Department for Transport

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Direct Line: 020 7944 XXXX

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XXXX

Our Ref: FOI 0007275

11 February 2011

Dear XXXX

Request for information under the Freedom Of Information act 2000 on HS1 High Speed Rail link St Pancras (London) - Channel Tunnel

I refer to your Freedom of Information request dated 13th January 2011. In that request you asked us for the following information:

1. Can you please inform me of the total costs to the government of the infrastructure which has been transferred under lease to a company which I understand is called Borealis and the length of the lease? Costs to include track, signalling, stations, depots and commissioning.

2. Please supply a copy of London and Continental Rail's profit and loss account in respect of the last full year of their ownership.

3. Please also provide memorandum of the agreement made with Borealis covering future investment and maintenance of the assets included in the lease.

4. Please also advise me of the regulatory board, and its powers, which will monitor compliance of the above and also operational performance, and its powers to regulate access and related charges to Eurostar and/ or any other rail company that has or wishes to gain track access in the future, to operate rail services over the route or any part of it.

Following a search of our paper and electronic records I can confirm we have located the following information relating to your request.

The information in relation to:

- Point 1 – the total cost of High Speed 1 to government was £5.8 billion and the length of the lease granted is 30 years to 31st December 2040.

- Point 2 – Under section 21 of the Act, we are not required to provide information which is already reasonably accessible elsewhere. The statutory accounts of the London and Continental Railway and High Speed 1 are a matter of public record and can be obtained from Companies House. However, I attach a copy of 2009 statutory accounts for your information. The statutory accounts for 2010 are still being prepared and will be will be published in summer 2011

- Point 3 – I have enclosed a copy of the summarised version of the Concession Agreement – which describes future investment and maintenance of assets that are included in the lease to Borealis. If you require a full copy of the Concession Agreement, please let me know and I will gladly send you a copy, however it is approximately 200 pages long.

- Point 4 – The Office of Rail Regulation will be monitoring the compliance of HS1 and its operational performance and related matters.

If you are unhappy with the way the Department has handled your request or with the decisions made in relation to your request you may complain within two calendar months of the date of this letter by writing to the Department's Information Rights Unit at:

Zone D/04
Ashdown House
Sedlescombe Road North
Hastings
East Sussex, TN37 7GA
E-mail:FOI-Advice-Team-DFT@dft.gsi.gov.uk

Please see attached details of the DfT's complaints procedure and your right to complain to the Information Commissioner. If you have any queries about this letter, please contact me. Please remember to quote the reference number above in any future communications.

Yours sincerely,

XXXX

DfT's Complaints Procedures

You have the right to complain about the way in which your request for information was handled and/or about the decision not to disclose all or part of the information requested. In addition a complaint can be made that DfT has not complied with its FOI publication scheme.

Your complaint will be acknowledged and you will be advised of a target date by which to expect a response. Initially your complaint will be re-considered by the official who dealt with your request for information. If, after careful consideration, that official decides that his/her decision was correct, your complaint will automatically be referred to a senior independent official who will conduct a further review. You will be advised of the outcome of your complaint and if a decision is taken to disclose information originally withheld this will be done as soon as possible.

If you are not content with the outcome of the internal review, you have the right to apply directly to the Information Commissioner for a decision. The Information Commissioner can be contacted at:

Information Commissioner's Office
Wycliffe House
Water Lane
Wilmslow
Cheshire
SK9 5AF

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HIGH SPEED ONE

HS1 Concession agreement – notes on clauses

HIGH SPEED ONE

HS1 CONCESSION AGREEMENT – NOTES ON CLAUSES

1. Introduction

1.1 These notes describe the key terms of the HS1 Concession Agreement as amended and restated on 16th July 2010 (the **"Concession Agreement"**) and of the Supplemental Agreement dated 27th August 2010 (the **"Domestic Underpinning Agreement"**). As with all document summaries, this is an introduction only and reference should be made where necessary to the Concession Agreement and to the Domestic Underpinning Agreement themselves. Capitalised terms used in this summary have the meanings given to them in the Concession Agreement.

2. Background

2.1 The Secretary of State entered into the LCR Development Agreement with LCR on 28 February 1996, for the design, construction, financing, operation, repair and maintenance of CTRL.

2.2 CTRL was built in two sections, Section 1 from Cheriton in Kent to Fawkham Junction and Section 2 from Southfleet to London St. Pancras.

2.3 By virtue of a concession agreement known as the S1 Agreement dated 28 September 2003 between the Secretary of State and URS, the rights and obligations of LCR under the LCR Development Agreement in relation to Section 1 were acquired by and conferred upon URS. URS's interests under the S1 Agreement were transferred to its wholly owned subsidiary CTRL (UK).

2.4 By virtue of a concession agreement known as the S2 Agreement dated 6 August 2008 between the Secretary of State and URN, the rights and obligations of LCR under the LCR Development Agreement in relation to Section 2 were acquired by and conferred upon URN. URN has changed its name to HS1 Co.

2.5 The Final Permit to Use for CTRL was issued on 27 May 2008 and the CTRL thereafter became known as High Speed 1 or HS1.

2.6 CTRL (UK)'s interests under the S1 Agreement were transferred to HS1 Co in November 2008 so that HS1 Co became the Concessionaire under the S1 Agreement and the S2 Agreement for the whole of HS1.

2.7 On 14 August 2009, the Secretary of State and HS1 Co entered into a Supplemental Agreement. That agreement amended and restated the S1 Agreement and the S2 Agreement in the form of a single concession agreement.

2.8 The ORR has duties in relation to HS1 under section 21(1) of the Channel Tunnel Rail Link Act 1996 and regulatory functions in relation to HS1 under the Railways Infrastructure (Access and Management) Regulations 2005 as amended by the Railways Infrastructure (Access and Management) Regulations 2009 (the **"Railways Regulations"**). The ORR also has other functions under the Railways Act 1993 that it may be called upon to exercise in relation to HS1. These include its general function to keep under review the provision of railway services in Great Britain in section 69 of the 1993 Act.

