

**c2c Rail Limited**  
**Directors' Report and Accounts**  
**For the year ended 31 December 2012**

Company number 2938993

Registered office

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

WEDNESDAY



\*A2LKJQEW\*

A15

20/11/2013

#224

COMPANIES HOUSE

## Contents

Directors' Report	3
Directors' Responsibilities Statement	9
Independent Auditor's Report	10
Profit and Loss Account	11
Statement of Total Recognised Gains and Losses	12
Balance Sheet	13
Notes to the Accounts	14

# c2c Rail Limited

## Directors' Report

The Directors present their annual report, business review, the financial statements and auditor's report for the year ended 31 December 2012

### Principal activities

The principal activity of the Company during the last financial year was the operation of a franchise to run passenger railway services between London Fenchurch Street and Shoeburyness in Essex. The original franchise ran for 15 years to May 2011 and was subsequently extended by a further two years and will end on 26 May 2013. An interim franchise has been signed to follow on, and this will run until September 2014 with a possible extension to April 2015.

### Results and dividend

The profit for the year after taxation amounted to £8,456,000 (2011 - £11,654,000). Retained profit of £2,456,000 (2011 - £6,654,000) has been transferred to reserves.

The directors paid an interim dividend of £6,000,000 (2011 - £5,000,000). No final dividend has been proposed or paid (2011 - £nil).

### Review of business and outlook

The Company's operating profit was £9,559,000 (2011 - £14,692,000). 2012 was the first full year of operating under the franchise extension agreement, which provides a mechanism for sharing profits earned above a certain threshold with the Department for Transport (DfT).

Operating profitability was underpinned by passenger revenue growth of 8.8%. This impressive growth reflects the impact of our industry leading operational reliability and punctuality and a very successful Olympics and Paralympics in the summer of 2012: our services to West Ham were a major gateway to the main stadium at Stratford, whilst the mountain biking events at Hadleigh Castle were served by our services to Leigh-on-Sea. We continue to monitor our cost base closely. The increases in operating costs in the year (over than normal indexation) primarily relate to additional franchise and profit share payments to the DfT, together with the cost of providing additional services during the period of the Olympics and Paralympics.

The franchise extension agreed with the DfT in late 2010 ran until 26 May 2013. In May 2013 we reached agreement with the DfT on a new interim franchise which will run until September 2014 with a possible extension to April 2015. A bidding process for a 15 year franchise (which will follow on from the interim franchise) is expected to take place in the second half of 2013.

We expect the Company to remain profitable in 2013, subject to the risks and uncertainties detailed below.

# c2c Rail Limited

## Directors' Report

### Key risks and uncertainties

The Company is subject to internal and external risk factors. External risks include general economic conditions, the award of new franchises/franchise extensions, 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 Business Review on pages 43 to 45 of the National Express Group PLC 2012 Annual Report and Accounts.

Further information on the financial risk management objectives and policies of the Group as a whole, and by default the Company, can be found in Note 30 on pages 125 to 129 of the National Express Group PLC 2012 Annual Report and Accounts.

### Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out above. The directors believe that the company is well placed to manage its business risks successfully despite the current uncertain economic outlook. The directors have prepared cash flow forecasts for a period exceeding 12 months from the approval of these financial statements on this basis. Following consideration of these forecasts, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future and for not less than 12 months from the approval of these financial statements. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

### Operational review

During 2012 operational performance remained strong with c2c ending the year with a Public Performance Measure (PPM) Moving Annual Average (MAA) of 97.5% setting a new UK record and remaining in first position in the industry performance league table. Right Time Performance delivery was strong, with our MAA reaching 84.4%, the highest ever achieved by c2c and attaining fourth position in the UK table of Train Operators.

During 2012, we provided 15 million additional seats over both the Olympics and Paralympic Games. Over the 17 days of the Olympics and the 11 days of the Paralympics, c2c averaged 98.5% PPM and 98.6% PPM respectively. For the Hadleigh Mountain Bike event we achieved a Customer Transport satisfaction score of 93%, which was the highest rating for any Games time event.

