c2c Rail Limited

Directors' Report and Accounts

For the year ended 31 December 2011

Company number 2938993

Registered office

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

Contents

c2c Rail Limited
Directors' Report

The Directors present their annual report, business review, the financial statements and auditor's report for the year ended 31 December 2011

Principal activities

The principal activity of the Company during the last financial year was the operation of passenger railway services between London Fenchurch Street and Shoeburyness. During the year, the franchise was extended by a further two years and is currently scheduled to end on 26 May 2013

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

Results and dividend

The profit for the year after taxation amounted to £11,654,000 (2010 - £6,943,000) representing an increase of £4,711,000 on the prior year Retained profit of £6,654,000 (2010 - £6,943,000) has been transferred to reserves

The directors paid an interim dividend of £5,000,000 (2010 £nil) No final dividend has been proposed or paid (2010 £nil)

Review of business and outlook

The Company's operating profit again improved significantly to £14,692,000 (2010 £9,703,000) This was a very creditable result, given the continuing uncertainties in the economic environment Our passenger revenues continued to grow, aided by the further roll out of the Oyster pay as you go (PAYG) scheme and our high levels of operational reliability and punctuality We continue to control discretionary costs rigorously We anticipate that the Company will remain profitable in 2012, recognising that the ongoing economic risks to passenger revenue remain

The Company continued to deliver strong operational results, during the year 96 7% of our trains arrived on time Customer satisfaction remained high with a rating of 91% in the latest survey We continue to progress plans to drive these measures higher

During the year we progressively embedded total quality management principle in the business, culminating in achieving the European Foundation for Quality Management Recognised for Excellence 4 Star (Silver) Award in December We achieved this important pan European accreditation with our first submission

The original c2c franchise ran until May 2011 In late 2010, agreement was reached with the Department for Transport to extend the franchise by a further period of up to two years to May 2013 As part of the financial arrangements of the franchise extension, there is a mechanism for sharing profits earned above a defined threshold with the Department

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, 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 37 to 39 of the National Express Group PLC 2011 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 116 to 120 of the National Express Group PLC 2011 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 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 2011 operational performance remained strong with c2c ending the year with a Public Performance Measure (PPM) MAA (Moving Annual Average) of 96 7% equalling the UK record set by ourselves and retaking first position in the industry performance league table Right Time performance delivery was strong, with our MAA reaching 83 2%, the highest ever achieved by c2c During 2011 the completion of resignalling works in the West Ham area created additional capacity for trains to call at West Ham Station and as part of the franchise extension we committed to introducing these calls from the December 2011 timetable The timetable has been a success from both an operational and customer service perspective

The latest National Passenger Survey (NPS) results from autumn 2011 wave produced a 91% satisfaction rating, in line with autumn 2010 This is eight percentage points above the average for our London & South East peer group for the same period

Operational review (continued)

We have continued to focus on customer communication, and satisfaction scores have increased for the provision of information at stations by 1% to 87%

The provision of information on trains has also increased by 3% to 83% Satisfaction for how well we deal with information during times of disruption was a modest 40%, a decline of 9% Our analysis shows that this is due to a much smaller sample size than in the previous wave

Customer satisfaction remains at a high NPS level of 92% for the company's punctual and reliable service We are committed to retaining this position and meeting our customers' needs, so maintaining very high levels of safety, punctuality and reliability remains our top priority

Environment

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

Our electric trains have activated regenerative braking technology, which recovers energy during braking to generate electricity and thus reduces train power consumption and CO_2 emissions by about 20% In the summer of 2008 we introduced a further software upgrade to our Class 357 trains, which was designed to save a further 3% of traction electricity by reducing air conditioning, lighting and other systems when the trains are stabled overnight During late 2011 further software developments have indicated that further potential improvements in regenerative braking can be realised and we intend to roll out these developments across the fleet in 2012 We continue to work with Bombardier and Network Rail to introduce traction energy billing based on measured consumption rather than modelling

During 2011 we replaced shed and office boilers at East Ham with new energy efficient boilers In 2012 we will seek to install water recycling facilities to our carriage wash plants at East Ham and Shoeburyness