2.9 Under Regulation 13(3) of the Railways Regulations, the ORR is responsible for exercising its rights and responsibilities under or by virtue of the relevant development agreement (for the purposes of Section 56 of the CTRL Act 1996 and the Railways Regulations) to ensure that the requirements of Regulation 13(2) are implemented. Regulation 13(2) states that the infrastructure manager must, with due regard to safety and to maintaining and improving the

2.10 The functions of the ORR under the Railways Regulations include functions under Regulation 28(2) (dealing with conditions to ensure that access charges are correctly applied by the infrastructure manager) and Regulation 28(3) (dealing with the supervision of negotiations between train operator applicants and the infrastructure manager regarding the level of access charges).

2.11 HS1 Co is the infrastructure manager of HS1 for the purposes of the Railways Regulations.

2.12 The concession agreement of 14 August 2009 was a development agreement for the purposes of Section 56 of the CTRL Act 1996 and the Railways Regulations. It provided for the ORR to undertake a number of responsibilities in accordance with Regulation 13(2) including monitoring and enforcing asset stewardship and conducting periodic and interim reviews.

2.13 On 16 July 2010 the Secretary of State and HS1 Co entered into a further Supplemental Agreement amending and restating the concession agreement of 14 August 2009. The amendments thereby introduced were relatively minor and were made in contemplation of the sale of HS1 Co.

2.14 In addition to the provisions of the Concession Agreement, in carrying out its functions and responsibilities under the Concession Agreement the ORR will be guided by a Regulatory Statement agreed between the ORR, the Secretary of State and HS1 Co.

2.15 Land issues from the 1996 Development Agreement and the S1 and S2 Agreements were dealt with in the Supplemental Agreement of 14 August 2009 by means of:

2.15.1 an agreement amending and restating the 1996 Development Agreement in so far as it related to land acquisition, as it was envisaged that LCR would be the party responsible to the Secretary of State for the acquisition of land which had not yet legally been acquired but which was to form part of HS1 under the CTRL Act 1996; and

2.15.2 an Agreement for Lease between the Secretary of State and HS1 Co which:

(a) granted HS1 Co a licence and which would grant it the leases described in limbs (b) to (d) of this paragraph (once land acquisition had been completed in respect of the land comprising those leases) for the use of the HS1 lands for the purpose of performing the concession;

(b) granted HS1 Co the HS1 Lease in respect of the HS1 Lands (other than those referred to in paragraph (c));

(c) granted HS1 Co the Ebbsfleet Underlease, which is in respect of the station and carparking at Ebbsfleet station; and

(d) granted the Ashford Leases in respect of the station and island platforms at Ashford International Station.

2.16 These arrangements have been superseded by the HS1 Lease completed on 30 September 2010, the Ebbsfleet Underlease completed on 5 November 2010 and the Ashford Leases which were completed on 9 July 2010. [*Notes regarding the HS1 Lease and other land issues will be provided separately*].

3. The Grant of the Concession

3.1 By Clause 2 of the Concession Agreement the Secretary of State confirms the grant to HS1 Co of the HS1 Concession i.e. the concession for the design, construction, financing, operation, repair and maintenance of HS1 subject to and in accordance with the provisions of the Concession Agreement Unless terminated earlier, the HS1 Concession expires on 31 December 2040.

3.2 HS1 is defined as the Channel Tunnel rail link between London St Pancras Station and Cheriton, including London St Pancras, Stratford International and Ebbsfleet International Stations, the works related to the use of Stratford Station as a Combined Station on the basis of a Stratford Box, and the works carried out in relation to connections to the North London Line, the approach to London St Pancras Station and in respect of Boarley Lane, Boxley in Kent. As to Ashford International Station, see paragraph 9.1 below.

3.3 The Secretary of State agrees that he will not (unless HS1 Co so requests) seek to appoint any other entity as the nominated undertaker pursuant to the CTRL Act until the Concession Agreement is terminated (Clause 3.2).

3.4 The Secretary of State also agrees that he will not, before 31 December 2030, support any application for financial or other assistance in relation to an existing railway line between the geographical area presently bounded by the M25 and the Channel Tunnel which might allow that line to be used to provide a line speed in excess of 200 kph (Clause 3.3).

3.5 HS1 Co agrees:

3.5.1 to take all steps reasonably necessary and within its powers to enable it and the Secretary of State to comply with the CTRL Act and all legislation relating to the HS1, the HS1 Concession, the HS1 Assets or the Ashford Assets (Clause 2.2);

3.5.2 to use all reasonable endeavours to obtain all licences, consents and other authorisations required for it to carry out the Maintenance Works (Clause 3.1.1); and

3.5.3 to comply with the agreements, undertakings and assurances set out in Schedule 9; these relate principally to planning and heritage matters (Clauses 3.1.2 and 3.1.3).

4. Domestic Underpinning

4.1 By the Domestic Underpinning Agreement, the Secretary of State has given an undertaking to HS1 Co to make payments to HS1 Co where the Domestic Services on HS1 fall below certain agreed Baseline Services set out in an Appendix to the undertaking because:

4.1.1 the Secretary of State has failed to specify Domestic Services at a level at least equivalent to the Baseline Domestic Services; or

4.1.2 the Secretary of State has specified Domestic Services at a level at least equivalent to the Baseline Domestic Services, but no agreement has been reached with, and there are no other legally binding obligations on, train operators that require the provision of Domestic Services at a level at least equivalent to the Baseline Domestic Services; or

4.1.3 agreements have been reached with, or there are other legally binding obligations on, train operators that require the provision of Domestic Services at a level at least equivalent to the Baseline Domestic Services but train operators are in default of those agreements or obligations by reason of not running the level of Domestic Services specified therein and, in circumstances where such agreements or obligations have not been terminated, all such steps as are reasonable have not been taken to require such default to be remedied.

4.2 The payment is calculated on the basis of the difference between the amount that would be payable to HS1 Co by train operators in relation to the provision of the Baseline Domestic Services (based on certain assumptions) and the amount in fact payable by train operators to HS1 Co for actual Domestic Services.