The latest National Passenger Survey (NPS) results from the Autumn 2012 Wave 27 produced a 93% overall satisfaction rating. This exceeded the strategic target of 92% set for 2013. c2c's highest ever satisfaction results were also best in class compared to the London and South East (LSE) peer group of train operating companies (TOCs). We also achieved 13 out of 36 best in class scores, four of which were the highest national scores of any TOC.

# c2c Rail Limited

## Directors' Report

### Operational review (continued)

The main driver of these improvements has been the continued focus on punctuality combined with a newly introduced customer strategy under the badge of the '*nobody tries harder*' customer value. In addition to the consistent service delivery, our business plan delivered customer focused service training to all frontline staff to enhance awareness of customer expectations.

We have continued with improvements to providing customer communication and for example the provision of information at stations increased by 2% to 87% and how we dealt with delays increased by 22% to 62%. c2c's exceptional performance over the year was recognised by customers giving a 96% rating for the punctuality and reliability of our train services, a 4% improvement. Other train service factors also showed significant improvement, for example the 'connection with other train services' increased from 79% to 87%, reflecting the success of the timetable change which increased the number of peak West Ham stops. Satisfaction with train cleanliness remains at a very high level.

Customers also gave improved satisfaction ratings for all of our station factors and *overall* satisfaction with the station increased by 1% to 87%, reflecting investments in the Thorpe Bay smart station concept, lift installations at Landon and Tilbury Town and dilapidation works at Barking, Leigh-on-Sea and Chaikwell. Going forward, the customer strategy will continue deployment of NPS Action plans to maintain the highest levels of customer satisfaction.

### 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 thus reduces train power consumption and CO<sub>2</sub> emissions by about 20%. During 2012 we implemented further software which enabled regeneration to improve by nearly 5%. During 2013 we will explore the opportunity of enhancing our fleet with the addition of on-board energy metering and energy management capabilities.

During 2013 we will install water recycling facilities at our carriage wash plants at East Ham and Shoeburyness depots, which will enable a 40% reduction in fresh water consumption.

We continue to deliver exceptional waste recycling results at our depots, with our MAA rising from 93% to 97% during 2012. Recycling from stations continues to improve and we will aim to achieve 90% during 2013.

In February 2013, we extended our ISO 14001 certification across the company and obtained ISO 50001 certification for Energy Management.



# c2c Rail Limited

## Directors' Report

### Employees (continued)

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 news update via the company wide intranet to all employees informing them of developments within the Company. The information is also printed on notice boards.

We conduct an annual Employee Survey as a mechanism to gain staff perception on the business. Action plans are developed to address any area for improvement identified and as a means of driving improvement in levels of employee engagement. Employee workgroups, which focus on a range of key areas for the business, were established during the year as a mechanism for further involving our people in the business. Bronze Investors in People accreditation was achieved for the business as a whole during 2012.

### 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 9% for employee accidents (normalised per 1000 employees). A 20% increase in customer accidents was recorded in 2012 but there has been an overall reduction of 17% from 2008 to 2012.

Five signals were passed at danger without authority during the year (2011: two). All five of the signals were on Network Rail infrastructure and involved a passenger train.

### Charitable and political donations

The Company made charitable donations of £11,190 during the year to a number of local and national youth charities (2011: £150). There were no political donations (2011: £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 62 days (2011: 46 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

### Auditor

Deloitte LLP were appointed as auditor in 2011 in accordance with Section 487 of the Companies Act 2006, Deloitte LLP shall be deemed to be re-appointed as the Company's auditor 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

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006

On behalf of the Board



R Bowley  
Director

Date 23 May 2013

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



# c2c Rail Limited

## Directors' Responsibilities Statement

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). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the 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 accounting estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and 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 auditor's report to the members of c2c Rail Limited

We have audited the financial statements of c2c Rail Limited for the year ended 31 December 2012 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes 1 to 27. 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, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## 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. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## 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 2012 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.

