c2c Rail Limited

Directors' Report and Accounts

For the year ended 31 December 2013

Company number 2938993

Registered office:

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

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Strategic Report

The Directors present their strategic report for the year ended 31 December 2013.

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 until May 2013. An interim franchise was signed to follow on, and this runs until September 2014 with a possible extension.

Results and dividend

The profit for the year after taxation amounted to £8,343,000 (2012 - £8,456,000).

The directors paid an interim dividend of £10,000,000 (2012: £6,000,000). No final dividend has been proposed or paid (2012: £nil).

Review of business and outlook

The Franchise Extension Agreement came to an end on 26 May 2013 and was replaced by an Interim Franchise Agreement which runs until the 14 September 2014 with a possible extension. The Interim Franchise Agreement with the Department of Transport (DfT) was signed on 16 May 2013 and includes the sharing of profits at varying rates of 10%, 50%, 90% or 100% depending on profit thresholds.

If the succeeding franchise is not awarded from 14 September 2014, the Interim Franchise Agreement contains provisions to allow the Secretary of State to extend the franchise (on the terms set out in the Interim Franchise Agreement) for one or more railway periods.

If the succeeding franchise is awarded to another operator the company will cease to trade albeit it will continue in operational existence and will be run to deal with issues arising after the end of the franchise and the wind down thereof.

If the succeeding franchise is awarded to National Express, the new franchise will be operated by a new company and c2c Rail Ltd will cease to trade but continue in operational existence as above.

Operating profitability in 2014 was underpinned by passenger revenue growth of 4.3%. This impressive growth reflects the impact of our industry leading operational reliability and punctuality together with improvements in Central London Employment and GDP. We continue to monitor our cost base very closely however there were significant changes in the fixed cost base of the business as a consequence of the Interim Franchise Agreement. This resulted in an adjustment to the franchise payments. We expect the Company to remain profitable in 2014, subject to the risks and uncertainties detailed below.

c2c Rail Limited
Strategic 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, operating accidents 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 2013 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 136 to 139 of the National Express Group PLC 2013 Annual Report and Accounts.

Going concern

The directors have considered the ongoing operations of the Company in light of the current uncertainty in relation to the outcome of the franchise renewal or the possible extension of the existing Interim Franchise Agreement. The directors are of the opinion that they expect the Company can continue to exist as a going concern for a period of at least 12 months from the date of approval of these financial statements, and have adopted the going concern basis of accounting in preparing the annual financial statements.

If it does become necessary that additional funds are required by the Company in the event of the franchise being lost the directors have obtained a letter of support from National Express Group PLC which states that it is willing to provide the necessary financial support for a period of not less than 12 months from the approval of the financial statements of the Company.

Operational review

During 2013 operational performance remained strong with c2c ending the year with a Public Performance Measure (PPM) Moving Annual Average (MAA) of 96.7% remaining in first position in the industry performance league table. Right Time Performance delivery was strong with our MAA increasing to 83.7%. This retained fourth position in the UK table of Train Operators.

In addition, during 2013 there was a serious storm which occurred on Monday 28 October affecting many rail operators across the South East of England. Damage was sustained to the overhead line equipment at several locations, most notably at Ockendon and Purfleet. The latter route remained closed until the following day whilst repairs took place. This severely impacted PPM and services in the morning did not commence until proving trains had operated in both directions.

c2c Rail Limited
Strategic Report

Operational review (continued)

Secondly high winds again caused disruption on Monday 23 December which dislodged a feeder cable in the West Ham area resulting in services being suspended between Barking and Fenchurch St in both directions. There were some diversions put in place to Liverpool St via Stratford but once this was cleared further issues with the overhead lines were experienced in the Leigh-on-Sea and Tilbury areas.

With a 92% score for overall satisfaction with the journey as measured by the latest National Rail Passenger Survey [NRPS], c2c maintained its best in class result in the London and South East. As the 4th consecutive best in class result it consolidated the trend of improvement from the score of 91% between Spring 2010 to Spring 2012. c2c also achieved an impressive best in class scores in 13 out of 37 measures.

The continued focus on delivering the most punctual and reliable train service in the United Kingdom is the main driver for these consistent and exceptionally high levels of customer satisfaction. We have continued our 'nobody tries harder' approach to motivate frontline staff and to deliver a programme of customer engagement. Customer events in 2013 included 6 meet the managers, 6 passenger panel meetings, 2 try a train days for disabled customers, a Customer Service Week and a Customer Focus Group. Customer feedback has been instrumental in directing our attention to addressing issues such as our Bicycle Policy and overcrowding.