4.3 Where, however, there are insufficient Train Slots to accommodate the Baseline Domestic Services the amount payable by the Secretary of State outlined in paragraph 4.2 above is reduced by a rebate payable by HS1 Co to the Secretary of State calculated on the basis of the extent of the shortfall in Train Slots and adjusted average track and station access charges payable to HS1 Co in respect of a Train Slot.

4.4 HS1 Co is under an obligation to use reasonable endeavours to sell capacity on HS1 so as to maximise the amount of the rebate outlined in paragraph 4.3 above.

4.5 The undertaking will apply after the expiry or earlier termination of the Track Access Agreement between HS1 Co and LSER dated 14 August 2009. This Track Access Agreement expires on the earlier of 31 December 2014 and six months after the expiry date of the LSER Franchise Agreement dated 29 November 2005. The LSER Franchise Agreement expires on 31 March 2012, but that the Secretary of State has the power to extend the period of the Franchise pursuant to paragraph 1.1 or Schedule 18 to the LSER National Rail Franchise Terms.

4.6 There are provisions for the Secretary of State to amend the number of stops at each station within the definition of Baseline Domestic Services but not so as to reduce the overall amount of station access charges in respect of the Baseline Domestic Charges.

5. The Government's Representative

5.1 Clause 4.1 provides for a Government's Representative (or more than one) to be appointed by the Secretary of State to exercise his functions under the Concession Agreement. As at 16 July 2010, the only express function given to the Government's Representative is in relation to the adjustments to the Long Term Charge under the HS1 Lease. However, if it is necessary for the Secretary of State to appoint a person as a Government's Representative to enforce certain rights or carry out certain responsibilities of the Secretary of State in the future, this provision gives him the power to do so.

6. The ORR

6.1 Under Clause 4.2 it is acknowledged and agreed that the ORR is to be appointed, on the basis of the memorandum of understanding between the Secretary of State and the ORR set out in Schedule 11, to carry out or exercise the functions, responsibilities, rights and obligations indicated as the functions responsibilities rights and obligations of the ORR in certain of the provisions of the Concession Agreement (see paragraph 2.9 above). The provisions are listed in clauses 4.2.1 to 4.2.16. They include:

6.1.1 Minimum Operational Standards (Clause 5.1 and Schedule 3);

6.1.2 Asset Stewardship and Periodic Review (Clause 7.2 and Schedule 10);

6.1.3 Paragraph 2 Changes (Clause 10); and

6.1.4 the Enforcement Procedure (Schedule 8).

6.2 The ORR is given the right under the Contracts (Rights of Third Parties) Act 1999 to enforce such rights as are granted to it under the Concession Agreement (Clause 25.2.2).

6.3 HS1 Co is responsible for the payment of the ORR's fees charged in accordance with Section 21A of the CTRL Act 1996 for the performance of its functions and responsibilities under the Concession Agreement. The memorandum of appointment includes indemnities from the

7. Minimum Operational Standards

7.1 Clause 5 provides that HS1 Co shall comply with the Minimum Operational Standards in relation to HS1. These are set out in Schedule 3 and include infrastructure Capability Requirements, performance floors and a requirement to provide the facilities comprised in the HS1 Stations and Ashford International Station.

Capability Requirements

7.2 The Capability Requirements are as follows:

7.2.1 The first Capability Requirement is that HS1 must be able to support a minimum of a certain number of trains per hour at certain headways: 20 trains per hour in each direction at three minute headways travelling at a maximum speed of 300 kilometres per hour, and 16 trains per hour in each direction travelling at three minute headways at a maximum speed of 225 kilometres per hour. The parties acknowledge that whilst both these capabilities must be provided at all times, it is not possible to provide capacity for such train services simultaneously.

7.2.2 HS1 must also be able to support Freight Services during such times as Freight Services are timetabled to operate to allow trains of up to 1600 tonnes travelling at a maximum speed of 140 kilometres an hour between the Channel Tunnel and Ripple Lane.

7.2.3 There is a Capability Requirement relating to journey time which requires that it be possible to run a Eurostar 373/1 or a train with equivalent performance characteristics along the track in either direction between London St Pancras and the Channel Tunnel in less than 32 minutes under normal signalling conditions within a test track environment and not in a normal traffic environment.

7.2.4 The final Capability Requirement requires compliance with the parameters defining the infrastructure in the Network Statement dated 27 November 2006 (which includes *inter alia* the power supply) and the line speeds set out in the Sectional Appendix dated December 2008.

7.3 If as a result of its own act or omission HS1 Co fails to provide infrastructure capability in accordance with the Capability Requirements for a period of 3 consecutive days or more, and the Secretary of State deems such failure to be a matter of sufficient seriousness, he may:

7.3.1 require HS1 Co to cause such infrastructure capability to be provided by a third party provider, or

7.3.2 if HS1 Co is not taking all reasonable steps to cause the infrastructure capability to be provided by a third party, himself step-in to procure that such infrastructure capability is provided.

7.4 The procurement of such capability by the Secretary of State will be at the cost of HS1 Co. However, the Secretary of State must reimburse HS1 Co in respect of any additional costs, expenses, losses, claims and liabilities that it would not have incurred but for the step-in by the Secretary of State.

7.5 The Secretary of State's right to step-in will continue until HS1 Co is able to provide the infrastructure capability in accordance with the Capability Requirements. However, if HS1 Co is not again able to provide such infrastructure capability but reasonably considers that it is able to provide Infrastructure Capability to enable 50% or more of the Train Services timetabled to run immediately before the Secretary of State stepped-in (or, where even that service level is not reasonably achievable because of the nature of circumstances that led to the Secretary of State stepping-in, such lower service level as the parties may reasonably agree), HS1 Co may give notice to the Secretary of State to resume operation of HS1. Within 3 days of receipt of the notice, the Secretary of State must notify HS1 Co whether or not he is satisfied that HS1 Co can resume operation of HS1 at the reduced capability level. If he is so satisfied, operation of HS1 is returned to HS1 Co. If he is not so satisfied, the Secretary of State must inform HS1 Co of his reasons and the step-in continues. If the Secretary of State fails to respond to HS1 Co's notice within the 3 day time period, he is deemed to be satisfied that HS1 Co can resume operation of HS1 at the reduced capability level and operation of HS1 is returned to HS1 Co.