  
Kevin Thompson (Senior Statutory Auditor)  
for and on behalf of Deloitte LLP,  
Chartered Accountants and Statutory Auditor  
London, United Kingdom

Date 23 May 2013

**c2c Rail Limited**  
**Profit and Loss Account**

**For the year ended 31 December 2012**

	Note	2012 £'000	2011 £'000
Turnover	2		
Passenger income		133,446	172,685
Other operating income		<u>3,914</u>	<u>5,142</u>
		<u>137,360</u>	<u>127,827</u>
 Operating costs		 <u>(127,801)</u>	 <u>(113,135)</u>
 Operating profit	 3	 9,559	 14,692
Interest receivable	7	184	93
Net pensions scheme interest	22	<u>769</u>	<u>640</u>
<b>Profit on ordinary activities before taxation</b>		<b>10,512</b>	<b>15,425</b>
 Tax on profit on ordinary activities	 8	 <u>(2,056)</u>	 <u>(3,771)</u>
 <b>Profit on ordinary activities after taxation</b>	 19	 <b><u>8,456</u></b>	 <b><u>11,654</u></b>

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 2012**

	2012	2011
	£'000	£'000
Profit for the financial year	8,456	11,654
Actuarial loss on defined benefit pension scheme (note 22)	(258)	(205)
Deferred tax on actuarial loss (note 17)	43	36
<b>Total recognised gains and losses relating to the year</b>	<b>8,241</b>	<b>11,485</b>

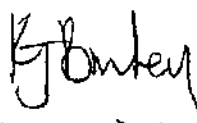
**c2c Rail Limited**  
**Balance Sheet**  
**For the year ended 31 December 2012**

		2012	2011
		£'000	£'000
	Note		
<b>Fixed assets</b>			
Tangible assets	10	2,393	3,557
Investments	11	-	-
		<u>2,393</u>	<u>3,557</u>
<b>Current assets</b>			
Debtors	12	9,165	9,755
Deferred tax asset	17	750	634
Cash at bank and in hand	13	47,845	41,014
		<u>57,760</u>	<u>51,403</u>
<b>Creditors, amounts falling due within one year</b>	14	<u>(46,340)</u>	<u>(41,970)</u>
<b>Net current assets</b>		<u>11,420</u>	<u>9,433</u>
<b>Total assets less current liabilities</b>		<b>13,813</b>	<b>12,990</b>
<b>Creditors' amounts falling due after more than one year</b>	15	-	(820)
<b>Provisions</b>	16	<u>(326)</u>	<u>(834)</u>
<b>Net assets excluding net pension liability</b>		<b>13,487</b>	<b>11,336</b>
<b>Net pension liability</b>	22	<u>(287)</u>	<u>(617)</u>
<b>Net assets including net pension liability</b>		<u>13,200</u>	<u>10,719</u>
<b>Capital and reserves</b>			
Called up share capital	18	1,000	1,000
Share premium account	19	3,000	3,000
Profit and loss account	19	<u>9,200</u>	<u>6,719</u>
<b>Equity Shareholders' funds</b>	20	<u>13,200</u>	<u>10,719</u>

These financial statements of c2c Rail Limited, registered number 2938993, were approved by the board of Directors and authorised for issue on 23 May 2013

On behalf of the Board

R Bowley



The notes on pages 14 to 33 form part of the accounts

**c2c Rail Limited**  
**Notes to the Accounts**  
**For the year ended 31 December 2012**

**1. Accounting policies**

**a) Basis of preparation**

The accounts are prepared on a going concern basis (see below) and under the historical cost convention and in accordance with applicable accounting standards

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out above. The directors believe that the company is well placed to manage its business risks successfully despite the current uncertain economic outlook. The directors have prepared cash flow forecasts for a period exceeding 12 months from the approval of these financial statements on this basis. Following consideration of these forecasts, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future and for not less than 12 months from the approval of these financial statements. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements

**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

**c) Share based payments**

In accordance with the transition provisions, FRS20 has been applied to all grants after 7 November 2002 that were unvested as of 1 January 2005

The parent company of the group, National Express Plc, awards equity-settled share-based payments to certain employees of the Company. Equity-settled share-based payments are measured at fair value at the date of grant by an external valuer using a stochastic model. 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

**c2c Rail Limited**  
**Notes to the Accounts**  
**For the year ended 31 December 2012**

**1 Accounting policies (continued)**

**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) 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
---------------------	----------------------------

**f) Leased assets**

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

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

**g) 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.

# c2c Rail Limited

## Notes to the Accounts

### For the year ended 31 December 2012

#### 1 Accounting policies (continued)

##### h) Retirement benefits

The Company contributes to a defined benefit pension scheme on behalf of the majority of employees. Full details are provided in note 22. 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.

