Company during the last financial year was the operation of passenger railway services between Fenchurch Street and Shoeburyness. The c2c franchise is currently scheduled to end on 7 May 2011.

Visit our website, www.c2crail.co.uk, for information on timetables, fares and further information on our business.

Results and dividend

Passenger income improved in the year by over 7% to £102,942,000 compared to £95,914,000 in 2007. The profit before tax was £3,711,000 (2007: loss of £6,801,000).

The profit for the year attributable to the shareholders amounts to £2,275,000 (2007: loss of £5,021,000). The directors do not recommend the payment of a dividend (2007: £nil).

Review of business and outlook

The Company's operating profit improved significantly primarily due to strong growth in passenger revenues.

The Company continued to make significant operational progress. The percentage of trains arriving on time increased to 94.88% (2007: 94.63%). This is the second highest Public Performance Measure (PPM) in the country.

The financial outlook for 2009 is more uncertain given the prevailing economic climate.

Key risks and uncertainties

The Company is subject to internal and external risk factors. External risks include general economic conditions, competitor activity and regulatory changes. Internal risks include failure of internal controls, regulatory compliance and industrial disputes.

c2c Rail Limited
Directors' Report

Key risks and uncertainties (continued)

As with the rest of the rail industry, the Company is not immune to the impact of the recession on passenger volumes. We expect this impact to be moderated by strict control of discretionary spend and an easing of inflationary pressure.

Further discussion of these risks and uncertainties, in the context of the Group as a whole is provided in the Operating and Financial Review on page 32 of the National Express Group PLC 2008 Annual Report and Accounts.

Further information on the financial risk management objectives and policies of the Group as a whole, and by default the Company, can be found in Note 30 on pages 99 to 101 of the National Express Group PLC 2008 Annual Report and Accounts

Operational review

Operational performance for the business improved in the year. We operate a customer satisfaction programme where we focus on one aspect at a time, until we get that aspect right. First we tackled performance and punctuality, and achieved significant improvements. In the most recent National Rail Trends Public Performance Measure (PPM) tables, the percentage of our trains arriving on time rose by 0.25% to 94.88% compared to a sector average of 91.6%.

During 2008 we worked to get the cleanliness and presentation of our trains to a consistently high standard. National Passenger Survey (NPS) results have increased to 88% which is a 4% increase year on year. The Customer Satisfaction Survey has also reported that interior cleanliness of trains stands at 96% which is a 2% increase year on year. Both surveys report c2c as above the national average. In 2008 we implemented C Comms which focuses on customer communication, especially to keep people better informed about service disruptions. NPS has reported 45% overall satisfaction with how well the company dealt with disruptions. This result is an 8% increase year on year. CSS has also reported a 86% overall satisfaction result which is a 2% increase year on year. C2c still continues to deliver a punctual and reliable service with NPS reporting at 92% and CSS reporting at 97%. We worked with the Association of Train Operating Companies and introduced the simpler rail fares structure in September 2008.

Environment

We continue to combat climate change in three ways: making our own operations more carbon-efficient, working with government and other bodies to help shape lower carbon transport policies; and directly encouraging people to switch to public transport.

c2c Rail Limited
Directors' Report

Environment (continued)

Our electric trains have activated regenerative braking technology, which recovers energy during braking to generate electricity and can reduce train power consumption and CO_2 emissions by about 20%. In the summer of 2008 we introduced a further software upgrade to our Class 357 trains, which was designed to save a further 3% of traction electricity by reducing air conditioning, lighting and other systems when the trains are stabled overnight.

Directors

The Directors of the Company who served during the year, and since the year end, are listed below:-

Name of Director	Date Appointed	Date Resigned
R Bowley	10 March 2008	
J Drury	27 January 2008	
D Franks		
S Rees		
M J Hopwood		19 January 2008
R O'Toole		18 April 2008
S Goldsmith		18 April 2008
A Kang		10 March 2008

Company secretary

B Lees

Directors' liabilities

The Company has granted an indemnity to one or more of its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 1985. Such qualifying third party indemnity provision remains in force as at the date of approving the Directors' Report.

None of the directors had any interest in the issued share capital of the company.
R O'Toole is also a director of National Express Group PLC, the ultimate holding company, and his interests in the share capital of that company are disclosed in the 2008 Annual Report and Accounts of that company.