7.6 The Secretary of State is liable to HS1 Co for any failure by him or by the operator procured by him to comply with Best Practice during any period of step-in.

7.7 If as a result of its own act or omission HS1 Co fails to provide infrastructure capability in accordance with the Capability Requirements for a period or periods aggregating two months or more in any two year period, the ORR shall implement the Enforcement Procedure (see paragraphs 23 and 7.13 below).

7.8 There is a contractual acknowledgement by the Secretary of State and HS1 Co that the Capability Requirements may not be achieved where works are being carried out pursuant to HS1 Co's General Duty (see paragraph 9.4 below).

Performance Floors

7.9 Schedule 3 specifies both a Three Month and an Annual Performance Floor.

7.10 The Three Month Performance Floor provides that no more than 15% of train services timetabled to operate in a Three Month Period may be delayed by more than five minutes. Delay for the purposes of this measurement is a delay of five minutes or more or a cancelled train but only includes occasions where the delay or cancellation is caused wholly or mainly:

7.10.1 by an act or omission of HS1 Co, subject to certain specified exceptions which can never be considered to be acts or omissions of HS1 Co;

7.10.2 by failure of HS1 Co to comply with a track access agreement or to reasonably mitigate the effects of any incident causing a delay; or

7.10.3 by circumstances within the control of HS1 Co, subject to the same specified exceptions which can never be considered to be acts or omissions of HS1 Co.

7.11 The Annual Performance Floor provides that no more than 13% of train services may be delayed in an annual period. For the purposes of the Annual Performance Floor, delay has the same meaning as that described in paragraph 7.10 above, but also includes 50% of delays and cancellations occurring in the annual period the cause of which cannot be identified.

7.12 If HS1 Co fails to provide or procure infrastructure capability at a level above the Three Month Performance Floor or the Annual Performance Floor, the ORR shall implement the Enforcement Procedure (see paragraph 23 below).

7.13 The failure to comply with a Final Order made by the ORR under the Enforcement Procedure or a Court Order upholding or enforcing a Provisional or Final Order is an Event of Default leading to termination (see paragraph 14 below).

Other Provisions of Schedule 3

7.14 The remainder of Schedule 3 sets out:

7.14.1 a minimum requirement for stations, which is comprised of lists of their key facilities contained in Appendix 1 of Schedule 3;

7.14.2 monitoring and reporting requirements upon HS1 Co to enable the ORR to monitor performance including whether HS1 Co is breaching the performance floors, and a further obligation to take various steps to facilitate the auditing of that information by the ORR;

7.14.3 that compliance with the undertakings and assurances set out in Schedule 9 (see paragraph 3.5.3 above) prevails over the Minimum Operational Standards where there is a conflict but HS1 Co is obliged to minimise the extent of the non-compliance;

7.14.4 the fact that the ORR may implement the Enforcement Procedure (paragraph 23 below) for any breach of Schedule 3.

8. The Charging Framework

8.1 Clause 6 obliges HS1 Co and the Secretary of State to comply with the Charging Framework set out in Schedule 4. Schedule 4 provides that access charges are to be determined by HS1 Co pursuant to the Charging Framework described in the Schedule and pursuant to the Railways Regulations (in particular Schedule 3 thereto).

8.2 According to the Charging Framework, access charges may include three elements (in addition to the operation, maintenance and renewal costs (OMRC) that may be recouped in accordance with the principles of charging contained in the Railways Regulations, the Network Statement and the track access agreements). The three elements are to be levied pursuant to paragraph 3 of Schedule 3 of the Railways Regulations, which allows the Infrastructure Manager to continue to set higher charges based on the long-term costs of the project to increase efficiency and cost effectiveness and where the project could not otherwise have been undertaken without the prospect of such higher charges. The three elements are as follows:

8.2.1 an investment recovery charge relating to costs directly incurred in the construction of HS1 after deducting any investment recovery elements of track access charges paid prior to the Charging Framework coming into effect and calculated as an indexed amount per minute per train capped at £69.57 (plus any VAT);

8.2.2 a second investment recovery charge relating to further investment in HS1 throughout the concession to increase efficiency or cost effectiveness and any costs associated with making that investment; and

8.2.3 charges relating to operations, maintenance and renewals on the basis of costs that are in the nature of long-term costs of the operational phase of the project incurred in order to meet the performance standards, asset condition and handback condition of HS1 required by the Concession Agreement.

8.3 Schedule 4 contains express contractual obligations upon HS1 Co to comply with Regulations 9 and 12(5) of the Railways Regulations, to prepare and maintain accounts and estimates necessary to calculate and justify the charges referred to above and to submit the accounts required by Regulation 9 to the Secretary of State when required. The Secretary of State also has a right to audit such accounts.

9. Asset Stewardship and Periodic Review

<u>Asset Stewardship of non-HS1 Railway Infrastructure</u>

9.1 Clause 7.1 deals with asset stewardship of HS1 Assets and Ashford Assets that are not dealt with by asset stewardship obligations elsewhere (see paragraphs 9.3ff below). The Ashford Assets are essentially the assets comprised in Ashford International Station, and are dealt with

9.1.1 HS1 Railway Infrastructure, namely regulated assets, the maintenance of which is to be carried out by HS1 Co in accordance with the provisions of Schedule 10 and supervised by the ORR; HS1 Railway Infrastructure consists of the HS1 network and track (as those terms are defined in the Railways Act 1993) but excludes the HS1 Stations, Ashford International Station and the Temple Mills Depot;

9.1.2 HS1 Stations, Ashford International Station and the Temple Mills Depot - the maintenance of these is dealt with through the HS1 Lease, the Ebbsfleet Underlease and the Ashford Leases.

9.2 Clause 7.1 thus covers items such as computers and HS1 Co's head office. It requires operation, repair and maintenance of those assets by applying the principles of preventative maintenance in accordance with Best Practice, so as to meet all relevant safety requirements, and so that, to the greatest extent possible and practical, HS1 Co is able to perform its obligations under the HS1 Concession, and so that the business of operating, repairing and maintaining those assets can be transferred as a going concern upon expiry or earlier termination of the Concession Agreement.