The customer culture within the business remains very strong with 93% of staff agreeing that Customer service is taken very seriously in the 2013 People Engagement Survey and an even higher result of 95% of staff agreeing that c2c delivers good customer service. This is reflected in the NRPS satisfaction with 'the attitude and helpfulness of station staff' and 'the availability of station staff' which showed significant increases [81% vs 75% and 72% vs 67%] compared to the equivalent results a year ago.

During the year we continued to improve the quality and frequency of general customer information and gave priority to actions to address how we deal with delays which is the biggest driver of customer dissatisfaction. Actions included continuing to deliver a very high standard of customer information via Twitter, improved on-board announcements by train drivers and carrying out a review of our customer information supply chain across all departments. Our success in having the best NRPS result (61%) for managing information during disruption was rewarded when we received both the Gold and Silver Whistles (for the best and most improved operator) by the Institute of Railway Operators in January 2014.

Overall satisfaction with the train remained at an impressive 92% supported by actions to keep the trains clean, fixing train faults such as air-conditioning/heating and train speaker issues. NPRS results for the train service were even higher with 94% of customers satisfied with the punctuality and reliability and 93% satisfied with the speed/length of the journey.

In 2014, we will continue to develop actions and plans for delivering our Customer Strategy and use external benchmarking from organisations like the Institute of Customer Service to help maintain our focus on achieving the highest levels of satisfaction for our loyal customers.

c2c Rail Limited
Strategic Report

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 fleet of electric trains have regenerative braking technology, which recovers energy during braking to generate electricity and thus reduces train power consumption and CO_2 emissions in excess of 5%. During the end of 2013 and the start of 2014 we have developed and completed the installation of on-board energy metering which will be installed on the entire fleet.

During 2013 we installed water recycling facilities at our carriage wash plant at East Ham depots and this is delivering a 50% reduction in fresh water consumption.

We continue to deliver exceptional waste recycling results at our depots, with our MAA at 97% during 2013. Recycling from stations continued to improve and achieved an MAA of 90% during 2013.

In February 2013, we extended our ISO14001 Environmental Management certification across the company and obtained ISO50001 certification for Energy Management across the company. In February 2014 we renewed our combined ISO14001 and ISO50001 certification for a further three years.

This confirmation is given and should be interpreted in accordance with the provisions of Section 172 of the Companies Act 2006.

On behalf of the Board

R Bowley

R Bowley
Director

Date: [27/5/14]

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

c2c Rail Limited
Directors' Report

The Directors present their annual report, financial statements and auditor's report for the year ended 31 December 2013.

Directors

The Directors of the Company, who served throughout the year, and to the date of this report, are listed below:-

Name of Director

B Ackroyd
R Bowley
A Chivers
J Drury
K Frazer

Company secretary

D Robinson

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.

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 30% for employee accidents and a 5% reduction in customer accidents. A larger number of contractors were working for us in 2013 and this increase partly contributed to an increase of 40% in contractor accidents during 2013.

Three signals were passed at danger without authority during the year. All three of the signals were on Network Rail infrastructure and involved a passenger train.

c2c Rail Limited
Directors' Report

Employees

The Company is a non-discriminatory employer operating an Equal Opportunities Policy which aims to eliminate unfair discrimination, harassment, victimisation and bullying. The Company is committed to ensuring that all individuals are treated fairly, with respect and are valued irrespective of disability, race, gender, health, social class, sexual preference, marital status, nationality, religion, employment status, age or membership or non-membership of a trade union.

The Company 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. The intranet also enables our people to comment and ask questions in relation to the information which has been posted.

We conduct an annual Employee Survey as a mechanism to gain staff perception on the business. The results of the survey conducted at the end of 2013, show that c2c achieved best in class status among rail operators for its level of people engagement. 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. c2c is currently undergoing assessment for Silver IiP.

Charitable and political donations

The Company made charitable donations of £8,861 during the year (2012: £11,190).
There were no political donations (2012: £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 31 days (2012 – 62 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, 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: [27/5/14]

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 jurisdiction.