We improved our depot recycling results throughout the year, achieving an all time high of 99 0% in November 2011 We introduced a new recycling scheme across our stations which now see 78% of waste recycled

c2c Rail Limited
Directors' Report

Directors

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

Name of Director

B Ackroyd	*(appointed 27 May 2011)*
R Bowley	
A Chivers	
J Drury	
K Frazer	
S Rees	*(resigned 27 May 2011)*

Company secretary

B Lees

Directors' liabilities

The Company has granted an indemnity to one or more of its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006 Such qualifying third party indemnity provision remains in force as at the date of approving the Directors' Report

None of the directors had any interest in the issued share capital of the Company

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

Employees

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

The Company's policy is to continue to employ those who become disabled in service, together with some recruitment where circumstances permit Training is adjusted to cater for an individual disability and the disabled share the same conditions of service as other staff in relation to career development and promotion

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 newsletter to all employees informing them of developments within the Company The Company maintains a Company wide intranet service

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 Champions have been introduced in the business in order to monitor employee engagement and satisfaction in the business and to further develop the area of employee communication The Champions meet regularly to make recommendations which are then developed into Company action plans

Health and Safety

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

We have continued to work with Network Rail, the British Transport Police and other stakeholders to drive down the numbers of personal accidents Significant progress was made during the year with year on year reductions of 7% for employee accidents, 18% for customer accidents and 38% for Contractor accidents This last figure is all the more creditable in the context of the extensive building works that took place at a number of our stations during the year

Two signals were passed at danger without authority during the year (2010 one) One of the signals was on Network Rail infrastructure and involved a passenger train, whilst the other signal was on our own infrastructure and involved an empty coaching stock movement

Charitable and political donations

The Company made charitable donations of £150 during the year (2010 £1,970) There were no political donations (2010 £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 46 days (2010 – 42 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 during the year 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 25 May 2012

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 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 2011 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses the Balance Sheet and the related notes 1 to 26 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 auditor
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 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 2011 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

Nigel Mercer

Nigel Mercer ACA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Birmingham, United Kingdom

Date 25 May 2012

c2c Rail Limited
Profit and Loss Account

For the year ended 31 December 2011

	Note	2011 £'000	2010 £'000
Turnover	2		
Passenger income		**122,685**	111,859
Other operating income		**5,142**	4,236
		127,827	116,095
Operating costs		**(113,135)**	(106,392)
Operating profit	3	**14,692**	9,703
Interest receivable	7	**93**	77
Net pensions scheme interest	22	**640**	481
Profit on ordinary activities before taxation		**15,425**	10,261
Tax on profit on ordinary activities	8	**(3,771)**	(3,318)
Profit on ordinary activities after taxation	19	**11,654**	6,943

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 2011

	2011 £'000	2010 £'000
Profit for the financial year	**11,654**	6,943
Actuarial loss on defined benefit pension scheme	**(205)**	(1,030)
Deferred tax on actuarial loss	**36**	276
Total recognised gains and losses relating to the year	**11,485**	6,189

c2c Rail Limited
Balance Sheet
31 December 2011

	Note	2011	2010
		£'000	£'000
Fixed assets			
Tangible assets	10	**3,557**	4,092
Investments	11	**-**	-
		3,557	4,092
Current assets			
Debtors	12	**9,755**	8,264
Deferred tax asset	17	**634**	585
Cash at bank and in hand	13	**41,014**	31,786
		51,403	40,635
Creditors: amounts falling due within one year	14	**(41,970)**	(38,700)
Net current assets		**9,433**	1,935
Total assets less current liabilities		**12,990**	6,027
Creditors: amounts falling due after more than one year	15	**(820)**	(135)
Provisions	16	**(834)**	(942)
Net assets excluding net pension liability		**11,336**	4,950
Net pension liability	22	**(617)**	(795)
Net assets including net pension liability		**10,719**	4,155
Capital and reserves			
Called up share capital	18	**1,000**	1,000
Share premium account	19	**3,000**	3,000
Profit and loss account	19	**6,719**	155
Equity Shareholders' funds	20	**10,719**	4,155

These financial statements of c2c Rail Limited, registered number 2938993, were approved by the Board of Directors and authorised for issue on 25 May 2012

On behalf of the Board

R Bowley

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

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 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