The Company's Articles of Association include a provision indemnifying the Directors to the extent allowed under the Companies Act 1985.

c2c Rail Limited
Directors' Report

Employees

The Company is a non-discriminatory employer operating an Equal Opportunities Policy which aims to eliminate unfair discrimination, harassment, victimisation and bullying. The Company is committed to ensuring that all individuals are treated fairly, with respect and are valued irrespective of disability, race, gender, 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 disability and the disabled share the same conditions of service as other staff in relation to career development and promotion.

The Company uses consultative procedures agreed with its staff and elected representatives with a view to ensuring that employees are aware of the financial and economic factors which affect the Company's performance and prospects. In addition the Company issues a periodic newspaper to all employees informing them of developments within the Company, whilst the National Express Group's magazine keeps employees in touch with the worldwide activities of the Group. The Company maintains a Company wide intranet service.

The Company participates in the Group wide annual Employee Survey to monitor employee satisfaction. Results are followed through using employee focus groups to understand the key issues raised in the survey. Employees make recommendations at these forums which are then developed into Company action plans.

Health and Safety

The safety of our employees and customers is of prime importance. Working with our partners, British Transport Police, Network Rail, Travel for London and other key stakeholders, we consistently endeavour to put in place initiatives and equipment and station CCTV that will help passengers travel in safety.

Both passenger and employee accidents reduced during 2008. There were, however, two signals passed at danger. We are mindful that the price of safety is constant vigilance and continue to work with staff and stakeholders to maintain and enhance the company's safety and competence management systems.

Charitable and political donations

The Company made charitable donations of £4,000 during the year (2007: £nil). There were no political donations (2007: £nil).

c2c Rail Limited
Directors' Report

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. Trade creditor days of the Company for the year were 43.5 days (2007 – 34 days) based on the ratio of Company trade creditors at the end of the year to the amounts invoiced during the year by trade creditors.

Auditors

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

Directors' statement as to disclosure of information to auditor

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

- to the best of each director's knowledge there is no information relevant to the preparation of their audit report to which the Company's auditor is unaware; and
- each director has taken all steps that a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditor is aware of that information.

On behalf of the Board

R Bowley
Director

29 May 2009

Registered Office:
7 Triton Square
London
NW1 3H

c2c Rail Limited
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 elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on 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' report to the members of c2c Rail Limited

We have audited the Company's financial statements for the year ended 31 December 2008 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet, and the related notes 1 to 23. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors
The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether, in our opinion, the information given in the Directors' Report is consistent with the financial statements. In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion
In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2008 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

Ernst + Young LLP

Ernst & Young LLP
Registered auditor
London
Date 29 May 2009

c2c Rail Limited
Profit and Loss Account

For the year ended 31 December 2008

	Note	2008 £'000	2007 £'000
Turnover	2		
Passenger income		**102,942**	95,914
Revenue grant		**18,628**	17,390
Other operating income		**4,706**	4,111
		126,276	117,415
Operating costs		**(123,356)**	(124,485)
Redundancy costs	13	**(126)**	(248)
Operating profit/(loss)	3	**2,794**	(7,318)
Interest receivable	7	**713**	797
Interest payable	7	**(396)**	(980)
Net pensions scheme interest	19	**600**	700
Profit/(loss) on ordinary activities before taxation		**3,711**	(6,801)
Tax on profit/(loss) on ordinary activities	8	**(1,436)**	1,780
Retained profit/(loss) for the financial year		**2,275**	(5,021)

All activities relate to continuing operations.

There is no difference between the profit/(loss) on ordinary activities before taxation and the retained profit/(loss) for the year stated above and their historical cost equivalents.

c2c Rail Limited
Statement of Total Recognised Gains and Losses
For the year ended 31 December 2008

	2008 £'000	2007 £'000
Profit/(loss) for the financial year	**2,275**	(5,021)
Actuarial (loss)/ gain on defined benefit pension scheme	**(1,300)**	978
Deferred tax on actuarial (loss)/gain	**364**	(293)
Total recognised gains and losses relating to the year	**1,339**	(4,336)

c2c Rail Limited
Balance Sheet

As at 31 December 2008

	Note	2008 £'000	2007 £'000
Fixed assets			
Tangible assets	9	**9,148**	12,152
Investments	10	**-**	-
Current assets			
Debtors	11	**9,671**	16,415
Deferred tax	14	**259**	-
Cash at bank and in hand		**20,586**	19,310
		30,516	35,725
Creditors: amounts falling due within one year	12	**(42,756)**	(52,734)
Net current liabilities		**(12,240)**	(17,009)
Total assets less current liabilities		**(3,092)**	(4,857)
Creditors: amounts falling due after one year	12	**(402)**	(614)
Provisions	13	**(783)**	(927)
Net liabilities excluding net pension liability		**(4,277)**	(6,398)
Net pension liability	19	**(841)**	(88)
Net liabilities including net pension liability		**(5,118)**	(6,486)
Capital and reserves			
Share capital	15	**1,000**	1,000
Share premium account	16	**3,000**	3,000
Profit and loss account	16	**(9,118)**	(10,486)
Shareholders' deficit		**(5,118)**	(6,486)