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 2013 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes 1 to 25. 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 2013 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 Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent auditor's report to the members of c2c Rail Limited

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

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

Date: 27/5/14

c2c Rail Limited
Profit and Loss Account

For the year ended 31 December 2013

	Note	2013 £'000	2012 £'000
Turnover	2		
Passenger income		138,742	133,446
Other operating income		3,915	3,914
		142,657	137,360
Operating costs		(133,950)	(127,801)
Operating profit	3	8,707	9,559
Interest receivable	7	193	184
Net pensions scheme interest	21	1,230	769
Profit on ordinary activities before taxation		10,130	10,512
Tax on profit on ordinary activities	8	(1,787)	(2,056)
Profit on ordinary activities after taxation	18	8,343	8,456

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 2013

	2013 £'000	2012 £'000
Profit for the financial year	**8,343**	8,456
Actuarial loss on defined benefit pension scheme (note 21)	**(1,794)**	(258)
Deferred tax on actuarial loss (note 16)	**348**	43
Total recognised gains and losses relating to the year	**6,897**	8,241

c2c Rail Limited
Balance Sheet
For the year ended 31 December 2013

	Note	2013 £'000	2012 £'000
Fixed assets			
Tangible assets	10	**1,527**	2,393
Investments	11	**-**	-
		1,527	2,393
Current assets			
Debtors	12	**10,055**	9,165
Deferred tax asset	16	**761**	750
Cash at bank and in hand	13	**54,582**	47,845
		65,398	57,760
Creditors: amounts falling due within one year	14	**(55,163)**	(46,340)
Net current assets		**10,235**	11,420
Total assets less current liabilities		**11,762**	13,813
Provisions	15	**(350)**	(326)
Net assets excluding net pension liability		**11,412**	13,487
Net pension liability	21	**(1,013)**	(287)
Net assets including net pension liability		**10,399**	13,200
Capital and reserves			
Called up share capital	17	**1,000**	1,000
Share premium account	18	**3,000**	3,000
Profit and loss account	18	**6,399**	9,200
Equity Shareholders' funds	19	**10,399**	13,200

These financial statements of c2c Rail Limited, registered number 2938993, were approved by the board of Directors and authorised for issue on [27/5/14].

On behalf of the Board

R Bowley

The notes on pages 15 to 34 form part of the accounts.

c2c Rail Limited
Notes to the Accounts
For the year ended 31 December 2013

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 directors have considered the ongoing operations of the Company in light of the current uncertainty in relation to the outcome of the succeeding franchise or the possible extension of the existing Interim Franchise Agreement. The directors are of the opinion that they expect the Company can continue to exist as a going concern for a period of at least 12 months from the date of approval of these financial statements, and have adopted the going concern basis of accounting in preparing the annual financial statements.

If it does become necessary that additional funds are required by the company dependent on the succeeding franchise being lost, the directors have obtained a letter of support from National Express Group PLC which states that it is willing to provide the necessary support for a period of not less than 12 months from the approval of the financial statements of the Company.

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 Company awards 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. 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.

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) 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.

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 21. The trustees complete a full actuarial valuation triennially, separately for each section of the Railway Pension Scheme ('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.

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.

c2c Rail Limited
Notes to the Accounts
For the year ended 31 December 2013

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

	2013	2012
	£'000	£'000
Operating profit is stated after charging:		
Depreciation – owned assets	846	1,334
Train maintenance services and materials	16,039	11,000
Operating lease rentals		
- Fixed track access	13,564	10,340
- Rolling stock costs	27,538	23,344
- Variable track access	1,743	1,804
- Other	5,501	5,376
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	44	26
- other non-audit services	5	8

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

4. Directors' emoluments

	2013	2012
	£'000	£'000
Aggregate emoluments in respect of qualifying services to the Company	850	463

The emoluments excluding pension contributions of the highest paid director were £245,321 (2012: £153,758). His accrued pension and accrued lump sum benefit, as at 31 December 2013, were £63,692 (2012: £11,887) and £59,348 (2012: £10,781) respectively.

Retirement benefits were accruing to five directors during the year (2012: five directors) under a defined benefit scheme in respect of services provided to the Company.

Four directors exercised a total of 64,518 share options in the year (2012 : 63,958).