The Company has previously disclosed that its accounting policy relating to the Railways Pension Scheme ("RPS") represents a departure from the requirements of FRS 17 This was principally based on an assessment performed at the time of adoption of FRS 17 During the current period, the Directors have reviewed the accounting standards and current industry practice, and have concluded that the Company's accounting policy complies with FRS 17

c) Share based payments

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

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

Market-based performance conditions are taken into account when determining the fair value and at each balance sheet date before vesting, the cumulative expense is calculated

1. **Accounting policies (continued)**

c) Share based payments (continued)

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

d) Turnover

(i) Passenger income represents amounts agreed as attributed to the Company by the income allocation systems of Rail Settlement Plan Limited, mainly in respect of passenger receipts Income is attributed based principally on models of certain aspects of passengers' travel patterns and, to a lesser extent, from allocations agreed for specific revenue flows The attributed share of season ticket income is deferred within creditors, and released to the profit and loss account over the period of the relevant season ticket

(ii) Revenue grant relates to amounts receivable from the Department for Transport (DfT) Income is recognised on an accruals basis

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

e) 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 including the departure from FRS 17 required for the Company's RPS obligations The trustees complete a full actuarial valuation triennially, separately for each section of the RPS, but the obligation is updated annually by independent actuaries using the projected unit credit method for financial reporting purposes

The Company participates in the RPS, a defined benefit scheme which covers the whole of the UK Rail industry This is partitioned into sections and the Company is responsible for the funding of the sections whilst it operates the relevant franchise In contrast to the pension schemes operated by most businesses, the RPS is a shared cost scheme, which means that costs are formally shared 60% employer and 40% employee A liability is recognised, although this is offset by a franchise adjustment so that the net liability represents the deficit that the Group expects to fund during the franchise term

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

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

	2011	2010
	£'000	£'000
Operating profit is stated after charging		
Depreciation - owned assets	**1,256**	2,591
Train maintenance services and materials	**9,924**	10,168
Operating lease rentals		
- Fixed track access	**9,573**	9,489
- Rolling stock costs	**22,696**	22,034
- Variable track access	**1,651**	1,592
- Other	**4,681**	4,422
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**	30
- Other non-audit services	**35**	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 2011

4. Directors' emoluments

	2011	2010
	£'000	£'000
Aggregate emoluments in respect of qualifying services to the Company	480	741

The emoluments excluding pension contributions of the highest paid director were £177,577 (2010 £237,000) His accrued pension and accrued lump sum benefit, as at 31 December 2011, were £9,851 (2010 £7,927) and £8,687 (2010 £6,835) respectively

Retirement benefits were accruing to four directors during the year (2010 four directors) under a defined benefit scheme in respect of services provided to the Company

Three directors exercised a total of 22,239 share options in the year in a range of 249-256p per share

5. Staff costs

	2011	2010
	£'000	£'000
Wages and salaries (including share-based payment expense)	19,589	18,980
Social security costs	1,491	1,379
Pension costs (refer to note 21)	1,738	2,030
	22,818	22,389

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

	2011	2010
	No.	No
Managerial and administrative	93	96
Operational	459	455
	552	551

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

	2011	2010
	£'000	£'000
Expense arising from share and share option plans	79	25

During the year ended 31 December 2011, c2c Rail Limited had four share-based payment arrangements consisting of the Executive Share Option Plan, Share Matching Plan, Deferred Annual Share Bonus Plan and Savings Related Share Option Scheme, which are described in note 7(b) to the National Express Group plc 2011 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

	2011		2010	
	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	**58,48**	**465**	65,797	479
Transfers during the year		-	6,359	354
Forfeited during the year	**(9,11[illegible]**	**392**	(13,672)	479
Outstanding at 31 December	**49,36**	**1,479**	58,484	465
Exercisable at 31 December		-	6,359	354
Options with a nil exercise price				
At 1 January	**69,05**	**Nil**	33,426	Nil
Granted during the year	**3,96**	**Nil**	28,238	Nil
Transfers during the year		**Nil**	10,443	Nil
Exercised during the year	**(7,25[illegible]**	**Nil**	(3,052)	Nil
Outstanding at 31 December	**65,76**	**Nil**	69,055	Nil
Exercisable at 31 December		-	-	-
Total outstanding at 31 December	**115,13**		127,539	
Total exercisable at 31 December			6,359	