<u>Asset Stewardship of HS1 Railway Infrastructure</u>

9.3 Clause 7.2 and Schedule 10 deal with the asset stewardship of the HS1 Railway Infrastructure. The ORR has a significant role to play under the provisions of Schedule 10. The Schedule is divided into four parts and four Appendices. Part 1 deals with Asset Stewardship, Part 2 with Periodic Reviews (in which the level of the OMRC is set), Part 3 with Upgrades and Part 4 with enforcement action by the ORR. Appendix 1 deals with the mechanics of the Escrow Account; Appendix 2 is an agreed form of letter agreement with the Escrow Bank setting out the terms of its appointment; Appendix 3 is not used; Appendix 4 sets out a standard letter to be provided by institutions providing Authorised Investments; and Appendix 5 is the agreed form of charge over the Escrow Account, deposit monies and investments to be executed by HS1 Co in favour of the Secretary of State as security for its obligations to the Secretary of State in respect of Renewal and Replacement under the Concession Agreement.

9.4 The fundamental principle of HS1 Co's asset stewardship obligations is HS1 Co's General Duty to achieve the Asset Stewardship Purpose at all times (paragraph 3.1 of Schedule 10). The Asset Stewardship Purpose (paragraph 2.1 of Schedule 10) is to secure the operation, maintenance, renewal and replacement of the HS1 Railway Infrastructure and the planning and carrying out of upgrades: (a) in accordance with Best Practice; (b) in a timely, efficient and economical manner; and (c) as if HS1 Co were responsible for the stewardship of the HS1 Railway Infrastructure for 40 years from the date that any such activities are planned or carried out (other than in respect of the EdF Assets, which are maintained within the timeframes of the EdF Agreements). These requirements are subject to compliance with the Safety Authorisation and the Capability Requirements contained in Schedule 3 (paragraph 7 above).

9.5 In complying with HS1 Co's General Duty, the asset stewardship procedures require HS1 Co to produce:

9.5.1 a general Asset Management Strategy, which is subject to ORR review (paragraphs 4.1.1 and 5 of Schedule 10);

9.5.2 accurate and contemporary asset information (paragraph 4.1.2 of Schedule 10);

9.5.3 an Asset Register (which includes when the assets are due to be renewed or replaced) (paragraph 4.1.3 of Schedule 10);

9.5.4 Asset Management Annual Statements, which are both forward-looking and backward-looking (paragraph 6 of Schedule 10); and

9.5.5 Five Year Asset Management Statements, which are the key documents for setting the level of OMRC (paragraph 8 of Schedule 10).

9.6 The Asset Management Strategy has to contain an asset management policy, an asset management plan, an indicative renewal and replacement timetable, asset maintenance procedures for specific asset types and a description of how the condition, capability and capacity of the HS1 Railway Infrastructure will be maintained. The Asset Management Strategy must be submitted to the ORR for review. If HS1 Co fails to produce an acceptable Asset Management Strategy, the ORR may implement the Enforcement Procedure (see paragraph 23). HS1 Co must, when so directed by the ORR from time to time, review and revise its Asset Management Strategy to ensure that it remains sufficient to enable HS1 Co to comply with its General Duty (paragraph 5 of Schedule 10).

9.7 The Asset Management Annual Statement is to be submitted to the ORR at the end of each Year and provides details of OMR and any Specified Upgrades or other upgrades HS1 Co has carried out in the Year under review and that it intends or is required to carry out in the next Year (paragraph 6.2 of Schedule 10). The Asset Management Annual Statement must also contain accounts showing collection and application of OMR payments and the management of the Escrow Account in the Year under review.

9.8 HS1 Co may withdraw from the Escrow account monies required to pay for Renewals and Replacements that the current Five Year Asset Management Statement (see paragraphs 9.13 – 9.14 below) specifies will be carried out. The Asset Management Annual Statement provides HS1 Co with the possibility of withdrawing further monies from the Escrow Account to carry out Renewals and Replacements that are not contained in the current Five Year Asset Management Statement, provided that:

9.8.1 the carrying out of those Renewals and Replacements is consistent with HS1 Co's General Duty; and

9.8.2 the money will either be replenished into the account by the end of the current Control Period or through an increase in OMRC in the following Control Period (paragraph 6.5 of Schedule 10).

9.9 The ORR may refuse the withdrawal of monies where it is not satisfied with HS1 Co's proposal and in particular where it determines that the carrying out such Renewals and Replacements is not consistent with HS1 Co's General Duty or with such other criteria as the ORR shall determine from time to time (paragraph 6.6 of Schedule 10).

Periodic Review

9.10 The ORR will carry out Periodic Reviews prior to the end of each Control Period (these are consecutive periods of five years during the term of the Concession). The purpose of these reviews is, following a fair, transparent and proportionate process, to agree or determine the level of the OMRC for the following Control Period (paragraph 7.1 of Schedule 10).

9.11 The OMRC is to be set at the level that is needed to provide for OMR in accordance with HS1 Co's General Duty taking into account monies contained in the Escrow Account, any financial support from the Secretary of State pursuant to Clause 10.2 (Paragraph 2 Changes – see paragraphs 12.2 – 12.8 below), OMRC payable to HS1 Co pursuant to track access agreements and sums received pursuant to warranty, insurance or negligence claims in respect of the HS1 Railway Infrastructure. No other revenue or capital receipt is to be taken into account in setting the OMRC (paragraph 7.2 of Schedule 10).

9.12 The setting of OMRC is to be preceded by an ORR public consultation exercise on the proposed process for the Periodic Review (paragraph 7.4 of Schedule 10).