On behalf of the Board

R Bowley

29 May 2009

The notes on pages 13 to 32 form part of the accounts.

c2c Rail Limited
Notes to the Accounts
For the year ended 31 December 2008

1. **Accounting policies**

a) **Fundamental accounting concept**

The accounts have been prepared on a going concern basis as the ultimate parent Company has provided support to the Company and has undertaken to continue to do so for the foreseeable future.

b) **Basis of preparation**

The accounts are prepared under the historical cost convention and in accordance with applicable accounting standards.

c) **Statement of compliance**

The entity is required to comply with United Kingdom ('UK') accounting standards and UK Company legislation except in special circumstances where management concludes that compliance would be so misleading that it would conflict with the objective to present a true and fair view of its accounts. On this basis, the entity has departed from the following requirement:

- Financial Reporting Standard ('FRS') 17 'Retirement Benefits' - The Company has accounted for its constructive but not legal obligation for the Railways Pension Scheme ("RPS") under the terms of its franchise agreement;

Details of the background and rationale for this departure are provided in note 19, including the impact on the Company's financial performance and position of adopting this accounting treatment as required by FRS 18 'Accounting Policies' and UK Company legislation.

1. **Accounting policies (continued)**

d) Share based payments

The Company applied the requirements of FRS 20 'Share-based Payment' with effect from 1 January 2006. In accordance with the transitional provisions, the standard has been applied to all equity-settled awards granted after 7 November 2002 that were unvested as of 1 January 2006.

The Company issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant by an external valuer using a stochastic model. Equity-settled arrangements are settled through the issue of National Express Group PLC shares. Non-market-based performance-related vesting conditions are not taken into account when estimating the fair value; instead those non-market conditions are taken into account in calculating the current best estimate of the number of shares that will eventually vest and at each balance sheet date before vesting. The cumulative expense is calculated based on that estimate.

Market-based performance conditions are taken into account when determining the fair value and at each balance sheet date before vesting, the cumulative expense is calculated irrespective of whether or not the market conditions are satisfied, provided that all other performance conditions are met. At each balance sheet date before vesting, the cumulative expense is calculated based on the Company's estimate of the number of shares that will eventually vest, and the movement in cumulative expense since the previous balance sheet date is recognised in the profit and loss account, with a corresponding entry in equity.

e) Turnover

(i) Passenger income represents amounts agreed as attributed to the Company by the income allocation systems of 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) Revenue grant relates to amounts receivable from the Department for Transport (DfT). Income is recognised on an accruals basis.

(iii) Other income is derived from ticket commissions, station trading income, depot and station access receipts, performance regime receipts, and the provision of goods or services to other train operating companies and excludes VAT. It is recognised on an accruals basis.

f) Taxation

Corporation tax is provided on taxable profits at the current rate.

1. Accounting policies (continued)

g) Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost. 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:-

Plant and equipment	3 - 10 years or lease term

h) 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.

i) Grants

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

j) Retirement benefits

The Company contributes to a defined benefit pension scheme on behalf of the majority of employees. Full details are provided in note 19 including the departure from FRS 17 required for the Company's RPS obligations. 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 Company participates in the 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. A liability is recognised, although this is offset by a franchise adjustment so that the net liability represents the deficit that the Group expects to fund during the franchise term. This represents a departure from FRS 17 so as to present fairly the Company's financial performance, position and cash flow in respect of its obligations for the RPS.

The current service cost and gains and losses on settlements and curtailments are recognised in staff pension costs within operating costs in the income statement. Past service costs are included in operating costs where the benefits have vested, otherwise they are amortised on a straight line basis over the vesting period. The expected return on assets of funded

1. Accounting policies (continued)

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.

k) 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.

l) Pre-contract costs

Pre-contract costs associated with securing new rail franchises are expensed as incurred, except where it is virtually certain that the franchise will be awarded, in which case they are recognised as an asset and are expensed to profit and loss account over the life of the franchise. Costs associated with the commencement of new contracts are expensed as incurred.

