c2c Rail Limited

Directors' Report and Accounts

For the year ended 31 December 2009

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 2009

Principal activities

The principal activity of the Company during the last financial year was the operation of passenger railway services between London Fenchurch Street and Shoeburyness The c2c franchise is currently scheduled to end on 29 May 2011

Visit our website, www c2c-online co uk, for information on timetables, fares and further details on our business

Results and dividend

Passenger income increased in the year by over 2% to £105,822,000 compared to £102,942,000 in 2008 The profit before tax was £4,097,000 (2008. £3,711,000)

The profit for the year attributable to the shareholders amounts to £2,587,000 (2008 £2,275,000) The directors do not recommend the payment of a dividend (2008 £nil)

Review of business and outlook

The Company's operating profit again improved significantly to £3,766,000 (2008 £2,794,000) This was a very satisfactory result, given the recessionary economic environment Our record breaking operational performance (as detailed below) contributed to the higher passenger revenues and we continued to successfully challenge our cost base We anticipate that the Company will remain profitable in 2010 against a background of slowing improving economic output and increasing inflation

The Company continued to deliver strong operational results The percentage of trains arriving on time in the year increased to 96 26% (2008 94 88%) As in 2008, this is the highest Public Performance Measure (PPM) in the country and a PPM of 96 3% for the year is both the highest ever recorded for a UK mainland Train Operating Company and above the benchmark Swiss Federal Railways

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

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 2009 Annual Report and Accounts

c2c Rail Limited
Directors' Report

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 2009 Annual Report and Accounts

Operational review

Operational performance again improved in the year In the most recent National Rail Trends Public Performance Measure (PPM) tables, the percentage of our trains arriving on time rose by 1 4% to 96 3% compared to a sector average of 91 1% We are progressing our Right Time, Every Time initiative to drive further improvements

During 2009 we worked to get the cleanliness and presentation of our trains to a consistently high standard National Passenger Survey (NPS) results have increased to 90% which is a 2% increase year on year The Customer Satisfaction Survey ('CSS') has also reported that interior cleanliness of trains stands at 99% which is a 3% increase year on year Both surveys report the Company as above the national average CSS reported overall satisfaction at 92% which is a 3% increase year on year Following the implementation of C-COMMS in 2008, where we focused on customer communication, in particular during times of disruption, we have seen a 2% increase year on year in information availability at stations about service disruption The Company still continues to deliver a punctual and reliable service with NPS reporting at 94% and CSS reporting at 99% We are clearly focusing on maintaining this position and meeting our customers' needs, so maintaining very high levels of punctuality and reliability remains our top priority

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

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 and during 2010 we intend to introduce further improvements to the regenerative braking system to further reduce CO_2 emissions

During 2010 a lighting management scheme will be introduced to reduce depot electricity consumption and we will continue with our activities to re-cycle waste, particularly of paper collected from trains

Following the introduction of an Environmental Management System, we intend to seek ISO 14001 Environmental Accreditation in the second half of 2010

c2c Rail Limited
Directors' Report

Directors

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

Name of Director

R Bowley
J Drury
D Franks
S Rees
A Chivers *(appointed 18 February 2010)*

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 2006 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

The Company's Articles of Association include a provision indemnifying the Directors to the extent allowed under the Companies Act 2006

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 weekly newsletter to all employees informing them of developments within the Company, whilst the National Express Group's magazine keeps employees in touch with the wider activities of the Group The Company maintains a Company wide intranet service

Employee Champions have been introduced in the business in order to monitor employee engagement and satisfaction in the business and to further develop the area of employee communication Employees make recommendations at these forums which are then developed into Company action plans in advance of the next Employee Survey

Health and Safety

The safety of our customers, employees and contractors working for us is of prime importance

We have continued to work with Network Rail, the British Transport Police and other stakeholders to drive down the numbers of personal accidents Significant progress was made during the year with year on year reductions of 20% and 25% being achieved for employee and contractor accidents respectively Customer accidents were however up 13% on 2008, this increase being attributable entirely to the snow and ice in December

Two signals were passed at danger without authority during the year This represents no improvement on 2008 Whilst this is disappointing, we believe the process changes and other initiatives we have since put in place will lead to a significant reduction in the incidence of all serious safety of the line events

Charitable and political donations

The Company made charitable donations of £619 during the year (2008 £4,000) There were no political donations (2008 £nil)

Supplier payment policy

It is the Company's policy to agree terms of payment prior to commencing trade with any supplier and to abide by those terms based on the timely submission of invoices Trade creditor days of the Company for the year were 33 1 days (2008 – 43 5 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

c2c Rail Limited
Directors' Report

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
24 May 2010

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 2006 They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