The current service cost and gains and losses on settlements and curtailments are recognised in staff pension costs within operating costs in the profit and loss account. Past service costs are included in operating costs where the benefits have vested, otherwise they are amortised on a straight line basis over the vesting period. The expected return on assets of funded defined benefit schemes and the interest on pension scheme liabilities comprise the finance element of the pension cost and are included in interest costs. Actuarial gains and losses arising from experience adjustments, changes in actuarial assumptions and amendments to pension plans are charged or credited to the statement of total recognised gains and losses in the period in which they arise.

##### i) Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

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.



**c2c Rail Limited**  
**Notes to the Accounts**  
**For the year ended 31 December 2012**

**1 Accounting policies (continued)**

**j) 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**

	2012	2011
	£'000	£'000
Operating profit is stated after charging		
Depreciation – owned assets	1,334	1,256
Train maintenance services and materials	11,000	9,924
Operating lease rentals		
- Fixed track access	10,340	9,573
- Rolling stock costs	23,344	22,696
- Variable track access	1,804	1,651
- Other	5,376	4,681
The analysis of auditor's remuneration is as follows		
- Fees payable to the company's auditor for the audit of the company's annual accounts	26	26
- other non-audit services	8	3

Operating lease rentals (other than rolling stock costs) are primarily payable to Network Rail Infrastructure Limited

**c2c Rail Limited**  
**Notes to the Accounts**  
**For the year ended 31 December 2012**

**4. Directors' emoluments**

	2012	2011
	£'000	£'000
<u>Aggregate emoluments in respect of qualifying services to the Company</u>	<u>463</u>	<u>480</u>

The emoluments excluding pension contributions of the highest paid director were £153,758 (2011 £177,577). His accrued pension and accrued lump sum benefit, as at 31 December 2012, were £11,887 (2011 £9,851) and £10,781 (2011 £8,687) respectively.

Retirement benefits were accruing to five directors during the year (2011 four directors) under a defined benefit scheme in respect of services provided to the Company.

Four directors exercised a total of 63,958 share options in the year (2011 22,239).

**5 Staff costs**

	2012	2011
	£'000	£'000
Wages and salaries (including share-based payment expense)	21,567	19,589
Social security costs	1,683	1,491
Pension costs (note 22)	2,153	1,908
	<u>25,403</u>	<u>22,988</u>

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

	2012	2011
	No	No
Managerial and administrative	116	93
Operational	457	459
	<u>573</u>	<u>552</u>

**6 Share based payments**

The charge in respect of share-based payment transactions included in the profit and loss account for the year is as follows

	2012	2011
	£'000	£'000
Expense arising from share and share option plans	240	79

During the year ended 31 December 2012, c2c Rail Limited had four share-based payment arrangements consisting of the Long Term Incentive 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 2012 Annual Report and Accounts.

**c2c Rail Limited**  
**Notes to the Accounts**  
**For the year ended 31 December 2012**

6. Share based payments (continued)

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

	2012		2011	
	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	49,366	479	58,484	465
Forfeited during the year	-	-	(9,116)	392
Expired during the year	(49,366)	479	-	-
Outstanding at 31 December	-	-	49,366	479
Exercisable at 31 December	-	-	-	-
Options with a nil exercise price				
At 1 January	65,766	nil	69,055	nil
Granted during the year	234,079	nil	3,967	nil
Transfers during the year	299,008	nil	-	nil
Exercised during the year	(89,869)	nil	(7,256)	nil
Outstanding at 31 December	508,984	nil	65,766	nil
Exercisable at 31 December	-	-	-	-
Total outstanding at 31 December	508,984		115,132	
Total exercisable at 31 December	-		-	

There were no options excluding those with a nil exercise price outstanding at 31 December 2012. In 2011 the options outstanding had a weighted average exercise price of 479p. The range of exercise prices for options was as follows

Exercise price (p)	2012	2011
350-400	-	-
400-500	-	49,366
		<u>49,366</u>

The options have a weighted average contractual life of 1 year (2011: 1 year). For options that were exercised during the year, the weighted average share price at exercise was 228p (2011: 239p)