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.

3. Operating profit/(loss)

	2008	2007
	£'000	£'000
Operating profit/(loss) is stated after charging:		
Depreciation – Owned assets	**3,383**	3,103
Depreciation – Finance lease	**-**	1
Train maintenance services and materials	**9,593**	15,462
Operating lease rentals		
- Fixed track access	**24,340**	22,285
- Rolling stock costs	**22,144**	22,784
- Variable track access	**3,270**	3,135
- Other	**5,509**	5,264
Auditors' remuneration - audit fees	**24**	32
Loss on disposal of fixed assets	**-**	239

4. Directors' emoluments

	2008	2007
	£'000	£'000
Aggregate emoluments in respect of qualifying services to the Company	**443**	121

The emoluments excluding pension contributions of the highest paid director were £159,000 (2007: £54,000). His accrued pension and accrued lump sum benefit, as at 31 December 2008, were £4,325 (2007: £284) and £3,527 (2007: £190) respectively.

Messrs O'Toole, Franks, Kang and Hopwood, and Mrs. Goldsmith received no remuneration from the Company in the year to 31 December 2008. Mr. O'Toole was also a director of National Express Group PLC at the end of the year and his interests are disclosed in the Annual Report of that Company.

Retirement benefits were accruing to three directors during the year (2007: three directors) under a defined benefit scheme in respect of services provided to the Company.

None of the directors exercised any share options in the year.

5. Staff costs

	2008	2007
	£'000	£'000
Wages and salaries (including share-based payment expense)	**18,586**	17,331
Social security costs	**1,487**	1,338
Pension costs (refer to note 19)	**2,000**	2,000
	22,073	20,669

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

	2008	2007
	No.	No.
Managerial and administrative	**107**	103
Operational	**487**	467
	594	570

c2c Rail Limited
Notes to the Accounts
For the year ended 31 December 2008

6. Share based payments

The charge in respect of share-based payment transactions included in the income statement for the year is as follows:

	2008 £'000	2007 £'000
Expense arising from share and share option plans	**29**	7

During the year ended 31 December 2008, c2c Rail Limited had five share-based payment arrangements consisting of the Executive Share Option Plan, Long Term Incentive Plan, Share Matching Plan, Deferred Annual Share Bonus Plan and Savings Related Share Option Scheme, which are described in note 7 to the National Express Group PLC 2008 Annual Report and Accounts.

For the following disclosure, share options with a nil exercise price have been disclosed separately to avoid distorting the weighted average exercise prices. The number of share options in existence during the year was as follows:

	2008		2007	
	Number of share options	**Weighted average exercise price (p)**	Number of share options	Weighted average exercise price (p)
Options without a nil exercise price:				
At 1 January	**1,836**	**681**	20,677	725
Granted during the year	**42,850**	**922**	-	-
Lapsed during the year	**(936)**	**922**	(74)	585
Exercised during the year	**(1,836)**	**681**	(18,767)	729
Outstanding at 31 December[1]	**41,914**	**922**	1,836	681
Exercisable at 31 December	-	-	1,836	681
Options with a nil exercise price:				
At 1 January	**4,062**	**nil**	19,099	nil
Granted during the year	**4,584**	**nil**	5,900	nil
Transfers during the year	-	**nil**	(20,937)	nil
Lapsed during the year	-	**nil**	-	nil
Exercised during the year	**(1,035)**	**nil**	-	nil
Outstanding at 31 December	**7,611**	**nil**	4,062	nil
Exercisable at 31 December	-	-	-	-
Total outstanding at 31 December	**49,525**		5,898	
Total exercisable at 31 December	-		1,836	

[1] Included within this balance are options over nil (2007: nil) shares for which no expense has been recognised in accordance with the transitional provisions of FRS 20 as the options were granted before 7 November 2002 and have not been subsequently modified.

c2c Rail Limited
Notes to the Accounts
For the year ended 31 December 2008

6. Share based payments (continued)

The options outstanding at 31 December 2008 had an exercise price of 922p (2007: 681p) excluding options with a nil exercise price. The range of exercise prices for options was as follows:

Exercise price (p)	2008	2007
350-650	-	-
650-950	41,914	1,836
950-1250	-	-
	41,914	1,836

The options have a weighted average contractual life of 3 years (2007: 3 years). For options that were exercised during the year, the weighted average share price at exercise was 952p (2007: 1232p).