9.13 The principal input into a periodic Review is the Five Year Asset Management Statement (paragraph 7.3 of Schedule 10). This is prepared by HS1 Co and submitted to the ORR for review 15 months before the end of each Control Period and must contain the following elements (paragraph 8.1 of Schedule 10):

9.13.1 a performance and infrastructure quality plan setting out the condition, capability and capacity of the HS1 Railway Infrastructure for the following Control Period;

9.13.2 details of any proposed changes to possession regimes and related provisions set out in the Passenger Access Terms or the Freight Access Terms or track access agreements (if different);

9.13.3 details of forecast demand and traffic levels for the following Control Period;

9.13.4 proposed level of OMRC for the following Control Period ;

9.13.5 details of any other proposed changes to Access Terms in relation to OMRC;

9.13.6 any proposed changes to the Asset Management Strategy and of the OMR that HS1 Co proposes to carry out in the following Control Period;

9.13.7 a detailed record of the cost of the OMR for the current Control Period;

9.13.8 details of any increase in OMRC agreed pursuant to an Interim Review (see paragraph 9.22 below) to take effect in the following Control Period;

9.13.9 details of any upgrades carried out in the current Control Period or proposed to be carried in the following Control Period, including information as to any reduction or increase in OMR resulting from such upgrades;

9.13.10 details of amounts that HS1 Co has drawn from the Escrow Account to invest in Authorised Investments in accordance with the terms of the Appendix (including a report on the income arising from such investments);

9.13.11 a Costs Efficiency Plan for the following Control Period;

9.13.12 details of any amounts withdrawn from the Escrow Account to fund renewals and replacements outside of the Five Year Asset Management Statement and any proposal to increase the OMRC in the following Control Period to pay for those renewals and replacements (see paragraphs 9.8 and 9.9 above);

9.13.13 details of any Costs Savings, and of any Performance Incentive Share and any Additional Share to which HS1 Co believes it is entitled in respect of the current Control Period together with reasons why it considers it is so entitled (see paragraphs 9.17 – 9.19 below – the Performance Incentive Share and the Additional Share, if HS1 Co establishes an entitlement to them, will not be paid out until the end of the following Control Period and then subject to certain conditions);

9.13.14 details of any Performance Incentive Share or Additional Share to which the ORR has determined HS1 Co to be entitled in relation to the previous Control Period (and which is due to be paid to HS1 Co at the end of the current Control Period, provided that certain conditions are met – see paragraphs 9.18 and 9.19 below);

9.13.15 details of any proposed changes to the performance regimes contained in the Passenger Access Terms or the Freight Access Terms or track access agreements (if different).

9.14 The remainder of paragraph 8 is the procedure for the ORR to approve the Five Year Asset Management Statement and the level of OMRC. Where the ORR is unable to approve the level of OMRC or other material elements of the Five Year Asset Management Statement, the ORR shall determine those matters sixty Business Days prior to the expiry of the current Control Period (paragraph 8.5.2 of Schedule 10). HS1 Co has the possibility to make changes to its proposed Five Year Asset Management Statement after it was submitted provided that it was not possible for HS1 Co to include such information at the time of submission. The ORR, in those circumstances, shall take the changes into account (paragraph 8.6 of Schedule 10).

9.15 If HS1 Co fails to produce an acceptable Five Year Asset Management Statement, the ORR may implement the Enforcement Procedure (see paragraph 23). HS1 Co may challenge a determination of the OMRC or other elements of the Five Year Asset Management Statement by the ORR in the Courts if there are grounds equivalent to those that would form the basis of a judicial review (paragraph 8.11 of Schedule 10).

Sharing of Efficiencies

9.16 The renewals and replacements elements of track access charges are to be paid into the Escrow Account by HS1 Co and are subject to efficiency incentives for HS1 Co to carry out renewals and replacements at a lower cost but in accordance with HS1 Co's General Duty. The operations and maintenance elements of track access charges are not paid into the Escrow Account but must be applied in accordance with HS1 Co's General Duty under the Five Year Asset Management Statement for the operation and maintenance of HS1 Railway Infrastructure. If any costs savings are achieved by HS1 with respect to operations and maintenance as compared with the costs predicted in the Five Year Asset Management Statement, the amount not required may be applied by HS1 Co as it sees fit after the end of the Control Period (paragraph 9.1 of Schedule 10).

9.17 Where there are monies contained in the Escrow Account at the end of a Control Period which in the reasonable opinion of the ORR and taking account of future anticipated payments into the Escrow Account will not be required to carry out Renewals and Replacements after the end of that Control Period ("Cost Savings"), those monies are subject to the sharing mechanism set out in paragraph 9.2 of Schedule 10: 70% is allocated to the reduction of future OMRC and 30% to HS1 Co as a Performance Incentive Share. However, the percentages are to be reviewed by the ORR as part of each Periodic Review in order to assess whether they are providing too little or too much incentive to achieve Costs Savings (paragraph 9.2 of Schedule 10).

9.18 Paragraph 9.3 of Schedule 10 provides that any Performance Incentive Share will be released to HS1 Co at the end of the Control Period following the Control Period during which the relevant Cost Savings were achieved provided that the ORR is satisfied: that HS1 Co has complied with its General Duty, the Asset Management Strategy and Five Year Asset Management Statement in that following Control Period, that the Costs Savings were achieved in accordance with HS1 Co's General Duty, the Asset Management Strategy and Five Year Asset Management Statement for the Control Period in which they were achieved; and that there are, or will be, sufficient funds in the Escrow Account to enable HS1 Co to comply with its General Duty in relation to Renewals and Replacements in the next following Control Period.

9.19 Paragraphs 9.4 to 9.6 of Schedule 10 deal with payment of an Additional Share. This is payable where HS1 Co has carried out Renewals and Replacements that would be expected to result in efficiencies or costs savings after the expiry of the HS1 Concession. The Additional Share is 30% of such anticipated cost savings. This percentage is subject to review by the ORR as part of each Periodic Review. As with the Performance Incentive Share, the Additional Share is not paid to HS1 Co until the end of the Control Period following the Control Period in which the

9.20 Where the Concession Agreement is terminated as the result of any HS1 Co Event of Default, no Performance Incentive Share or any Additional Share shall be payable. In circumstances where termination is not due to HS1 Co Event of Default or the Agreement expires, a Performance Incentive Share or Additional Share shall be payable to HS1 Co on the date being five years after the date of termination or expiry provided the ORR is satisfied that the Costs Savings that gave rise to the Performance Incentive Share and the future cost savings that gave rise to the Additional Share were achieved in accordance with HS1 Co's General Duty, the Asset Management Strategy and Five Year Asset Management Statement for the Control Period in which the Costs Savings were achieved or the relevant Renewals and Replacements were carried out (paragraphs 9.9 – 9.11 of Schedule 10).

