c2c Rail Limited

Directors' Report and Accounts

For the year ended 31 December 2010

Company number 2938993

Registered office:

National Express House
Birmingham Coach Station
Mill Lane, Digbeth
Birmingham B5 6DD

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 2010.

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 26 May 2013.

Visit our website at www.c2c-online.co.uk, for real time travel information and timetables, fares, station facilities available, promotional offers and ideas for days out and for further details on our business.

Results and dividend

Passenger income increased in the year by over 5.7% to £111,859,000 compared to £105,822,000 in 2009. The profit before tax was £10,261,000 (2009: £4,097,000).

The profit for the year attributable to the shareholders amounts to £6,943,000 (2009: £2,587,000). The directors do not recommend the payment of a dividend (2009: £nil).

Review of business and outlook

The Company's operating profit again improved significantly to £9,703,000 (2009: £3,766,000). This was a very creditable result, given the continuing uncertainties in the economic environment. Our passenger revenues continued to grow, aided by the further roll out of the Oyster pay as you go (PAYG) scheme and our high levels of operational reliability and punctuality. We continue to control discretionary costs rigorously. We anticipate that the Company will remain profitable in 2011, recognising that the ongoing economic risks to passenger revenue remain.

The Company continued to deliver strong operational results; during the year 95.0% of our trains arrived on time. Customer satisfaction remained high with a rating of 91% in the latest survey. We continue to progress plans to drive these measures higher.

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 30 of the National Express Group PLC 2010 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 116 to 119 of the National Express Group PLC 2010 Annual Report and Accounts

Operational review

During 2010 Operational performance remained strong with c2c ending the year with a Public Performance Measure (PPM) MAA of 95.0%. Throughout the vast majority of 2010 c2c held first position in the Industry performance league table during which we recorded an industry period PPM record of 98.8%. We are progressing our Right Time, Every Time initiative to drive further improvements.

The latest National Passenger Survey (NPS) results from the autumn 2010 wave produced a 91% satisfaction rating, in line with 2009. This is eight percentage points above the average for London & South East peer group. We have continued to focus in on customer communication, in particular during times of disruption, and this is reflected in a 7% 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%, as last year. We are committed to retaining this position and meeting our customers' needs, so maintaining very high levels of safety, 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. During 2011 we intend to enhance the level of energy saved by the regenerative braking system through two planned traction software changes. We will also work with Bombardier and Network Rail to introduce traction energy billing based on measured consumption rather than modelling. This will create an additional incentive for reducing electricity consumption in the future.

During 2010 a lighting management scheme was introduced to reduce depot electricity consumption and in 2011 we plan to reduce fuel consumption by replacing the shed and office heating boilers with more efficient gas boilers.

We are delighted to report that we have achieved ISO 14001 Environmental Accreditation for train maintenance and cleaning activities at our East Ham and Shoeburyness depots and also for our station cleaning activities.

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	*(resigned 05 May 2010)*
S Rees	
A Chivers	*(appointed 18 February 2010)*
K Frazer	*(appointed 04 November 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. 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. The Champions meet regularly to make recommendations which are then developed into Company action plans.

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 25% for employee accidents and 6 % for customer accidents. Contractor accidents were however up 8% on 2009, this increase being attributable entirely to the snow and ice in December.

One signal was passed at danger without authority during the year. This represents a 50% reduction on 2009. The signal passed at danger was recorded within the maintenance depot boundary and not on the mainline railway.

Charitable and political donations

The Company made charitable donations of £1,970 during the year (2009: £619). There were no political donations (2009: £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 41.7 days (2009 – 33.1 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

R Bowley
Director

Date: 27th May 2011

Registered Office:
National Express House
Birmingham Coach Station
Mill Lane
Digbeth
Birmingham B5 6DD

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 2010 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet 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 2010 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

Date: 27th May 2011

c2c Rail Limited
Profit and Loss Account

For the year ended 31 December 2010

	Note	**2010** **£'000**	2009 £'000
Turnover	2		
Passenger income		**111,859**	105,822
Revenue grant		-	1,095
Other operating income		**4,236**	4,547
		116,095	111,464
Operating costs		**(106,392)**	(107,698)
Operating profit	3	**9,703**	3,766
Interest receivable	7	**77**	103
Interest payable	7	**-**	(12)
Net pensions scheme interest	19	**481**	240
Profit on ordinary activities before taxation		**10,261**	4,097
Tax on profit on ordinary activities	8	**(3,318)**	(1,510)
Retained profit for the financial year		**6,943**	2,587