The weighted average fair value of the remaining share options granted during the year was calculated using a stochastic model, with the following assumptions and inputs:

	Share options with nil exercise price	
	2008	2007
Risk free interest rate	-	-
Expected volatility	25.1%	19%
Peer group volatility	-	25.9%
Expected option life in years	3 years	3 years
Expected dividend yield	3.8%	2.8%
Weighted average share price	972p	1295p
Weighted average exercise price	0p	0p
Weighted average fair value of options granted	868p	1194p

	Share options without nil exercise price
	2008
Risk free interest rate	4.3%
Expected volatility	27.2%
Peer group volatility	-
Expected option life in years	3 years
Expected dividend yield	4.0%
Weighted average share price	844p
Weighted average exercise price	922p
Weighted average fair value of options granted	140p

There was no grant of options without nil exercise price in 2007.

Experience to date has shown that approximately 15% (2007: 15%) of options are exercised early, principally due to redundancies. This has been incorporated into the calculation of the expected option life for the share options without nil exercise price.

Expected volatility in the table above was determined from historic volatility over the last nine years, adjusted for one-off events that were not considered to be reflective of the volatility of the share price going forward. The expected dividend yield represents the dividends declared in the 12 months preceding the date of the grant divided by the average share price in the month preceding the date of the grant.

7. Interest

	2008 £'000	2007 £'000
Interest receivable		
Bank interest	**8**	8
Interest receivable from group undertakings	**705**	789
	713	797
Interest payable		
Interest payable to group undertakings	**(395)**	(980)
Other	**(1)**	-
	(396)	(980)

8. Taxation

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

	2008 £'000	2007 £'000
Current taxation:		
UK corporation tax (charge)/credit at 28.5% (2007: 30%)	**(1,730)**	1,677
Adjustments in respect of prior periods	**86**	-
	(1,644)	1,677
Deferred taxation:		
Origination and reversal of timing differences	**189**	473
Defined benefit pension	**(71)**	(63)
Adjustments in respect of prior periods	**90**	(307)
	208	103
Tax (charge)/credit on profit/(loss) on ordinary activities	**(1,436)**	1,780

(b) Factors affecting the current tax (charge) / credit for the year are:

	2008 £'000	2007 £'000
Profit/(loss) on ordinary activities before taxation	**3,711**	(6,801)
Notional credit at UK corporation tax rate of 28.5% (2007: 30%)	**1,057**	(2,040)
Capital allowances in excess of depreciation	**226**	419
Effect of short-term timing differences	**7**	54
Permanent disallowables	**440**	(110)
Adjustments in respect of prior periods	**(86)**	-
Current tax charge/(credit) for the year	**1,644**	(1,677)

(c) From 1 April 2008, the rate of corporation tax on profits reduced from 30% to 28%. There are no factors affecting the future tax charge/(credit).

c2c Rail Limited
Notes to the Accounts
For the year ended 31 December 2008

9. Tangible fixed assets

	Plant and equipment owned £'000	Plant and equipment leased £'000	Total £'000
Cost			
At 1 January 2008	30,175	204	30,379
Additions	379	-	379
At 31 December 2008	**30,554**	**204**	**30,758**
Depreciation			
At 1 January 2008	18,023	204	18,227
Charge for the year	3,383	-	3,383
At 31 December 2008	**21,406**	**204**	**21,610**
Net book value			
At 31 December 2008	**9,148**	-	**9,148**
At 1 January 2008	12,152	-	12,152

10. Investments

The Company held the following unlisted investments at 31 December 2008 and 31 December 2007:

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

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

11. Debtors

	2008 £'000	2007 £'000
Trade debtors	**5,813**	6,488
Amounts due from group undertakings	**50**	721
Corporation tax	**-**	1,604
Other debtors	**874**	3,675
Prepayments and accrued income	**2,934**	3,927
	9,671	16,415

12. Creditors: amounts falling due within one year

	2008 £'000	2007 £'000
Trade creditors	**12,163**	9,102
Amounts due to group undertakings	**3,104**	13,795
Deferred season ticket income	**18,056**	17,620
Social security and other taxation	**441**	969
Accruals and deferred income	**5,122**	6,032
Other creditors	**2,721**	5,216
Corporation tax	**1,149**	-
	42,756	52,734

Other creditors includes deferred fixed asset grants of £293,000 (2007: £335,000) which are due within one year. Amounts due after one year are disclosed below:

Creditors: amounts falling due after one year

	2008 £'000	2007 £'000
Deferred fixed asset grants	**402**	614
	402	614

c2c Rail Limited
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13. Provisions