5. Staff costs

	2013	2012
	£'000	£'000
Wages and salaries (including share-based payment expense)	22,422	21,567
Social security costs	1,752	1,683
Pension costs (note 21)	2,584	2,153
	26,758	25,403

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

	2013	2012
	No.	No.
Managerial and administrative	110	116
Operational	489	457
	599	573

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:

	2013	2012
	£'000	£'000
Expense arising from share and share option plans	302	240

During the year ended 31 December 2013, c2c Rail Limited had three share-based payment arrangements consisting of the Long Term Incentive Plan, Share Matching Plan, Deferred Annual Share Bonus Plan, which are described in note 7(b) to the National Express Group PLC 2013 Annual Report and Accounts.

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:

	2013		2012	
	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
Expired during the year	-	-	(49,366)	479
Outstanding at 31 December	-	-	-	-
Exercisable at 31 December	-	-	-	-
Options with a nil exercise price:				
At 1 January	508,984	nil	65,766	nil
Granted during the year	-	-	234,079	nil
Transfers during the year	(410,170)	nil	299,008	nil
Exercised during the year	(41,931)	nil	(89,869)	nil
Outstanding at 31 December	56,883	nil	508,984	nil
Exercisable at 31 December	-	nil	-	-
Total outstanding at 31 December	56,883	-	508,984	-
Total exercisable at 31 December	-	-	-	-

There were no options excluding those with a nil exercise price outstanding at 31 December 2013 or 31 December 2012. In 2012 the options outstanding had a weighted average exercise price of nil. The options have a weighted average contractual life of 1 year (2012: 1 year).

No options excluding those with a nil exercise price were exercised during the year. In 2012 the options that were exercised during the year had a weighted average share price at exercise of 228p.

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:

	Share options with nil exercise price	
	2013	2012
Risk free interest rate	-	0.5%
Expected volatility	-	40.0%
Peer group volatility	-	38.5%
Expected option life in years	-	3 years
Expected dividend yield	-	4.2%
Weighted average share price at grant date	-	228p
Weighted average fair value of options at grant date	-	172p

No share options were granted in 2013 (2012: none) without a nil exercise price.

Experience 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 2013

7. Interest

	2013	2012
	£'000	£'000
Interest receivable		
Bank interest	1	1
Interest receivable from group undertakings	192	183
	193	184

8. Taxation

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

	2013	2012
	£'000	£'000
Current taxation:		
UK corporation tax charge at 23.25% (2012: 24.5%)	2,205	3,007
Adjustments in respect of prior periods	(587)	(998)
	1,618	2,009
Deferred taxation:		
Origination and reversal of timing differences	7	(92)
Defined benefit pension	180	163
Effects of changes in tax rate	115	57
Adjustments in respect of prior periods	(133)	(81)
	169	47
Tax charge on profit on ordinary activities	1,787	2,056

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

	2013	2012
	£'000	£'000
Profit on ordinary activities before taxation	10,130	10,512
Notional charge at UK corporation tax rate of 23.25% (2012: 24.5%)	2,355	2,575
Expenses not deductible for tax purposes	69	507
Depreciation in excess of capital allowances	(5)	101
Effect of short-term timing differences	(4)	(3)
Pension scheme adjustments	(210)	(173)
Adjustments in respect of prior periods	(587)	(998)
Current tax charge for the year	1,618	2,009

8. Taxation (continued)

The Finance Act 2013, which provides for reductions in the main rate of corporation tax from 23% to 21% effective from 1 April 2014 and to 20% effective from 1 April 2015, was substantively enacted on 2 July 2013. These rate reductions have been reflected in the calculation of deferred tax at the balance sheet date.

9. Dividends

	2013 £'000	2012 £'000
Interim Ordinary Dividends (paid) (note 19)	10,000	6,000

10. Tangible fixed assets

	Plant and equipment owned £'000	Plant and equipment leased £'000	Total £'000
Cost			
At 1 January 2013	32,202	204	32,406
Additions	28	-	28
Disposals	(48)	-	(48)
At 31 December 2013	**32,182**	**204**	**32,386**
Depreciation			
At 1 January 2013	29,809	204	30,013
Charge for the year	846	-	846
At 31 December 2013	**30,655**	**204**	**30,859**
Net book value			
At 31 December 2013	**1,527**	**-**	**1,527**
At 1 January 2013	2,393	-	2,393

c2c Rail Limited
Notes to the Accounts
For the year ended 31 December 2013

11. Investments

The Company held the following unlisted investments at 31 December 2013 and 31 December 2012:

	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

	2013 £'000	2012 £'000
Trade debtors	5,750	5,141
Amounts due from group undertakings	411	753
Other debtors	1,030	706
Prepayments and accrued income	2,864	2,565
	10,055	9,165

13. Cash at bank and in hand

	2013 £'000	2012 £'000
Bank deposits	54,582	47,845

Cash and cash equivalents includes ring-fenced cash of £21,176,000 (2012: £21,112,000). 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.