**c2c Rail Limited**  
**Notes to the Accounts**  
**For the year ended 31 December 2012**

**6 Share based payments (continued)**

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

	<u>Share options with nil exercise price</u>	
	2012	2011
Risk free interest rate	0.5%	1.3%
Expected volatility	40.0%	51.5%
Peer group volatility	38.5%	57.0%
Expected option life in years	3 years	3 years
Expected dividend yield	4.2%	3.7%
Weighted average share price at grant date	228p	239p
Weighted average fair value of options at grant date	172p	214p

No share options were granted in 2012 (2011: none) without a nil exercise price

Exercise to date has shown that approximately 24% (2011: 24%) 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 2012**

**7 Interest**

	2012	2011
	£'000	£'000
Interest receivable		
Bank interest	1	2
Interest receivable from group undertakings	183	91
	<u>184</u>	<u>93</u>

**8. Taxation**

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

	2012	2011
	£'000	£'000
Current taxation		
UK corporation tax charge at 24.5% (2011: 26.5%)	3,007	4,027
Adjustments in respect of prior periods	(998)	(331)
	<u>2,009</u>	<u>3,696</u>
Deferred taxation		
Origination and reversal of timing differences	(92)	(47)
Defined benefit pension	163	124
Effects of changes in tax rate	57	47
Adjustments in respect of prior periods	(81)	(49)
	<u>47</u>	<u>75</u>
<b>Tax charge on profit on ordinary activities</b>	<u><b>2,056</b></u>	<u><b>3,771</b></u>

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

	2012	2011
	£'000	£'000
Profit on ordinary activities before taxation	10,512	15,425
Notional charge at UK corporation tax rate of 24.5% (2011: 26.5%)	2,575	4,088
Expenses not deductible for tax purposes	507	20
Depreciation in excess of capital allowances	101	50
Effect of short-term timing differences	(3)	(1)
Pension Scheme Adjustments	(173)	(130)
Adjustments in respect of prior periods	(998)	(331)
<b>Current tax charge for the year</b>	<u><b>2,009</b></u>	<u><b>3,696</b></u>

**c2c Rail Limited**  
**Notes to the Accounts**  
**For the year ended 31 December 2012**

**8 Taxation (continued)**

In March 2012, the UK Government announced a reduction in the standard rate of UK corporation tax to 24% effective 1 April 2012 and to 23% effective 1 April 2013. These rate reductions became substantively enacted in March 2012 and July 2012 respectively.

In December 2012, the UK Government also proposed to further reduce the standard rate of UK corporation tax to 21% effective 1 April 2014, but this change has not been substantively enacted.

In March 2013, the UK Government also proposed to further reduce the standard rate of UK corporation tax to 20% effective 1 April 2015, but this change has not been substantively enacted.

The effect of these tax rate reductions on the deferred tax balance will be accounted for in the period in which the tax rate reductions are substantively enacted.

**9. Dividends**

	2012	2011
	£'000	£'000
Interim Ordinary Dividends (paid) (note 20)	6,000	5,000

**10 Tangible fixed assets**

	Plant and equipment owned	Plant and equipment leased	Total
	£'000	£'000	£'000
<b>Cost</b>			
At 1 January 2012	32,032	204	32,236
Additions	170	-	170
<b>At 31 December 2012</b>	<b>32,202</b>	<b>204</b>	<b>32,406</b>
<b>Depreciation</b>			
At 1 January 2012	28,475	204	28,679
Charge for the year	1,334	-	1,334
<b>At 31 December 2012</b>	<b>29,809</b>	<b>204</b>	<b>30,013</b>
<b>Net book value</b>			
At 31 December 2012	2,393	-	2,393
At 1 January 2012	3,557	-	3,557

**c2c Rail Limited**  
**Notes to the Accounts**  
**For the year ended 31 December 2012**

**11 Investments**

The Company held the following unlisted investments at 31 December 2012 and 31 December 2011

	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

**12 Debtors**

	2012 £'000	2011 £'000
Trade debtors	5,141	6,323
Amounts due from group undertakings	753	75
Other debtors	706	1,124
Prepayments and accrued income	2,565	2,233
	<b>9,165</b>	<b>9,755</b>