	1 January 2008 £'000	Provided in the year £'000	Utilised or transferred in the year £'000	**31 December 2008 £'000**
Deferred tax excluding tax on pension liability (Note 14)	20	(279)	259	**-**
Insurance	659	58	(60)	**657**
Redundancy	248	126	(248)	**126**
	927	(95)	(49)	**783**

The insurance provision arises from the estimated exposure at the year end on existing insurance claims which are open for up to six years. The provision is held until utilised. The redundancy provision in 2008 relates to costs that were incurred in the early part of 2009 following a restructuring of certain functions within the Company. The redundancy provision in 2007 related to costs that were incurred in the early part of 2008 as a result of the UK group integration project that was announced in 2007.

14. Deferred tax

(a) The deferred tax excluding tax on the pension liability provision movement in the year is as follows:

	£'000
At 1 January 2008	(20)
Increase in the year	279
At 31 December 2008	**259**

b) The major components of the deferred tax provision are as follows:

	2008 £'000	2007 £'000
Capital allowances	**251**	(96)
Other timing differences	**8**	76
	259	(20)

15. Share capital

Authorised	**2008 £'000**	2007 £'000
4,000,000 Ordinary shares of 25p each	**1,000**	1,000
Allotted, called up and fully paid		
4,000,000 Ordinary shares of 25p each	**1,000**	1,000

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16. Reserves

	Share capital	Share premium account	Profit and loss account	Total
	£'000	**£'000**	**£'000**	**£'000**
At 1 January 2008	1,000	3,000	(10,486)	(6,486)
Actuarial gain on defined benefit pension scheme (Note 19)	-	-	(1,300)	(1,300)
Deferred tax on actuarial gain	-	-	364	364
Share based payments	-	-	29	29
Retained profit for the year	-	-	2,275	2,275
At 31 December 2008	**1,000**	**3,000**	**(9,118)**	**(5,118)**

17. Reconciliation of movements in shareholders' deficit

	2008	2007
	£000	£000
Total recognised profit/(loss) in the year	**1,339**	(4,336)
Share based payments	**29**	7
	1,368	(4,329)
Shareholders' deficit at 1 January	**(6,486)**	(2,157)
Shareholders' deficit at 31 December	**(5,118)**	(6,486)

18. Operating lease commitments

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

	Fixed Track Access 2008 £'000	Rolling Stock 2008 £'000	Land and Buildings 2008 £'000	Other 2008 £'000	Total 2008 £'000
Leases which expire:					
Within one year	-	-	-	15	15
Within two to five years	13,196	22,034	3,807	1,209	40,246
	13,196	**22,034**	**3,807**	**1,224**	**40,261**

	Fixed Track Access 2007 £'000	Rolling Stock 2007 £'000	Land and Buildings 2007 £'000	Other 2007 £'000	Total 2007 £'000
Leases which expire:					
Within two to five years	24,226	22,475	5,087	1,211	52,999
	24,226	**22,475**	**5,087**	**1,211**	**52,999**

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

19. Retirement benefits

The majority of the Company's employees are members of the c2c Rail Shared Cost Section of the RPS, a funded defined benefit scheme ('the Scheme'). The RPS is a shared cost scheme, which means that costs are formally shared 60% employer and 40% employee. To date, the Group, within which this Company is a member, has experienced nine changes of UK Train franchise ownership where the current owner has funded the scheme during the franchise term and the pension deficit at franchise exit has transferred to the new owner, without cash settlement.

However, although the Group's past experience has proven otherwise, our legal advice has opined that in certain situations, some of the liability for the deficit on the relevant sections of the RPS could theoretically crystallise for funding by an individual train operating Company ('TOC') at the end of the franchise. By entering into the franchise contract, the TOC becomes the designated employer for the term of the contract and under the rules of the RPS must fund its share of the pension liability in accordance with the schedule of contributions agreed with the Scheme trustees and actuaries and for which there is no funding cap set out in the franchise contract.

To comply with FRS 17, the Company is required to account for its legal obligation under the formal terms of the RPS and its constructive obligation that arises under the terms of each franchise agreement.

In determining the appropriate accounting policy for the RPS to ensure that the Company's financial statements present a true and fair view of its financial position, financial performance and cash flows, Group management has consulted with TOC industry peers and has concluded that the Company's constructive but not its legal RPS defined benefit obligations should be accounted for in accordance with FRS 17. This accounting policy means that the Company's financial statements reflect that element of the deficit anticipated to be settled by the Company during the franchise term and will prevent gains arising on transfer of the existing RPS deficit to a new owner at franchise exit.