The options outstanding at 31 December 2011 had a weighted average exercise price of 479p (2010 465p) excluding options with a nil exercise price The range of exercise prices for options was as follows

Exercise price (p)	2011	2010
350-400	**-**	6,359
400-500	**49,366**	52,125
	49,366	58,484

The options have a weighted average contractual life of 1 year (2010. 1 year) For options that were exercised during the year, the weighted average share price at exercise was 239p (2010 242p)

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	
	2011	2010
Risk free interest rate	**1.3%**	1 8% - 3 0%
Expected volatility	**51.5%**	52 7%
Peer group volatility	**57.0%**	49 6% - 50 8%
Expected option life in years	**3 years**	3 years
Expected dividend yield	**3.7%**	0%
Weighted average share price at grant date	**239p**	230p
Weighted average fair value of options at grant date	**214p**	230p

No share options were granted in 2011 (2010 none) without a nil exercise price

Exercise to date has shown that approximately 24% (2010 15%) of options are exercised early, principally due to leavers This has been incorporated into the calculation of the expected option life for the share options without nil exercise price

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

7. Interest

	2011 £'000	2010 £'000
Interest receivable		
Bank interest	**2**	-
Interest receivable from group undertakings	**91**	77
	93	77

8. Taxation

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

	2011 £'000	2010 £'000
Current taxation		
UK corporation tax charge at 26 5% (2010 28%)	**4,027**	3,168
Adjustments in respect of prior periods	**(331)**	286
	3,696	3,454
Deferred taxation		
Origination and reversal of timing differences	**(47)**	5
Defined benefit pension	**124**	41
Effects of changes in tax rate	**47**	22
Adjustments in respect of prior periods	**(49)**	(204)
	75	(136)
Tax charge on profit on ordinary activities	**3,771**	3,318

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

	2011 £'000	2010 £'000
Profit on ordinary activities before taxation	**15,425**	10,261
Notional charge at UK corporation tax rate of 26 5% (2010 28%)	**4,088**	2,873
Expenses not deductible for tax purposes	**20**	342
Depreciation in excess of/(less than) capital allowances	**50**	(8)
Effect of short-term timing differences	**(1)**	4
Pension Scheme Adjustments	**(130)**	(43)
Adjustments in respect of prior periods	**(331)**	286
Current tax charge for the year	**3,696**	3,454

8. Taxation (continued)

- In March 2011, the UK Government announced a reduction in the standard rate of UK corporation tax to 26% effective 1 April 2011 This rate reduction was substantively enacted in March 2011
- In March 2012, the UK Government announced the main rate of UK corporation tax would reduce to 24% with effect from 1 April 2012, with subsequent 1% reductions annually to 22% by April 2014 These changes were substantively enacted on 26 March 2012
- 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

	2011	2010
	£'000	**£'000**
Interim Ordinary Dividends (paid)	5,000	-

10. Tangible fixed assets

	Plant and equipment owned £'000	**Plant and equipment leased £'000**	**Total £'000**
Cost			
At 1 January 2011	31,311	204	31,515
Additions	721	-	721
At 31 December 2011	**32,032**	**204**	**32,236**
Depreciation			
At 1 January 2011	27,219	204	27,423
Charge for the year	1,256	-	1,256
At 31 December 2011	**28,475**	**204**	**28,679**
Net book value			
At 31 December 2011	**3,557**	**-**	**3,557**
At 1 January 2011	4,092	-	4,092

11. Investments

The Company held the following unlisted investments at 31 December 2011 and 31 December 2010

	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

	2011 £'000	2010 £'000
Trade debtors	**6,323**	5,486
Amounts due from group undertakings	**75**	38
Other debtors	**1,124**	790
Prepayments and accrued income	**2,233**	1,950
	9,755	8,264

13. Cash at bank and in hand

	2011 £000	2010 £000
Bank deposits	**41,014**	31,786

Cash and cash equivalents includes ring-fenced cash of £19,475,000 (2010· £18,583,000) 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.