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 financial statements of c2c Rail Limited for the year ended 31 December 2009 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Reconciliation of Movements in Shareholders Funds and the related notes 1 to 23 The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

This report is made solely to the company s members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 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 auditor's 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
As explained more fully in the Directors' Responsibilities Statement set out on page 8, 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 the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB s) Ethical Standards for Auditors

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the company s circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors and the overall presentation of the financial statements

Opinion on financial statements
In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2009 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matters prescribed by the Companies Act 2006
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Ernst & Young LLP

Alison Baker (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

24 May 2010

c2c Rail Limited
Profit and Loss Account

For the year ended 31 December 2009

	Note	2009 £'000	2008 £'000
Turnover	2		
Passenger income		**105,822**	102,942
Revenue grant		**1,095**	18,628
Other operating income		**4,547**	4,706
		111,464	126,276
Operating costs		**(107,698)**	(123,356)
Redundancy costs	13	**-**	(126)
Operating profit	3	**3,766**	2,794
Interest receivable	7	**103**	713
Interest payable	7	**(12)**	(396)
Net pensions scheme interest	19	**240**	600
Profit on ordinary activities before taxation		**4,097**	3,711
Tax on profit on ordinary activities	8	**(1,510)**	(1,436)
Retained profit for the financial year		**2,587**	2,275

All activities relate to continuing operations

There is no difference between the profit on ordinary activities before taxation and the retained profit 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 2009

	2009 £'000	2008 £'000
Profit for the financial year	**2,587**	2,275
Actuarial gain/(loss) on defined benefit pension scheme	**623**	(1,300)
Deferred tax on actuarial gain/(loss)	**(174)**	364
Total recognised gains and losses relating to the year	**3,036**	1,339

c2c Rail Limited
Balance Sheet

As at 31 December 2009

	Note	2009 £'000	2008 £'000
Fixed assets			
Tangible assets	9	**6,552**	9,148
Investments	10	**-**	-
Current assets			
Debtors	11	**6,493**	9,671
Deferred tax	14	**408**	259
Cash at bank and in hand		**22,515**	20,586
		29,416	30,516
Creditors: amounts falling due within one year	12	**(36,934)**	(42,756)
Net current liabilities		**(7,518)**	(12,240)
Total assets less current liabilities		**(966)**	(3,092)
Creditors: amounts falling due after one year	12	**(130)**	(402)
Provisions	13	**(809)**	(783)
Net liabilities excluding net pension liability		**(1,905)**	(4,277)
Net pension liability	19	**(154)**	(841)
Net liabilities including net pension liability		**(2,059)**	(5,118)
Capital and reserves			
Share capital	15	**1,000**	1,000
Share premium account	16	**3,000**	3,000
Profit and loss account	16	**(6,059)**	(9,118)
Shareholders' deficit		**(2,059)**	(5,118)

On behalf of the Board

R Bowley
24 May 2010

RJBowley

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 2009

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 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

	2009	2008
	£'000	£'000
Operating profit is stated after charging		
Depreciation – owned assets	**3,222**	3,383
Train maintenance services and materials	**8,571**	9,593
Operating lease rentals		
- Fixed track access	**12,814**	24,340
- Rolling stock costs	**22,033**	22,144
- Variable track access	**1,997**	3,270
- Other	**4,685**	5,509
Auditors' remuneration - audit fees	**38**	24
- other	**3**	-

Operating lease rentals (other than rolling stock costs) are primarily payable to Network Rail Infrastructure Limited Following the introduction of Control Period 4 on 1 April 2009, there was a reduction in these operating lease rentals Under the terms of our franchise agreement with the Department for Transport, these reductions led to an equivalent (subject to indexation) reduction in our revenue grant

4. Directors' emoluments

	2009	2008
	£'000	£'000
Aggregate emoluments in respect of qualifying services to the Company	**399**	443

The emoluments excluding pension contributions of the highest paid director were £143,000 (2008 £159,000) His accrued pension and accrued lump sum benefit, as at 31 December 2009, were £6,136 (2008 £4,325) and £5,162 (2008 £3,527) respectively

Retirement benefits were accruing to three directors during the year (2008 three directors) under a defined benefit scheme in respect of services provided to the Company

Mr D Franks received no remuneration from the Company for the year ended 31 December 2009

The highest paid director did not exercise any share options in the year

5. Staff costs

	2009	2008
	£'000	£'000
Wages and salaries (including share-based payment expense)	**18,639**	18,586
Social security costs	**1,360**	1,487
Pension costs (refer to note 19)	**1,590**	2,000
	21,589	22,073