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 2010

	2010	2009
	£'000	£'000
Profit for the financial year	**6,943**	2,587
Actuarial (loss)/gain on defined benefit pension scheme	**(1,030)**	623
Deferred tax on actuarial (loss)/gain	**276**	(174)
Total recognised gains and losses relating to the year	**6,189**	3,036

c2c Rail Limited
Balance Sheet
Company Number: 2938993
As at 31 December 2010

	Note	2010	2009
		£'000	£'000
Fixed assets			
Tangible assets	9	**4,092**	6,552
Investments	10	**-**	-
Current assets			
Debtors	11	**8,264**	6,493
Deferred tax	14	**585**	408
Cash at bank and in hand		**31,786**	22,515
		40,635	29,416
Creditors: amounts falling due within one year	12	**(38,700)**	(36,934)
Net current assets/(liabilities)		**1,935**	(7,518)
Total assets less current liabilities		**6,027**	(966)
Creditors: amounts falling due after one year	12	**(135)**	(130)
Provisions	13	**(942)**	(809)
Net assets/(liabilities) excluding net pension liability		**4,950**	(1,905)
Net pension liability	19	**(795)**	(154)
Net assets/(liabilities) including net pension liability		**4,155**	(2,059)
Capital and reserves			
Share capital	15	**1,000**	1,000
Share premium account	16	**3,000**	3,000
Profit and loss account	16	**155**	(6,059)
Equity Shareholders' funds/(deficit)		**4,155**	(2,059)

On behalf of the Board

R Bowley

Date: 27th May 2011

The notes on pages 13 to 31 form part of the accounts.

c2c Rail Limited
Notes to the Accounts
For the year ended 31 December 2010

1. **Accounting policies**

   a) **Basis of preparation**

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

   b) **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)**

c) 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.

d) 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.

e) Taxation

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

c2c Rail Limited
Notes to the Accounts
For the year ended 31 December 2010

1. **Accounting policies (continued)**

f) 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 - 20 years or lease term

g) Leased assets

Assets held under finance leases are included as tangible fixed assets and depreciated over their expected useful lives. The corresponding obligations relating to finance leases, excluding finance charges allocated to future periods, are included in creditors. Finance costs are allocated to the profit and loss account over the period of the lease in accordance with the interest rate inherent in the lease.

Operating lease rentals are charged to the profit and loss account on a straight-line basis over the lease term.

h) Grants

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

i) Retirement benefits

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.

j) 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.

k) 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

	2010	2009
	£'000	£'000
Operating profit is stated after charging:		
Depreciation – owned assets	**2,591**	3,222
Train maintenance services and materials	**10,168**	8,571
Operating lease rentals		
- Fixed track access	**9,489**	12,814
- Rolling stock costs	**22,034**	22,033
- Variable track access	**1,592**	1,997
- Other	**4,422**	4,685
Auditors' remuneration - audit fees	**30**	38
- other	**3**	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

	2010	2009
	£'000	£'000
Aggregate emoluments in respect of qualifying services to the Company	**741**	399

The emoluments excluding pension contributions of the highest paid director were £237,000 (2009: £143,000). His accrued pension and accrued lump sum benefit, as at 31 December 2010, were £7,927 (2009: £6,136) and £6,835 (2009: £5,162) respectively.

Retirement benefits were accruing to 4 directors during the year (2009: three directors) under a defined benefit scheme in respect of services provided to the Company.

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

5. Staff costs

	2010	2009
	£'000	£'000
Wages and salaries (including share-based payment expense)	**18,980**	18,639
Social security costs	**1,379**	1,360
Pension costs (refer to note 19)	**2,030**	1,590
	22,389	21,589

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

	2010	2009
	No.	No.
Managerial and administrative	**96**	102
Operational	**455**	477
	551	579

c2c Rail Limited
Notes to the Accounts
For the year ended 31 December 2010

6. Share based payments

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

	2010 £'000	2009 £'000
Expense arising from share and share option plans	**25**	23

During the year ended 31 December 2010, 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(b) to the National Express Group PLC 2010 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:

	2010		2009	
	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	**65,797**	**479**	73,489	479
Granted during the year	**-**	**-**	-	-
Transfers during the year	**6,359**	**354**	-	-
Lapsed during the year	**(13,672)**	**479**	(7,692)	479
Exercised during the year	**-**	**-**	-	-
Outstanding at 31 December	**58,484**	**465**	65,797	479
Exercisable at 31 December	**6,359**	**354**	-	-
Options with a nil exercise price:				
At 1 January	**33,426**	**nil**	11,884	nil
Granted during the year	**28,238**	**nil**	24,531	nil
Transfers during the year	**10,443**	**nil**	-	nil
Lapsed during the year	**-**	**nil**	(1,874)	nil
Exercised during the year	**(3,052)**	**nil**	(1,115)	nil
Outstanding at 31 December	**69,055**	**nil**	33,426	nil
Exercisable at 31 December	**-**	**-**	-	-
Total outstanding at 31 December	**127,539**		99,223	
Total exercisable at 31 December	**6,359**		-	

6. Share based payments (continued)

The options outstanding at 31 December 2010 had a weighted average exercise price of 465p (2009: 479p) excluding options with a nil exercise price. The range of exercise prices for options was as follows:

Exercise price (p)	**2010**	2009
350-400	**6,359**	-
400-500	**52,125**	65,797
	58,484	65,797

The options have a weighted average contractual life of 1 year (2009: 2 years). For options that were exercised during the year, the weighted average share price at exercise was 242p (2009: 293p).

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	
	2010	2009
Risk free interest rate	**1.8% - 3.0%**	2.0%
Expected volatility	**52.7%**	48.4%
Peer group volatility	**49.6% - 50.8%**	49.9%
Expected option life in years	**3 years**	3 years
Expected dividend yield	**0%**	2.7%
Weighted average share price at grant date	**230p**	210p
Weighted average fair value of options at grant date	**230p**	194p

No share options were granted in 2010 (2009: none) without a nil exercise price.

Exercise to date has shown that approximately 15% (2009: 15%) of options are exercised early, principally due to leavers. 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 three 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 dividend 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 2010

7. Interest

	2010 £'000	2009 £'000
Interest receivable		
Bank interest		-
Interest receivable from group undertakings	77	103
	77	103
Interest payable		
Interest payable to group undertakings	-	(12)
	-	(12)

8. Taxation

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

	2010 £'000	2009 £'000
Current taxation:		
UK corporation tax charge at 28% (2009: 28%)	**3,168**	1,583
Adjustments in respect of prior periods	**286**	(17)
	3,454	1,566
Deferred taxation:		
Origination and reversal of timing differences	**5**	(167)
Defined benefit pension	**41**	93
Effects of changes in Tax rate	**22**	-
Adjustments in respect of prior periods	**(204)**	18
	(136)	(56)
Tax charge on profit on ordinary activities	**3,318**	1,510

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

	2010 £'000	2009 £'000
Profit on ordinary activities before taxation	**10,261**	4,097
Notional charge at UK corporation tax rate of 28% (2009: 28%)	**2,873**	1,147
Expenses not deductible for tax purposes	**342**	(59)
Depreciation (less than)/ in excess of capital allowances	**(8)**	595
Effect of short-term timing differences	**4**	(100)
Pension Scheme Adjustments	**(43)**	-
Adjustments in respect of prior periods	**286**	(17)
Current tax charge for the year	**3,454**	1,566

8. Taxation (continued)

On the 22 June 2010, the UK Chancellor of the Exchequer announced a number of corporate tax reforms. The following changes to corporation tax will have an impact on the company.

- Corporation tax rate reduction from 28% to 24% over 4 years. This reduction will be staggered as a 1% reduction each year, the first reduction of 1% is effective from 1 April 2011.

- As of 1 April 2012 the tax amortisation rate on plant and machinery capital additions will be reduced from 20% to 18% per annum. There has also been a decrease of the tax amortisation rate on long-life assets (those assets capable of being used for more than 25 years) from 10% to 8%.

On the 22 March 2011, the UK Chancellor of the Exchequer announced a further 1% reduction in the UK Corporation tax rate to 26% effective from 1 April 2011, along with subsequent reductions of 1% each year to a final rate of 23%.

At the balance sheet date a rate of 27% was substantively enacted, to come into effect from 1 April 2011. The change in rate from 28% to 27% has resulted in a tax charge of £21,817 to the profit and loss account.

The reduction in rate from 28% to 26% was substantively enacted on 29 March 2011. If the entire deferred tax asset were to unwind at 26%, the effect of the changes would be to reduce the deferred tax asset provided at 31 December 2010 by £32,551.