9.21 Renewals and replacements elements of track access charges relating to the EdF Assets are not to be paid into the Escrow Account because those monies are dealt with pursuant to the EdF Agreements. The OMR of EdF Assets will, however, be paid for through the OMRC (paragraph 9.12 of Schedule 10).

Interim Reviews

9.22 Where over the course of a Control Period:

9.22.1 there has been a material and significant change in the assumptions upon which the current OMRC was approved; or

9.22.2 there has been a Paragraph 2 Change that results in increased OMR costs such that the OMRC is likely to represent more than 30% of the OMRC for the current Control Period (see paragraph 12.3.3 below),

such that, in either case, the current level of OMRC is materially insufficient to enable HS1 Co to comply with HS1 Co's General Duty, HS1 Co may ask the ORR to carry out an Interim Review to increase the level of OMRC or to reset the Control Period (paragraphs 10.1 and 10.2 of Schedule 10). Paragraphs 10.3A -10.13 set out the procedures for dealing with HS1 Co's application. These procedures may result in an increase in the level of OMRC in current Control Period, an increase in the level of OMRC in the following Control Period or a resetting of the current Control Period. HS1 Co may challenge a determination of the ORR in relation to its application for an Interim Review in the Courts if there are grounds equivalent to those that would form the basis of a judicial review (paragraph 10.13 of Schedule 10).

Annual Adjustment for Pass Through Costs and Traction Electricity Charges

9.23 Pass Through Costs (comprised of rates, insurance, non-traction energy, and OMR costs of the EdF Assets) and Traction Electricity Charges are costs to be included in the OMRC as a pass through to train operators but subject to a determination by the ORR that such costs were incurred efficiently (paragraph 10A of Schedule 10).

Specified Upgrades

9.24 The Secretary of State may require HS1 Co to implement a Specified Upgrade or other upgrade in accordance with the Government's Change procedure set out in Clause 10, to be paid for the Secretary of State (see paragraph 12.11 below); or HS1 Co may implement a Specified Upgrade or other upgrade on its own initiative, and recover the costs through access charges as an Additional Investment Recovery Charge relating to further investment in HS1 under Clause 6 and Schedule 4 (see paragraph 8.2.2 above).

9.25 If HS1 Co is required to implement a Specified Upgrade or other upgrade or decides to do so, HS1 Co shall propose to the ORR a plan for its implementation. If the ORR is satisfied that the plan is in accordance with HS1 Co's General Duty, the ORR must approve the plan. Where the plan is not approved, HS1 Co must submit a new plan. Where it is, HS1 Co may carry out those Specified Upgrades or other upgrades but must do so in accordance with the Asset Stewardship Purpose and HS1 Co's General Duty (paragraphs 11.2 - 11.4 of Schedule 10).

9.26 Where HS1 Co initiates the Specified Upgrade, its proposed implementation plan must include proposals as to the amount of the Additional Investment Recovery Charge. If approved by the ORR, HS1 Co may recover the Charge as proposed in the plan (paragraph 11.4 of Schedule 10).

9.27 If HS1 Co fails to produce an acceptable plan for the implementation of an upgrade, the ORR may implement the Enforcement Procedure (see paragraph 23). HS1 Co may challenge a refusal by the ORR to approve a plan for implementation of an upgrade in the Courts if there are grounds equivalent to those that would form the basis of a judicial review (paragraph 11.8 of Schedule 10).

9.28 Proposals for a Specified Upgrade may be included as part of a Periodic or Interim Review (paragraph 11.9 of Schedule 10).

<u>Enforcement</u>

9.29 By paragraph 12 of Schedule 10, if at any point the ORR considers HS1 Co to be in contravention of HS1 Co's General Duty, it may implement the Enforcement Procedure (see paragraph 23 below).

<u>Escrow Account</u>

9.30 Monies in respect of the Renewals and Replacements aspects of track access charges (paragraph 9.1 of Schedule 10) and monies provided to HS1 Co by the Secretary of State to pay for a Paragraph 2 Change relating to Renewals and Replacements (Clause 10.2.10), are to be paid into the Escrow Account. These monies may be withdrawn from the Escrow Account in accordance with the procedures for management of the Escrow Account contained in Appendix 1 to Schedule 10:

9.30.1 where they are required to pay for a Renewal or Replacement contained in a Five Year Asset Management Statement (see paragraph 9.8 above);

9.30.2 where they are required to pay for additional Renewals and Replacements proposed by HS1 Co in an Asset Management Annual Statement to which the ORR has not objected (see paragraph 9.8 above);

9.30.3 to make Authorised Investments (defined in the Appendix) in accordance with the procedure set out in the Appendix;

9.30.4 as a Performance Incentive Share or an Additional Share at the end of the Control Period after the Control Period in which Costs Savings or Additional Share were achieved (see paragraphs 9.18 and 9.19 above); or

9.30.5 where such monies are being used to fund the implementation of a Paragraph 2 Change relating to Renewals and Replacements.

(see paragraph 6.4 of Schedule 10 and paragraph 2.1 of Appendix 1)

9.31 A Government Accounts Agent and an HS1 Co Accounts Agent may be appointed on behalf of the parties to carry out their respective responsibilities with respect to the Escrow Account in accordance with the procedures set out in Appendix 1 to Schedule 10.

9.32 The Secretary of State is to have a charge over the Escrow Account, deposit monies and investments to ensure it has control of monies in the account in the event of termination. Appendix 5 sets out the agreed form of charge to be executed by HS1 Co (paragraph 1.2 of Appendix 1).