14. Creditors: amounts falling due within one year

	2013 £'000	2012 £'000
Trade creditors	**17,819**	15,508
Amounts due to group undertakings	**456**	992
Deferred season ticket income	**21,126**	20,465
Social security and other taxation	**505**	485
Accruals and deferred income	**9,253**	3,610
Other creditors	**3,770**	2,860
Corporation tax	**2,234**	2,420
	55,163	46,340

Other creditors includes deferred fixed asset grants of £nil (2012: £59,877) and dilapidation provisions of £1,440,787 (2012: £945,690) which are due within one year. No creditors are due after one year.

15. Provisions

	1 January 2013 £'000	Released in the year £'000	Utilised or transferred in the year £'000	31 December 2013 £'000
Insurance	326	240	(216)	**350**

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.

16. 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 2013	750
Increase in the year	11
At 31 December 2013	**761**

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

	2013 £'000	2012 £'000
Capital allowances	761	747
Other timing differences	-	3
	761	750

	Deferred tax arising on pension deficit (note 21) £'000	Capital allowances £'000	Other timing differences £'000	Total £'000
At 1 January 2013	86	747	3	836
(Charge)/credit to profit and loss account	(180)	14	(3)	(169)
Credit to statement of total recognised gains and losses	348	-	-	348
At 31 December 2013	254	761	-	1,015

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.

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17. Share capital

	2013	2012
Allotted, called up and fully paid	**£'000**	£'000
4,000,000 Ordinary shares of 25p each	**1,000**	1,000

18. Reserves

	Share premium account	Profit and loss account	Total
	£'000	£'000	£'000
At 1 January 2013	3,000	9,200	**12,200**
Profit for the year	-	8,343	**8,343**
Actuarial loss on defined benefit pension scheme (note 21)	-	(1,794)	**(1,794)**
Deferred tax on actuarial loss (note 16)	-	348	**348**
Credit to equity for share based payments (note 6)	-	302	**302**
Dividends paid (note 9)	-	(10,000)	**(10,000)**
At 31 December 2013	**3,000**	**6,399**	**9,399**

19. Reconciliation of movements in shareholders' funds

	2013	2012
	£'000	£'000
Profit for the financial year	**8,343**	8,456
Other recognised gains and losses	**(1,446)**	(215)
Credit to equity for share based payments	**302**	240
Dividends paid (note 9)	**(10,000)**	(6,000)
Net (reduction in)/addition to shareholders' funds	**(2,801)**	2,481
Shareholders' funds at 1 January	**13,200**	10,719
Shareholders' funds at 31 December	**10,399**	13,200

20. Operating lease commitments

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

	Fixed Track Access 2013 £'000	Rolling Stock 2013 £'000	Land and Buildings 2013 £'000	Other 2013 £'000	Total 2013 £'000
Leases which expire:					
Within one year	10,439	16,739	3,506	471	31,155
	10,439	**16,739**	**3,506**	**471**	**31,155**

	Fixed Track Access 2012 £'000	Rolling Stock 2012 £'000	Land and Buildings 2012 £'000	Other 2012 £'000	Total 2012 £'000
Leases which expire:					
Within one year	5,425	9,814	1,490	441	17,170
	5,425	9,814	1,490	441	17,170

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.

21. 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 decreased from £18.1m at 31 December 2012 to £17.9m at 31 December 2013. The decrease is caused by interest on the franchise adjustment of £0.8m and net actuarial movements of £1.0m. In the prior year, the franchise adjustment increased from £10.1m at 31 December 2011 to £18.1m at 31 December 2012. The increase was caused by interest on the franchise adjustment of £0.5m and net actuarial movements of £7.5m.