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14. Creditors: amounts falling due within one year

	2011 £'000	2010 £'000
Trade creditors	**11,384**	9,281
Amounts due to group undertakings	**570**	535
Deferred season ticket income	**19,481**	17,621
Social security and other taxation	**446**	347
Accruals and deferred income	**3,762**	3,793
Other creditors	**2,302**	3,669
Corporation tax	**4,025**	3,454
	41,970	38,700

Other creditors includes deferred fixed asset grants of £150,000 (2010 £96,000) and dilapidation provisions of £436,000 (2010 £180,000) which are due within one year Amounts due after one year are disclosed below

15. Creditors: amounts falling due after more than one year

	2011 £'000	2010 £'000
Deferred fixed asset grants	**60**	135
Dilapidations	**760**	-
	820	135

16. Provisions

	1 January 2011 £'000	Provided in the year £'000	Utilised or transferred in the year £'000	31 December 2011 £'000
Insurance	942	109	(217)	**834**

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

17. Deferred tax

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

	£'000
At 1 January 2011	585
Increase in the year	49
At 31 December 2011	**634**

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

	2011 £'000	2010 £'000
Capital allowances	**627**	578
Other timing differences	**7**	7
	634	585

	Deferred tax arising on pension deficit (note 21)	Capital allowances	Other deferred tax	Total
	£'000	£'000	£'000	£'000
At 1 January 2011	294	578	7	879
Charged to profit and loss account	(124)	49	-	(75)
Charge to statement of total recognised gains and losses	36	-	-	36
At 31 December 2011	206	627	7	840

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.

18. Share capital

	2011	2010
	£'000	£'000
Allotted, called up and fully paid		
4,000,000 Ordinary shares of 25p each	**1,000**	1,000

19. Reserves

	Share premium account	Profit and loss account	Total
	£'000	£'000	£'000
At 1 January 2011	3,000	155	**3,155**
Profit for the year	-	11,654	**11,654**
Actuarial loss on defined benefit pension scheme (Note 21)	-	(205)	**(205)**
Deferred tax on actuarial loss	-	36	**36**
Share based payments	-	79	**79**
Dividends paid (note 9)	-	(5,000)	**(5,000)**
At 31 December 2011	**3,000**	**6,719**	**9,719**

20. Reconciliation of movements in shareholders' funds

	2011	2010
	£'000	£'000
Profit for the financial year	**11,654**	6,943
Other recognised gains and losses	**(169)**	(754)
Share based payments	**79**	25
Dividends paid (note 9)	**(5,000)**	-
Net addition to shareholders' funds	**6,564**	6,214
Shareholders' funds (deficit) at 1 January	**4,155**	(2,059)
Shareholders' funds at 31 December	**10,719**	4,155

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
	2011	2011	2011	2011	2011
	£'000	£'000	£'000	£'000	£'000
Leases which expire					
Within two to five years	10,345	24,249	3,665	1,075	39,334
	10,345	**24,249**	**3,665**	**1,075**	**39,334**

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

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

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 deficits anticipated to be settled by the Company during the franchise term and will prevent gains arising on transfer of the existing RPS deficits to a new owner at franchise exit

In calculating the Company's constructive obligations in respect of the RPS, the Company has calculated the total pension deficit in accordance with FRS17 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 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 £8 6m at 31 December 2010 to £7 7m at 31 December 2011 The decrease is caused by interest on the franchise adjustment of £0 5m and net actuarial movements of £0 4m In the prior year, the franchise adjustment decreased from £9 4m at 31 December 2009 to £8 6m at 31 December 2010 The decrease was caused by interest on the franchise adjustment of £0 6m and net actuarial movements of £0 2m

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

Date of actuarial valuation	31 December 2007
Actuarial method used	Projected unit
Rate of investment returns per annum	1 3% - 8 0%
Increase in earnings per annum	4 23%
Scheme assets taken at market value	£65 4m
Funding level	105 5%