9. Tangible fixed assets

	Plant and equipment owned £'000	Plant and equipment leased £'000	Total £'000
Cost			
At 1 January 2010	31,180	204	31,384
Additions	131	-	131
At 31 December 2010	**31,311**	**204**	**31,515**
Depreciation			
At 1 January 2010	24,628	204	24,832
Charge for the year	2,591	-	2,591
At 31 December 2010	**27,219**	**204**	**27,423**
Net book value			
At 31 December 2010	**4,092**	-	**4,092**
At 1 January 2010	6,552	-	6,552

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10. Investments

The Company held the following unlisted investments at 31 December 2010 and 31 December 2009:

	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

	2010 £'000	2009 £'000
Trade debtors	**5,486**	3,723
Amounts due from group undertakings	**38**	193
Other debtors	**790**	782
Prepayments and accrued income	**1,950**	1,795
	8,264	6,493

12. Creditors: amounts falling due within one year

	2010 £'000	2009 £'000
Trade creditors	**9,281**	8,255
Amounts due to group undertakings	**535**	594
Deferred season ticket income	**17,621**	16,602
Social security and other taxation	**347**	408
Accruals and deferred income	**3,793**	3,725
Other creditors	**3,669**	6,390
Corporation tax	**3,454**	960
	38,700	36,934

Other creditors includes deferred fixed asset grants of £96,000 (2009: £296,000) which are due within one year. Amounts due after one year are disclosed below:

Creditors: amounts falling due after one year

	2010 £'000	2009 £'000
Deferred fixed asset grants	**135**	130
	135	130

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13. Provisions

	1 January 2010 £'000	Provided in the year £'000	Utilised or transferred in the year £'000	**31 December 2010 £'000**
Insurance	809	206	(73)	**942**

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 2010	408
Increase in the year	177
At 31 December 2010	**585**

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

	2010 £'000	2009 £'000
Capital allowances	**578**	404
Other timing differences	7	4
	585	408

15. Share capital

	2010 £'000	2009 £'000
Authorised		
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 2010	1,000	3,000	(6,059)	(2,059)
Actuarial loss on defined benefit pension scheme (Note 19)	-	-	(1,030)	(1,030)
Deferred tax on actuarial loss	-	-	276	276
Share based payments	-	-	25	25
Retained profit for the year	-	-	6,943	6,943
At 31 December 2010	**1,000**	**3,000**	**155**	**4,155**

17. Reconciliation of movements in shareholders' funds/(deficit)

	2010	2009
	£'000	£'000
Total recognised profit in the year	**6,189**	3,036
Share based payments	**25**	23
	6,214	3,059
Shareholders' deficit at 1 January	**(2,059)**	(5,118)
Shareholders' funds/(deficit) at 31 December	**4,155**	(2,059)

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18. Operating lease commitments

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

	Fixed Track Access	Rolling Stock	Land and Buildings	Other	Total
	2010	**2010**	**2010**	**2010**	**2010**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Leases which expire:					
Within two to five years	9,545	23,279	3,506	1,020	37,350
	9,545	**23,279**	**3,506**	**1,020**	**37,350**

	Fixed Track Access	Rolling Stock	Land and Buildings	Other	Total
	2009	2009	2009	2009	2009
	£'000	£'000	£'000	£'000	£'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**

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.

19. Retirement benefits (continued)

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.

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

	2010	2009
	£'000	£'000
Balance Sheet		
Net pension liability (net of deferred tax)	(8,559)	(9,360)
Statement of total recognised gains and losses		
Actuarial gain/(losses)	2,491	(7,690)
Tax on actuarial gain/(losses)	(673)	2,153
	1,818	(5,537)
Profit and loss account		
Finance income	(748)	(310)
Deferred tax credit	202	87
	(546)	(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:

	2010	2009	2008
Rate of increase in salaries	**3.9%**	4.5%	3.8%
Rate of increase of pensions	**2.9%**	3.5%	2.8%
Discount rate	**5.4%**	5.75%	6.3%
Inflation assumption (RPI)	**3.5%**	3.5%	2.8%
Inflation assumption (CPI)	**2.9%**		
Expected rates of return on scheme assets			
Equities	**7.7%**	8.0%	8.0%
Bonds	**4.2%**	4.5%	6.1%
Properties	**6.0%**	6.3%	5.9%
Other	**1.25%**	1.25%	1.3%
Post retirement mortality in years:			
Current pensioners at 65 – male			
Current pensioners at 65 – male, pension under £8,500 pa or pensionable pay under £30,000 pa	**19.8**	19.8	19.8
Current pensioners at 65 – male – others	**21.5**	21.5	21.5
Current pensioners at 65 – female			
Current pensioners at 65 – female, pension under £3,000 pa or pensionable pay under £30,000 pa	**21.7**	21.7	21.7
Current pensioners – female – others	**22.7**	22.7	22.7
Future pensioners at 65 – male			
Future pensioners at 65 – male, pension under £8,500 pa or pensionable pay under £30,000 pa	**22.2**	22.2	22.2
Future pensioners at 65 – male – others	**23.7**	23.7	23.7
Future pensioners at 65 - female			
Future pensioners at 65 – female, pension under £3,000 pa or pensionable pay under £30,000 pa	**23.2**	23.2	23.2
Future pensioners at 65 – female – others	**24.2**	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.