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%

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21. 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:

	2013	2012	2011
Rate of increase in salaries	2.9%	3.0%	3.0%
Rate of increase of pensions	2.4%	2.0%	2.0%
Discount rate	4.6%	4.4%	5.0%
Inflation assumption (RPI)	3.4%	2.8%	3.0%
Inflation assumption (CPI)	2.4%	2.0%	2.0%
Expected rates of return on scheme assets			
Equities	7.7%	7.7%	7.7%
Government Bonds	3.6%	3.0%	3.0%
Non-Government Bonds	4.4%	4.1%	
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	20.7	20.6	20.5
Current pensioners at 65 – male – others	22.9	22.8	22.6
Current pensioners at 65 – female			
Current pensioners at 65 – female, pension under £3,300 pa or pensionable pay under £35,000 pa	22.6	22.5	22.4
Current pensioners – female – others	25.0	24.9	24.8
Future pensioners at 45 – male			
Future pensioners at 45 – male, pension under £9,300 pa or pensionable pay under £35,000 pa	23.1	23.0	22.8
Future pensioners at 45 – male – others	25.1	25.0	24.9
Future pensioners at 45 – female			
Future pensioners at 45 – female, pension under £3,300 pa or pensionable pay under £35,000 pa	25.1	25.0	24.9
Future pensioners at 45 – female – others	27.4	27.3	27.1

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.

21. Retirement Benefits (Continued)

Analysis of the amount charged to operating profit:

	2013 £'000	2012 £'000
Current service cost	(2,584)	(2,153)
Total operating charge	(2,584)	(2,153)

Analysis of the amount credited to finance income:

	2013 £'000	2012 £'000
Expected return on pension scheme assets	2,936	2,647
Interest on pension scheme liabilities	(2,503)	(2,384)
Interest on franchise adjustment	797	506
Net credit to finance income	1,230	769

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

	2013 £'000	2012 £'000
Actual return less expected return on pension scheme assets	655	162
Other actuarial losses	(2,449)	(420)
Actuarial loss recognised in the statement of total recognised gains and losses	(1,794)	(258)

The actual return on plan assets is a gain of £3,591,000 (2012: £2,809,000).

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

	2013 £'000	2012 £'000	2011 £'000
Equities	69,223	61,668	55,901
Bonds	3,558	3,220	3,118
Total fair value of scheme assets	72,781	64,888	59,019
Present value of scheme liabilities	(104,759)	(95,684)	(77,264)
Franchise adjustment	17,921	18,105	10,124
Defined benefit obligation	(86,838)	(77,579)	(67,140)
Members' share of deficit	12,791	12,318	7,298
Deficit in the scheme	(1,266)	(373)	(823)
Related deferred tax asset	253	86	206
Net pension liability	(1,013)	(287)	(617)

21. Retirement benefits (continued)

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

	2013 £'000	2012 £'000
Fair value of scheme assets at 1 January	64,888	59,019
Expected return	2,936	2,647
Cash contributions – Employer	2,255	2,092
Cash contributions - Employee	1,445	1,349
Benefits paid	(1,792)	(2,253)
Members' share of return on assets	2,394	1,872
Actuarial gain recognised in statement of total recognised gains and losses	655	162
Fair value of scheme assets at 31 December	72,781	64,888

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.

	2013 £'000	2012 £'000
Defined benefit obligation at 1 January	(77,579)	(67,140)
Current service cost (note 5)	(2,584)	(2,153)
Benefits paid	1,792	2,253
Cash contributions - Employees	(1,445)	(1,349)
Finance charge	(2,503)	(2,384)
Interest on franchise adjustment	797	506
Members' share of movement on liabilities	(2,867)	(6,892)
Actuarial loss recognised in statement of total recognised gains and losses	(2,449)	(420)
Defined benefit obligation at 31 December	(86,838)	(77,579)

21. Retirement benefits (continued)

History of experience gains and losses:

	2013 £'000	2012 £'000	2011 £'000	2010 £'000
Fair value of scheme assets	**72,781**	64,888	59,019	58,615
Present value of the defined benefit obligation	**(86,838)**	(77,579)	(67,140)	(67,936)
Members' share of deficit	**12,791**	12,318	7,298	8,232
Deficit in scheme	**(1,266)**	(373)	(823)	(1,089)
Experience adjustments arising on liabilities	**(2,553)**	(2,189)	(159)	(3,130)
Experience adjustments arising on assets	**655**	162	(2,635)	1,092

The Company's expected cash contribution to the scheme in 2014 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 £3,003,000 (2012: loss of £1,209,000). 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.

22. Capital commitments

There were no capital commitments at 31 December 2013.

23. 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 2013 contain a consolidated statement of cash flows.

24. 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 as they are included within the consolidated accounts of its ultimate parent Company National Express Group PLC, which are publicly available.

25. 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 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