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

	2009	2008
	No.	No
Managerial and administrative	**102**	107
Operational	**477**	487
	579	594

6. Share based payments

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

	2009 £'000	2008 £'000
Expense arising from share and share option plans	**23**	29

During the year ended 31 December 2009, c2c Rail Limited had four share-based payment arrangements consisting of the Executive Share Option 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 2009 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

	2009		2008	
	Number of share options	**Weighted average exercise price (p)**	Number of share options	Weighted average exercise price (p)I
Options without a nil exercise price				
At 1 January	**73,489**	**479**	1,836	354
Granted during the year	**-**	**-**	74,425	479
Lapsed during the year	**(7,692)**	**479**	(936)	922
Exercised during the year	**-**	**-**	(1,836)	681
Outstanding at 31 December[1]	**65,797**	**479**	73,489	479
Exercisable at 31 December	**-**	**-**	-	-
Options with a nil exercise price				
At 1 January	**11,884**	**nil**	4,902	nil
Granted during the year	**24,531**	**nil**	8,017	nil
Transfers during the year	**-**	**nil**	-	nil
Lapsed during the year	**(1,874)**	**nil**	-	nil
Exercised during the year	**(1,115)**	**nil**	(1,035)	nil
Outstanding at 31 December	**33,426**	**nil**	11,884	nil
Exercisable at 31 December	**-**	**-**	-	-
Total outstanding at 31 December	**99,223**		85,373	
Total exercisable at 31 December	**-**		-	

[1] Movement in allocations prior to 11 November 2009 and the corresponding weighted average exercise price have been adjusted to reflect the bonus element of the Rights Issue Details of the Rights Issue are provided in note 32 of the consolidated accounts of National Express Group PLC

6. Share based payments (continued)

The options outstanding at 31 December 2009 had an exercise price of 479p (2008[1] 479p) excluding options with a nil exercise price The range of exercise prices for options was as follows

Exercise price (p)	2009	2008
350-650	65,797	73,489

[1] The 2008 exercise prices have been adjusted to reflect the impact of the bonus element of the Rights Issue Details of the Rights Issue are provided in Note 32 of the consolidated accounts

The options have a weighted average contractual life of 2 years (2008 3 years) For options that were exercised during the year, the weighted average share price at exercise was 293p (2008 952p)

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 without nil exercise price		Share options with nil exercise price	
	2009	2008	**2009**	2008
Risk free interest rate	-	4 3%	-	-
Expected volatility	-	27 2%	-	-
Peer group volatility	-	-	-	-
Expected option life in years	-	3 years	**3 years**	3 years
Expected dividend yield	-	4 0%	**2.7%**	3 8%
Weighted average share price at grant date	-	884p	**405p**	972p
Weighted average share price adjusted for rights issue	-	459p	**210p**	505p
Weighted average exercise price at grant date	-	922p	-	-
Weighted average exercise price adjusted for rights issue	-	479p	-	-
Weighted average fair value of options at grant date	-	140p	**374p**	868p
Weighted average fair value of options granted adjusted for rights issue	-	73p	**194p**	451p

There are no 2009 assumptions and inputs because there were no share options without nil exercise price granted during 2009 to Company employees

Experience to date has shown that approximately 15% (2008 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

c2c Rail Limited
Notes to the Accounts
For the year ended 31 December 2009

7. Interest

	2009 £'000	2008 £'000
Interest receivable		
Bank interest	-	8
Interest receivable from group undertakings	103	705
	103	713
Interest payable		
Interest payable to group undertakings	(12)	(395)
Other	-	(1)
	(12)	(396)

8. Taxation

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

	2009 £'000	2008 £'000
Current taxation		
UK corporation tax charge at 28% (2008 28 5%)	(1,583)	(1,730)
Adjustments in respect of prior periods	17	86
	(1,566)	(1,644)
Deferred taxation		
Origination and reversal of timing differences	167	189
Defined benefit pension	(93)	(71)
Adjustments in respect of prior periods	(18)	90
	56	208
Tax charge on profit on ordinary activities	(1,510)	(1,436)

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

	2009 £'000	2008 £'000
Profit on ordinary activities before taxation	4,097	3,711
Notional credit at UK corporation tax rate of 28% (2008 28 5%)	1,147	1,057
Capital allowances in excess of depreciation	595	226
Effect of short-term timing differences	(100)	7
Permanent disallowables	(59)	440
Adjustments in respect of prior periods	(17)	(86)
Current tax charge for the year	1,566	1,644