**13 Cash at bank and in hand**

	2012 £'000	2011 £'000
Bank deposits	<b>47,845</b>	<b>41,014</b>

Cash and cash equivalents includes ring-fenced cash of £21,112,000 (2011 £19,475,000) Under the terms of the franchise agreement this cash is held in a separate deposit account in accordance with the terms of the Season Ticket Bond

**c2c Rail Limited**  
**Notes to the Accounts**  
**For the year ended 31 December 2012**

**14 Creditors, amounts falling due within one year**

	2012	2011
	£'000	£'000
Trade creditors	15,508	11,384
Amounts due to group undertakings	992	570
Deferred season ticket income	20,465	19,481
Social security and other taxation	485	446
Accruals and deferred income	3,610	3,752
Other creditors	2,860	2,302
Corporation tax	2,420	4,025
	46,340	41,970

Other creditors includes deferred fixed asset grants of £59,877 (2011 £150,000) and dilapidation provisions of £945,690 (2011 £436,000) which are due within one year. Amounts due after one year are disclosed below

**15 Creditors: amounts falling due after one year**

	2012	2011
	£'000	£'000
Deferred fixed asset grants	-	60
Dilapidations	-	760
	-	820

**16 Provisions**

	1 January 2012	Released in the year	Utilised or transferred in the year	31 December 2012
	£'000	£'000	£'000	£'000
Insurance	834	(305)	(203)	326

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.



**c2c Rail Limited**  
**Notes to the Accounts**  
**For the year ended 31 December 2012**

**17 Deferred tax**

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

	£'000
At 1 January 2012	634
Increase in the year	116
<b>At 31 December 2012</b>	<b>750</b>

b) The major components of the deferred tax asset (excluding deferred tax on pension deficit) are as follows

	2012 £'000	2011 £'000
Capital allowances	747	627
Other timing differences	3	7
	<b>750</b>	<b>634</b>

	Deferred tax arising on pension deficit (note 22)	Capital allowances	Other timing differences	Total
	£'000	£'000	£'000	£'000
At 1 January 2012	206	627	7	840
(Charge)/credit to profit and loss account	(163)	120	(4)	(47)
Credit to statement of total recognised gains and losses	43	-	-	43
<b>At 31 December 2012</b>	<b>86</b>	<b>747</b>	<b>3</b>	<b>836</b>

The deferred tax assets are recognised where it is considered more likely than not that there will be suitable profits, from which the future of the underlying timing differences can be deducted

**c2c Rail Limited**  
**Notes to the Accounts**  
**For the year ended 31 December 2012**

**18 Share capital**

	2012	2011
	£'000	£'000
<i>Allotted, called up and fully paid</i>		
4,000,000 Ordinary shares of 25p each	1,000	1,000

**19 Reserves**

	Share premium account £'000	Profit and loss account £'000	Total £'000
At 1 January 2012	3,000	6,719	9,719
Profit for the year	-	8,456	8,456
Actuarial loss on defined benefit pension scheme (note 22)		(258)	(258)
Defered tax on actuarial loss		43	43
Share based payments	-	240	240
Dividends paid (note 9)	-	(6,000)	(6,000)
<b>At 31 December 2012</b>	<b>3,000</b>	<b>9,200</b>	<b>12,200</b>

**20. Reconciliation of movements in shareholders' funds**

	2012	2011
	£'000	£'000
Profit for the financial year	8,456	11,654
Other recognised gains and losses	(215)	(169)
Share based payments	240	79
Dividends paid (note 9)	(6,000)	(5,000)
Net addition to shareholders' funds	2,481	6,564
Shareholders' funds at 1 January	10,719	4,155
<b>Shareholders' funds at 31 December</b>	<b>13,200</b>	<b>10,719</b>

**c2c Rail Limited**  
**Notes to the Accounts**  
**For the year ended 31 December 2012**

**21. 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
	2012	2012	2012	2012	2012
	£'000	£'000	£'000	£'000	£'000
Leases which expire					
Within one year	5,425	9,814	3,728	441	17,170
	<b>5,425</b>	<b>9,814</b>	<b>1,490</b>	<b>441</b>	<b>17,170</b>
	Fixed Track Access	Rolling Stock	Land and Buildings	Other	Total
	2011	2011	2011	2011	2011
	£'000	£'000	£'000	£'000	£'000
Within two to five years	10,345	24,249	3,665	1,075	39,334
	<b>10,345</b>	<b>24,249</b>	<b>3,665</b>	<b>1,075</b>	<b>39,334</b>

The Company has contracts with Network Rail Infrastructure Limited for access to the railway infrastructure (track, stations and depots). These contracts have been renewed subsequent to the successful agreement on an interim franchise which is expected to run until at least September 2014.