Following the Government's announced change in the statutory measure of inflation for pension schemes, from RPI to CPI, the appropriate assumptions have been updated in the actuarial valuations as at December 2010. The actuarial loss has been recognised in the Statement of Recognised Gains and Losses.

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19. Retirement benefits (continued)

Analysis of the amount charged to operating profit:

	2010 £'000	2009 £'000
Current service cost	(2,030)	(1,590)
Total operating charge	(2,030)	(1,590)

Analysis of the amount credited to finance income:

	2010 £'000	2009 £'000
Expected return on pension scheme assets	2,368	2,060
Interest on pension scheme liabilities	(2,635)	(2,130)
Interest on franchise adjustment	748	310
Net credit to finance income	481	240

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

	2010 £'000	2009 £'000
Actual return less expected return on pension scheme assets	1,317	2,428
Other actuarial losses	(2,347)	(1,805)
Actuarial (loss)/gain recognised in the statement of total recognised gains and losses	(1,030)	623

The actual return on plan assets is a gain of £3,685,000 (2009: £4,488,000).

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

	2010 £'000	2009 £'000	2008 £'000
Equities	**55,831**	42,565	36,100
Bonds	**2,784**	5,098	4,300
Property	**-**	4,643	4,500
Cash	**-**	-	100
Total fair value of scheme assets	**58,615**	52,306	45,000
Present value of scheme liabilities	**(79,193)**	(74,330)	(55,208)
Franchise adjustment	**11,257**	13,000	5,000
Defined benefit obligation	**(67,936)**	(61,330)	(50,208)
Members' share of deficit	**8,232**	8,810	4,040
Deficit in the scheme	**(1,089)**	(214)	(1,168)
Related deferred tax asset	**294**	60	327
Net pension liability	**(795)**	(154)	(841)

19. Retirement benefits (continued)

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

	2010 £'000	2009 £'000
Fair value of scheme assets at 1 January	**52,306**	45,000
Expected return	**2,368**	2,060
Cash contributions – Employer	**1,702**	1,722
Cash contributions - Employee	**1,140**	1,137
Benefits paid	**(2,525)**	(2,907)
Members' share of return on assets	**2,307**	2,866
Actuarial loss recognised in statement of total recognised gains and losses	**1,317**	2,428
Fair value of scheme assets at 31 December	**58,615**	52,306

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.

	2010 £'000	2009 £'000
Defined benefit obligation at 1 January	**(61,330)**	(50,208)
Current service cost	**(2,030)**	(1,590)
Benefits paid	**2,525**	2,907
Cash contributions - Employees	**(1,140)**	(1,137)
Finance charge	**(2,635)**	(2,130)
Interest on franchise adjustment	**748**	310
Members' share of movement on liabilities	**(1,727)**	(7,677)
Actuarial loss recognised in statement of total recognised gains and losses	**(2,347)**	(1,805)
Defined benefit obligation at 31 December	**(67,936)**	(61,330)

19. Retirement benefits (continued)

History of experience gains and losses:

	2010	2009	2008	2007
	£'000	£'000	£'000	£'000
Fair value of scheme assets	**58,615**	52,306	45,000	58,900
Present value of the defined benefit obligation	**(67,936)**	(61,330)	(50,208)	(59,100)
Members' share of deficit	**8,232**	8,810	4,040	78
Deficit in scheme	**(1,089)**	(214)	(1,168)	(122)
Experience adjustments arising on liabilities	**(3,130)**	10	200	(500)
Experience adjustments arising on assets	**1,092**	2,428	(12,200)	600

The Company's expected cash contribution to the scheme in 2011 is £1,700,000. The cumulative amount of actuarial losses recognised in the statement of total recognised gains and losses since 1 January 2004 is £746,000 (2009: gain of £284,000). 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

	2010	2009
	£'000	£'000
Contracted	-	67
Authorised but not contracted	40	24

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 2010 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.

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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 2010.

Copies of these accounts are available from:-

The Secretary
National Express Group PLC
National Express House
Birmingham Coach Station
Mill Lane
Digbeth
Birmingham
B5 6DD