9. Tangible fixed assets

	Plant and equipment owned £'000	Plant and equipment leased £'000	Total £'000
Cost			
At 1 January 2009	30,554	204	30,758
Additions	626	-	626
At 31 December 2009	**31,180**	**204**	**31,384**
Depreciation			
At 1 January 2009	21,406	204	21,610
Charge for the year	3,222	-	3,222
At 31 December 2009	**24,628**	**204**	**24,832**
Net book value			
At 31 December 2009	**6,552**	**-**	**6,552**
At 1 January 2009	9,148	-	9,148

10. Investments

The Company held the following unlisted investments at 31 December 2009 and 31 December 2008

	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

c2c Rail Limited
Notes to the Accounts
For the year ended 31 December 2009

11. Debtors

	2009 £'000	2008 £'000
Trade debtors	**3,723**	5,813
Amounts due from group undertakings	**193**	50
Other debtors	**782**	874
Prepayments and accrued income	**1,795**	2,934
	6,493	9,671

12. Creditors: amounts falling due within one year

	2009 £'000	2008 £'000
Trade creditors	**8,255**	12,163
Amounts due to group undertakings	**594**	3,104
Deferred season ticket income	**16,602**	18,056
Social security and other taxation	**408**	441
Accruals and deferred income	**3,725**	5,122
Other creditors	**6,390**	2,721
Corporation tax	**960**	1,149
	36,934	42,756

Other creditors includes deferred fixed asset grants of £296,000 (2008 £293,000) which are due within one year Amounts due after one year are disclosed below

Creditors: amounts falling due after one year

	2009 £'000	2008 £'000
Deferred fixed asset grants	**130**	402
	130	402

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13. Provisions

	1 January 2009 £'000	Provided in the year £'000	Utilised or transferred in the year £'000	**31 December 2009 £'000**
Insurance	**657**	202	(50)	**809**
Redundancy	**126**	-	(126)	**-**
	783	202	(176)	**809**

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

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 2009	259
Increase in the year	149
At 31 December 2009	**408**

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

	2009 £'000	2008 £'000
Capital allowances	**404**	251
Other timing differences	**4**	8
	408	259

15. Share capital

Authorised	**2009 £'000**	2008 £'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

16. Reserves

	Share capital	Share premium account	Profit and loss account	Total
	£'000	£'000	£'000	£'000
At 1 January 2009	1,000	3,000	(9,118)	(5,118)
Actuarial gain on defined benefit pension scheme (Note 19)	-	-	623	623
Deferred tax on actuarial gain	-	-	(174)	(174)
Share based payments	-	-	23	23
Retained profit for the year	-	-	2,587	2,587
At 31 December 2009	**1,000**	**3,000**	**(6,059)**	**(2,059)**

17. Reconciliation of movements in shareholders' deficit

	2009	2008
	£'000	£'000
Total recognised profit in the year	**3,036**	1,339
Share based payments	**23**	29
	3,059	1,368
Shareholders' deficit at 1 January	**(5,118)**	(6,486)
Shareholders' deficit at 31 December	**(2,059)**	(5,118)

18. Operating lease commitments

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

	Fixed Track Access 2009 £'000	Rolling Stock 2009 £'000	Land and Buildings 2009 £'000	Other 2009 £'000	Total 2009 £'000
Leases which expire					
Within one year	-	-	-	7	7
Within two to five years	9,417	22,034	4,217	716	36,384
	9,417	**22,034**	**4,217**	**723**	**36,391**

	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**

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

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

	2009 £'000	2008 £'000
Balance Sheet		
Net pension liability (net of deferred tax)	**(9,360)**	(3,600)
Statement of total recognised gains and losses		
Actuarial (losses)	**(7,690)**	(5,000)
Tax on actuarial (losses)	**2,153**	1,400
	(5,537)	(3,600)
Profit and loss account		
Finance income	**(310)**	-
Deferred tax credit	**87**	-
	(223)	-