# c2c Rail Limited

## Notes to the Accounts

### For the year ended 31 December 2012

#### 22. Retirement benefits

The majority of the Company's employees are members of the c2c Rail Shared Cost Section of the Railway Pension Scheme ('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 eleven 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. By entering into the franchise contract, the Train Operating Company ('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.

In determining the appropriate accounting policy for the RPS to ensure that the Company's accounts present fairly its financial position, financial performance and cash flows, management has consulted with TOC industry peers and has concluded that the Company's constructive obligations should be accounted for in accordance with FRS 17. This accounting policy means that the Company's accounts 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 in accordance with FRS 17 and the assumptions are set out below. These deficits are 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 fairly present the financial performance, position and cash flows of the Company's obligations.

The franchise adjustment increased from £10.1m at 31 December 2011 to £18.1m at 31 December 2012. The increase is caused by interest on the franchise adjustment of £0.5m and net actuarial movements of £7.5m. In the prior year, the franchise adjustment decreased from £11.3m at 31 December 2010 to £10.1m at 31 December 2011. The decrease was caused by interest on the franchise adjustment of £0.6m and net actuarial movements of £1.8m.

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 2010
Actuarial method used	Projected unit
Rate of investment returns per annum	5.5% - 7.6%
Increase in earnings per annum	4.2%
Scheme assets taken at market value	£64.5m
Funding level	94%

**c2c Rail Limited**  
**Notes to the Accounts**  
**For the year ended 31 December 2012**

**22 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:

	2012	2011	2010
Rate of increase in salaries	3.0%	3.0%	3.9%
Rate of increase of pensions	2.0%	2.0%	2.9%
Discount rate	4.4%	5.0%	5.4%
Inflation assumption (RPI)	2.8%	3.0%	3.5%
Inflation assumption (CPI)	2.0%	2.0%	2.9%
Expected rates of return on scheme assets			
Equities	7.7%	7.7%	7.7%
Government Bonds	3.0%	3.0%	4.2%
Non-Government Bonds	4.1%	-%	-%
Properties	-%	-%	6.0%
Other	1.25%	1.25%	1.25%
Post retirement mortality in years			
Current pensioners at 65 – male			
Current pensioners at 65 – male, pension under £9,300 pa or pensionable pay under £35,000 pa	20.6	20.5	19.8
Current pensioners at 65 – male – others	22.8	22.6	21.5
Current pensioners at 65 – female			
Current pensioners at 65 – female, pension under £3,300 pa or pensionable pay under £35,000 pa	22.5	22.4	21.7
Current pensioners – female – others	24.9	24.8	22.7
Future pensioners at 45 – male			
Future pensioners at 45 – male, pension under £9,300 pa or pensionable pay under £35,000 pa	23.0	22.8	22.2
Future pensioners at 45 – male – others	25.0	24.9	23.7
Future pensioners at 45 – female			
Future pensioners at 45 – female, pension under £3,300 pa or pensionable pay under £35,000 pa	25.0	24.9	23.2
Future pensioners at 45 – female – others	27.3	27.1	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 were updated in the actuarial valuations as at December 2010. The actuarial loss has been recognised in the Statement of Recognised Gains and Losses.