In calculating the Company's constructive obligations in respect of the RPS, the Company has calculated the pension deficit for its RPS section in accordance with FRS 17 and the assumptions set out below. This deficit is reduced by a "franchise adjustment" which is that portion of the deficit projected to exist at the end of the franchise and for which the Company will not be required to fund. The franchise adjustment, which has been calculated by the Company's actuaries, is offset against the present value of the RPS liabilities so as to show a true and fair view of the financial performance, position and cash flows of the Company's obligations.

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For the year ended 31 December 2008

19. Retirement benefits (continued)

If the Company had accounted for its legal obligation in respect of the RPS instead of the constructive obligation, the following adjustments would have been made to the financial information:

True and fair override disclosure

	2008	2007
	£'000	£'000
Balance Sheet		
Net pension liability (net of deferred tax)	**(3,600)**	-
Statement of total recognised gains and losses		
Actuarial (losses)/gains	**(5,000)**	2,400
Tax on actuarial (losses)/gains	**1,400**	(720)
	(3,600)	1,680
Profit and loss account		
Finance income	-	(100)
Deferred tax credit	-	30
	-	(70)

A summary of the latest full actuarial valuation for the section relating to the Company and assumptions made, is as follows:

Date of actuarial valuation	31 December 2007
Actuarial method used	Projected unit
Rate of investment returns per annum	1.3% - 8.0%
Increase in earnings per annum	4.23%
Scheme assets taken at market value	£65,4m
Funding level	105.5%

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19. Retirement benefits (continued)

The results of the latest available triennial valuation are then updated by independent professionally qualified actuaries for financial reporting purposes, in accordance with FRS 17. The main actuarial assumptions underlying the FRS 17 valuations are:

	2008	2007	2006
Rate of increase in salaries	**3.8%**	4.8%	4.5%
Rate of increase of pensions	**2.8%**	3.3%	3.0%
Discount rate	**6.3%**	5.8%	5.1%
Inflation assumption	**2.8%**	3.3%	3.0%
Expected rates of return on scheme assets			
Equities	**8.0%**	8.0%	7.9%
Bonds	**6.1%**	5.8%	5.1%
Properties	**5.9%**	6.3%	6.2%
Other	**1.3%**	4.8%	4.3%
Post retirement mortality in years:			
Current pensioners at 65 – male		17.8	17.8
Current pensioners at 65 – male, pension under £8,500 pa or pensionable pay under £30,000 pa	**19.8**		
Current pensioners at 65 – male – others	**21.5**		
Current pensioners at 65 – female		20.1	20.1
Current pensioners at 65 – female, pension under £3,000 pa or pensionable pay under £30,000 pa	**21.7**		
Current pensioners – female – others	**22.7**		
Future pensioners at 65 – male		18.8	18.8
Future pensioners at 65 – male, pension under £8,500 pa or pensionable pay under £30,000 pa	**22.2**		
Future pensioners at 65 – male – others	**23.7**		
Future pensioners at 65 - female		21.3	21.3
Future pensioners at 65 – female, pension under £3,000 pa or pensionable pay under £30,000 pa	**23.2**		
Future pensioners at 65 – female – others	**24.2**		

Mortality assumptions are based on the recent experience of the Scheme with an allowance for future improvements in mortality.

Scheme assets are stated at their market value at the respective balance sheet dates. The expected rate of return on assets is determined based on the market returns on each category of scheme assets.

19. Retirement benefits (continued)

Analysis of the amount charged to operating profit:

	2008 £000	2007 £000
Current service cost	**(2,000)**	(2,000)
Total operating charge	**(2,000)**	(2,000)

Analysis of the amount credited to finance income:

	2008 £000	2007 £000
Expected return on pension scheme assets	**2,700**	2,500
Interest on pension scheme liabilities	**(2,100)**	(1,900)
Interest on franchise adjustment	**-**	100
Net credit to finance income	**600**	700

Analysis of the amount recognised in statement of total recognised gains and losses:

	2008 £000	2007 £000
Actual return less expected return on pension scheme assets	**(12,200)**	600
Other actuarial gains	**10,900**	378
Actuarial (loss)/gain recognised in the statement of total recognised gains and losses	**(1,300)**	978

The actual return on plan assets is a loss of £9,500,000 (2007: gain of £3,100,000).