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%

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

	2009	2008	2007
Rate of increase in salaries	**4.5%**	3 8%	4 8%
Rate of increase of pensions	**3.5%**	2 8%	3 3%
Discount rate	**5.75%**	6 3%	5 8%
Inflation assumption	**3.5%**	2 8%	3 3%
Expected rates of return on scheme assets			
Equities	**8.0%**	8 0%	8 0%
Bonds	**4.5%**	6 1%	5 8%
Properties	**6.3%**	5 9%	6 3%
Other	**1.25%**	1 3%	4 8%
Post retirement mortality in years			
Current pensioners at 65 – male			17 8
Current pensioners at 65 – male, pension under £8,500 pa or pensionable pay under £30,000 pa	**19.8**	19 8	
Current pensioners at 65 – male – others	**21.5**	21 5	
Current pensioners at 65 – female			20 1
Current pensioners at 65 – female, pension under £3,000 pa or pensionable pay under £30,000 pa	**21.7**	21 7	
Current pensioners – female – others	**22.7**	22 7	
Future pensioners at 65 – male			18 8
Future pensioners at 65 – male, pension under £8,500 pa or pensionable pay under £30,000 pa	**22.2**	22 2	
Future pensioners at 65 – male – others	**23.7**	23 7	
Future pensioners at 65 - female			21 3
Future pensioners at 65 – female, pension under £3,000 pa or pensionable pay under £30,000 pa	**23.2**	23 2	
Future pensioners at 65 – female – others	**24.2**	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

	2009 £'000	2008 £'000
Current service cost	(1,590)	(2,000)
Total operating charge	(1,590)	(2,000)

Analysis of the amount credited to finance income

	2009 £'000	2008 £'000
Expected return on pension scheme assets	2,060	2,700
Interest on pension scheme liabilities	(2,130)	(2,100)
Interest on franchise adjustment	310	-
Net credit to finance income	240	600

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

	2009 £'000	2008 £'000
Actual return less expected return on pension scheme assets	2,428	(12,200)
Other actuarial (losses)/gains	(1,805)	10,900
Actuarial gain/(loss) recognised in the statement of total recognised gains and losses	623	(1,300)

The actual return on plan assets is a gain of £4,488,000 (2008 loss of £9,500,000)

The amounts recognised in the balance sheet at 31 December are

	2009 £'000	2008 £'000	2007 £'000
Equities	42,565	36,100	46,900
Bonds	5,098	4,300	6,300
Property	4,643	4,500	5,700
Cash	-	100	-
Total fair value of scheme assets	52,306	45,000	58,900
Present value of scheme liabilities	(74,330)	(55,208)	(59,100)
Franchise adjustment	13,000	5,000	-
Defined benefit obligation	(61,330)	(50,208)	(59,100)
Members' share of deficit	8,810	4,040	78
Deficit in the scheme	(214)	(1,168)	(122)
Related deferred tax asset	60	327	34
Net pension liability	(154)	(841)	(88)

19. Retirement benefits (continued)

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

	2009	2008
	£'000	£'000
Fair value of scheme assets at 1 January	**45,000**	58,900
Expected return	**2,060**	2,700
Cash contributions – Employer	**1,722**	1,500
Cash contributions - Employee	**1,137**	1,100
Benefits paid	**(2,907)**	(700)
Members' share of return on assets	**2,866**	(6,300)
Actuarial gain/(loss) recognised in statement of total recognised gains and losses	**2,428**	(12,200)
Fair value of scheme assets at 31 December	**52,306**	45,000

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

	2009	2008
	£'000	£'000
Defined benefit obligation at 1 January	**(50,208)**	(59,100)
Current service cost	**(1,590)**	(2,000)
Benefits paid	**2,907**	700
Cash contributions - Employees	**(1,137)**	(1,100)
Finance charge	**(2,130)**	(2,100)
Interest on franchise adjustment	**310**	-
Members' share of movement on liabilities	**(7,677)**	2,492
Actuarial (loss)/ gain recognised in statement of total recognised gains and losses	**(1,805)**	10,900
Defined benefit obligation at 31 December	**(61,330)**	(50,208)

19. Retirement benefits (continued)

History of experience gains and losses

	2009	2008	2007	2006
	£'000	£'000	£'000	£'000
Fair value of scheme assets	**52,306**	45,000	58,900	53,600
Present value of the defined benefit obligation	**(61,330)**	(50,208)	(59,100)	(57,300)
Members' share of deficit	**8,810**	4,040	78	2,400
Deficit in scheme	**(214)**	(1,168)	(122)	(1,300)
Experience adjustments arising on liabilities	**10**	200	(500)	(1,800)
Experience adjustments arising on assets	**2,428**	(12,200)	600	2,100

The Company's expected cash contribution to the scheme in 2009 is £1,660,000 The cumulative amount of actuarial gains recognised in the statement of total recognised gains and losses since 1 January 2004 is £284,000 (2008 loss of £339,000) 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

	2009	2008
	£'000	£'000
Contracted	**67**	280
Authorised but not contracted	**24**	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 2009 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 2009

Copies of these accounts are available from -

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