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

	2011	2010	2009
Rate of increase in salaries	**3.0%**	3.9%	4.5%
Rate of increase of pensions	**2.0%**	2.9%	3.5%
Discount rate	**5.0%**	5.4%	5.75%
Inflation assumption (RPI)	**3.0%**	3.5%	3.5%
Inflation assumption (CPI)	**2.0%**	2.9%	
Expected rates of return on scheme assets			
Equities	**7.7%**	7.7%	8.0%
Bonds	**3.0%**	4.2%	4.5%
Properties	**-**	6.0%	6.3%
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	**20.5**	19.8	19.8
Current pensioners at 65 – male – others	**22.6**	21.5	21.5
Current pensioners at 65 – female			
Current pensioners at 65 – female, pension under £3,300 pa or pensionable pay under £35,000 pa	**22.4**	21.7	21.7
Current pensioners – female – others	**24.8**	22.7	22.7
Future pensioners at 45 – male			
Future pensioners at 45 – male, pension under £9,300 pa or pensionable pay under £35,000 pa	**22.8**	22.2	22.2
Future pensioners at 45 – male – others	**24.9**	23.7	23.7
Future pensioners at 45 – female			
Future pensioners at 45 – female, pension under £3,300 pa or pensionable pay under £35,000 pa	**24.9**	23.2	23.2
Future pensioners at 45 – female – others	**27.1**	24.2	24.2

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

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

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

22 Retirement benefits (continued)

Analysis of the amount charged to operating profit

	2011	2010
	£'000	£'000
Current service cost	**(1,908)**	(2,030)
Total operating charge	**(1,908)**	(2,030)

Analysis of the amount credited to finance income

	2011	2010
	£'000	£'000
Expected return on pension scheme assets	**2,655**	2,368
Interest on pension scheme liabilities	**(2,623)**	(2,635)
Interest on franchise adjustment	**608**	748
Net credit to finance income	**640**	481

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

	2011	2010
	£'000	£'000
Actual return less expected return on pension scheme assets	**(2,635)**	1,317
Other actuarial gains/ (losses)	**2,430**	(2,347)
Actuarial loss recognised in the statement of total recognised gains and losses	**(205)**	(1,030)

The actual return on plan assets is a gain of £20,000 (2010 £3,685,000)

The amounts recognised in the balance sheet at 31 December are

	2011	2010	2009
	£'000	£'000	£'000
Equities	**55,901**	55,831	42,565
Bonds	**3,118**	2,784	5,098
Property	**-**	-	4,643
Total fair value of scheme assets	**59,019**	58,615	52,306
Present value of scheme liabilities	**(77,264)**	(79,193)	(74,330)
Franchise adjustment	**10,124**	11,257	13,000
Defined benefit obligation	**(67,140)**	(67,936)	(61,330)
Members' share of deficit	**7,298**	8,232	8,810
Deficit in the scheme	**(823)**	(1,089)	(214)
Related deferred tax asset	**206**	294	60
Net pension liability	**(617)**	(795)	(154)

22 Retirement benefits (continued)

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

	2011 £'000	2010 £'000
Fair value of scheme assets at 1 January	**58,615**	52,306
Expected return	**2,655**	2,368
Cash contributions - Employer	**1,764**	1,702
Cash contributions – Employee	**1,132**	1,140
Benefits paid	**(2,526)**	(2,525)
Members' share of return on assets	**14**	2,307
Actuarial (loss) gain recognised in statement of total recognised gains and losses	**(2,635)**	1,317
Fair value of scheme assets at 31 December	**59,019**	58,615

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

	2011 £'000	2010 £'000
Defined benefit obligation at 1 January	**(67,936)**	(61,330)
Current service cost	**(1,908)**	(2,030)
Benefits paid	**2,526**	2,525
Cash contributions - Employees	**(1,132)**	(1,140)
Finance charge	**(2,623)**	(2,635)
Interest on franchise adjustment	**608**	748
Members' share of movement on liabilities	**920**	(1,727)
Actuarial gain (loss) recognised in statement of total recognised gains and losses	**2,405**	(2,347)
Defined benefit obligation at 31 December	**(67,140)**	(67,936)

22. Retirement benefits (continued)

History of experience gains and losses

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

The Company's expected cash contribution to the scheme in 2012 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 £951,000 (2010 loss of £746,000) 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

	2011 £'000	2010 £'000
Contracted	-	-
Authorised but not contracted	-	40

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 2011 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 as they are included within the consolidated accounts of its ultimate parent Company National Express Group PLC, which are publicly available

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 2011

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