The amounts recognised in the balance sheet at 31 December are:

	2008 £000	2007 £000	2006 £000
Equities	**36,100**	46,900	43,100
Bonds	**4,300**	6,300	5,200
Property	**4,500**	5,700	5,100
Cash	**100**	-	200
Total fair value of scheme assets	**45,000**	58,900	53,600
Present value of scheme liabilities	**(55,208)**	(59,100)	(59,600)
Franchise adjustment	**5,000**	-	2,300
Defined benefit obligation	**(50,208)**	(59,100)	(57,300)
Members' share of deficit	**4,040**	78	2,400
Deficit in the scheme	**(1,168)**	(122)	(1,300)
Related deferred tax asset	**327**	34	390
Net pension liability	**(841)**	(88)	(910)

19. Retirement benefits (continued)

Movement in the fair value of the scheme assets are as follows:

	2008	2007
	£000	£000
Fair value of scheme assets at 1 January	**58,900**	53,600
Expected return	**2,700**	2,500
Cash contributions – Employer	**1,500**	1,500
Cash contributions - Employee	**1,100**	900
Benefits paid	**(700)**	(2,300)
Members' share of return on assets	**(6,300)**	2,100
Actuarial (loss)/gain recognised in statement of total recognised gains and losses	**(12,200)**	600
Fair value of scheme assets at 31 December	**45,000**	58,900

Movement in the present value of the defined benefit scheme liabilities, which is partly funded, is as stated below. The RPS is a shared cost scheme, which means that costs are formally shared 60% employer and 40% employee. The movement on the scheme liabilities below represents 100% of the scheme liabilities.

	2008	2007
	£000	£000
Defined benefit obligation at 1 January	**(59,100)**	(57,300)
Current service cost	**(2,000)**	(2,000)
Benefits paid	**700**	2,300
Cash contributions - Employees	**(1,100)**	(900)
Finance charge	**(2,100)**	(1,900)
Interest on franchise adjustment	**-**	100
Members' share of movement on liabilities	**2,492**	222
Actuarial gain recognised in statement of total recognised gains and losses	**10,900**	378
Defined benefit obligation at 31 December	**(50,208)**	(59,100)

19. Retirement benefits (continued)

History of experience gains and losses:

	2008	2007	2006	2005
	£000	£000	£000	£000
Fair value of scheme assets	**45,000**	58,900	53,600	45,500
Present value of the defined benefit obligation	**(50,208)**	(59,100)	(57,300)	(51,300)
Members' share of deficit	**4,040**	78	2,400	3,480
Deficit in scheme	**(1,168)**	(122)	(1,300)	(2,220)
Experience adjustments arising on liabilities	**200**	(500)	(1,800)	(3,300)
Experience adjustments arising on assets	**(12,200)**	600	2,100	3,100

The Company's expected cash contribution to the scheme in 2009 is £1,670,000. The cumulative amount of actuarial losses recognised in the statement of total recognised gains and losses since 1 January 2004 is £339,000 (2007: gain of £961,000). The Directors are unable to determine how much of the pension scheme deficit recognised on implementation of FRS 17, 'Retirement benefits' and taken to equity of £1,150,000 is attributable to actuarial gains and losses since inception of those pension schemes. Consequently the Directors are unable to determine the amount of actuarial gains and losses that would have been recognised in the statement of total gains and losses before 1 January 2004.

20. Capital commitments

	2008	2007
	£000	£000
Contracted	**280**	127
Authorised but not contracted	**64**	64

21. Cash flow statement

The Company has taken advantage of the exemption granted by FRS No. 1 (Revised) "Cash flow statements" whereby it is not required to publish its own statement of cash flows.

The accounts of National Express Group PLC for the year ended 31 December 2008 contain a consolidated statement of cash flows.

22. Related party transactions

The Company has taken advantage of the exemption under FRS 8 from providing details of related party transactions with fellow subsidiaries which are 90% owned or more as they are included within the consolidated accounts of its ultimate parent Company National Express Group PLC, which are publicly available.

23. Immediate and ultimate parent undertakings

The Company is a wholly owed subsidiary undertaking of, and is controlled by, National Express Trains South Limited, a Company registered in England and Wales.

The ultimate parent Company is National Express Group PLC.

The results of the Company are included in the consolidated accounts of National Express Group PLC for the year ended 31 December 2008.

Copies of these accounts are available from:-

The Secretary
National Express Group PLC
7 Triton Square
London
NW1 3HG