**c2c Rail Limited**  
**Notes to the Accounts**  
**For the year ended 31 December 2012**

**22 Retirement Benefits (Continued)**

Analysis of the amount charged to operating profit

	2012 £'000	2011 £'000
Current service cost	(2,153)	(1,908)
Total operating charge	<u>(2,153)</u>	<u>(1,908)</u>

Analysis of the amount credited to finance income

	2012 £'000	2011 £'000
Expected return on pension scheme assets	2,647	2,655
Interest on pension scheme liabilities	(2,384)	(2,623)
Interest on franchise adjustment	506	608
Net credit to finance income	<u>769</u>	<u>640</u>

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

	2012 £'000	2011 £'000
Actual return less expected return on pension scheme assets	162	(2,635)
Other actuarial (losses)/gains	(420)	2,430
Actuarial loss recognised in the statement of total recognised gains and losses	<u>(258)</u>	<u>(205)</u>

The actual return on plan assets is a gain of £2,809,000 (2011 £20,000)

The amounts recognised in the balance sheet at 31 December are

	2012 £'000	2011 £'000	2010 £'000
Equities	61,668	55,901	55,831
Bonds	3,220	3,118	2,784
Total fair value of scheme assets	<u>64,888</u>	<u>59,019</u>	<u>58,615</u>
Present value of scheme liabilities	(95,684)	(77,264)	(79,193)
Franchise adjustment	18,105	10,124	11,257
Defined benefit obligation	<u>(77,579)</u>	<u>(67,140)</u>	<u>(67,936)</u>
Members' share of deficit	12,318	7,298	8,232
Deficit in the scheme	(373)	(823)	(1,089)
Related deferred tax asset	86	206	294
Net pension liability	<u>(287)</u>	<u>(617)</u>	<u>(795)</u>

**c2c Rail Limited**  
**Notes to the Accounts**  
**For the year ended 31 December 2012**

**22 Retirement benefits (continued)**

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

	2012 £'000	2011 £'000
Fair value of scheme assets at 1 January	59,019	58,615
Expected return	2,647	2,655
Cash contributions – Employer	2,092	1,764
Cash contributions - Employee	1,349	1,132
Benefits paid	(2,253)	(2,526)
Members' share of return on assets	1,872	14
Actuarial gain/(loss) recognised in statement of total recognised gains and losses	162	(2,635)
Fair value of scheme assets at 31 December	<u>64,888</u>	<u>59,019</u>

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.

	2012 £'000	2011 £'000
Defined benefit obligation at 1 January	(67,140)	(67,936)
Current service cost	(2,153)	(1,908)
Benefits paid	2,253	2,526
Cash contributions - Employees	(1,349)	(1,132)
Finance charge	(2,384)	(2,623)
Interest on franchise adjustment	506	608
Members' share of movement on liabilities	(6,892)	920
Actuarial (loss)/gain recognised in statement of total recognised gains and losses	(420)	2,405
Defined benefit obligation at 31 December	<u>(77,579)</u>	<u>(67,140)</u>

**c2c Rail Limited**  
**Notes to the Accounts**  
**For the year ended 31 December 2012**

**22 Retirement benefits (continued)**

History of experience gains and losses

	2012	2011	2010	2009	2008
	£'000	£'000	£'000	£'000	£'000
Fair value of scheme assets	64,888	59,019	58,615	52,306	45,000
Present value of the defined benefit obligation	(77,579)	(67,140)	(67,936)	(61,330)	(50,208)
Members' share of deficit	12,318	7,298	8,232	8,810	4,040
Deficit in scheme	(373)	(823)	(1,089)	(214)	(1,168)
Experience adjustments arising on liabilities	(2,189)	(159)	(3,130)	10	200
Experience adjustments arising on assets	162	(2,635)	1,092	2,428	(12,200)

The Company's expected cash contribution to the scheme in 2013 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 £1,209,000 (2011 loss of £951,000). 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.

**23 Capital commitments**

	2012	2011
	£'000	£'000
Contracted	-	-
Authorised but not contracted	-	-

**24 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 2012 contain a consolidated statement of cash flows.

**25. 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 100% owned or more as they are included within the consolidated accounts of its ultimate parent Company National Express Group PLC, which are publicly available.



**c2c Rail Limited**  
**Notes to the Accounts**  
**For the year ended 31 December 2012**

**26. Immediate and ultimate parent undertakings**

The Company is a wholly owned 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 2012

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

**27. Post balance sheet event**

Negotiations took place with the DfT in early 2013 to agree an interim franchise to run from the end of May 2013 to September 2014 with a possible extension to April 2015. These negotiations were successfully concluded in May 2013 and a new interim franchise agreement was signed with the DfT. A bidding process is expected to take place in the autumn of 2013 for the award of a 15 year franchise to start from the end of the interim franchise.