10. Liability and Indemnity

10.1 Clause 8 deals with liability and indemnity.

10.2 HS 1 Co indemnifies the Secretary of State in respect of any liability for any damage or Losses suffered by users of HS1 or by any other third parties arising out of or in connection with a breach by HS1 Co of its obligations under the Concession Agreement, the HS1 Lease, the Ebbsfleet Underlease or the Ashford Leases save to the extent that:

10.2.1 a claim arises out of any wilful misconduct or Gross Negligence of the Secretary of State, his servants or agents,

10.2.2 the liability arises out of the death of or personal injury to any third party caused by the act, neglect or default of the Secretary of State, his servants or agents, or

10.2.3 the liability arises out of any matter for which the Secretary of State is to bear the risk or liability pursuant to a Paragraph 2 Change.

10.3 Neither party is liable to the other for any consequential loss.

10.4 The Concession Agreement is entered into on the basis that neither the Secretary of State nor any of his agents, advisers or employees has made any representation or warranty as to the accuracy, completeness or reasonableness of information relating to the HS1 Concession made available by the Secretary of State.

11. Insurance

11.1 Clause 9 and Schedule 5 relate to insurance.

11.2 HS1 Co is under an obligation to take out and maintain the insurances set out in Schedule 5. Where so identified in Schedule 5 – e.g. for insurance in relation to material damage to property and business interruption – these insurances must name the Secretary of State, his employees and agents as additional insureds. The clause relieves HS1 Co of its obligation to insure to the extent that the insurance is generally unavailable in the UK insurance market. In such cases the Secretary of State must provide or procure insurance (see further under “Paragraph 3 Changes”). Where HS1 Co fails to comply with its obligation to insure (other than where the insurance is generally unavailable in the UK insurance market), the Secretary of State may take out the relevant insurance and recover the costs of such insurance from HS1 Co. Provision is also made for approval of insurances and production of evidence of taking out insurance. HS1 Co is under an obligation to remedy damage to HS1 and to apply any insurance monies received pursuant to a claim in respect of that damage for the purpose of remedying it.

12. Changes

12.1 Clause 10 and Schedule 2 deal with Changes in Circumstances and Government’s Changes. There are two types of Changes in Circumstances: those which may give rise to a requirement for additional financial support by the Secretary of State (Paragraph 2 Changes – summarised in Appendix 1 to these notes) and those that may lead to termination of the Concession Agreement (Paragraph 3 Changes – summarised in Appendix 2 to these notes). Government’s Changes are changes to the subject matter of the Concession Agreement proposed by the Secretary of State.

<u>Paragraph 2 Changes</u>

12.2 With respect to Paragraph 2 Changes, for the purpose of payment of compensation by the Secretary of State, the costs arising are dealt with under three heads: Estimated Changes in Operating Costs, increases in Capital Expenditure and Loss of Revenue. There is to be no double counting between these heads.

12.3 If a Paragraph 2 Change results in an Estimated Change in Operating Costs, HS1 Co will qualify for financial support from the Secretary of State only to the extent that the ORR determines that such Estimated Change in Operating Costs:

12.3.1 does not fall within the definition of OMRC; or

12.3.2 does fall within the definition of OMRC but is not likely to be capable of being borne by train operators on HS1; or

12.3.3 does fall within the definition of OMRC and, for any Control Period, is likely to be capable of being borne by train operators on HS1 but is likely to represent more than 30% of the OMRC for the Control Period in question.

12.4 Where the Estimated Change in Operating Costs qualifies for financial support from the Secretary of State, HS1 Co must nevertheless bear a share. In relation to an Estimated Change in Operating Costs falling within paragraph 12.3.1 or 12.3.2 above, HS1 Co's share is 20% of the Estimated Change in Operating Costs[1]. In relation to an Estimated Change in Operating Costs falling within paragraph 12.3.3 above, HS1 Co's share is 20% of the Estimated Change on Operating Costs above the 30% of the OMRC for the Control Period in question. However, HS1 Co's share is subject to the aggregate cap described in paragraph 12.8 below.

12.5 An increase in Capital Expenditure resulting from a Paragraph 2 Change will qualify for financial support from the Secretary of State to the extent that the ORR determines that it is not OMRC. Again, HS1 Co must bear 20% of such increase in Capital Expenditure up to the aggregate cap described in paragraph 12.8 below (see also footnote 1).

12.6 A Paragraph 2 Change will not necessarily require the ORR to carry out an Interim Review unless the criteria for triggering such review are met (see paragraph 9.22 above). Thus, to the extent that the ORR determines that the Paragraph 2 Change does not qualify for financial support from the Secretary of State, HS1 Co may have to fund the Estimated Change in Operating Costs or increase in Capital Expenditure until the next Periodic Review.

12.7 If a Paragraph 2 Change results in Loss of Revenue, the ORR will not make a determination as to whether or not it is OMRC since Loss of Revenue is by nature irrecoverable in this way. Nevertheless, when seeking to agree Loss of Revenue the parties are required to have regard to any determination made by the ORR in relation to any Estimated Change in Operating Costs arising from the Paragraph 2 Change concerned. HS1 Co must bear 20% of such Loss of Revenue up to the aggregate cap described in paragraph 12.8 below (see also footnote 1)

12.8 HS1 Co's Share is limited to a £6 million indexed aggregate cap for all Paragraph 2 Changes arising (and all forms of expenditure arising from those changes) in each Control Period.

<u>Loss of HS1 Co TSI Derogation</u>

12.9 To the extent that the ORR determines that any Estimated Change in Operating Costs or increase in Capital Expenditure arising from the Loss of an HS1 Co TSI Derogation is not recoverable by HS1 Co through track access charges (i.e. not merely OMRC) or not likely to be capable of being borne by train operators on HS1, such Estimated Change in Operating Costs or increase in Capital Expenditure will be paid by the Secretary of State to HS1 Co. However, HS1 Co must bear 20% of such Estimated Change in Operating Costs or increase in Capital

[1] Except where the Paragraph 2 Change was a partial sequestration (see Appendix 1 to these notes) in which case HS1 Co's Share will be zero

Expenditure up to the aggregate cap described in paragraph 12.8 above. Any Loss of Revenue resulting from the Loss of an HS1 Co TSI Derogation is dealt with in the same way as other Paragraph 2 Changes.

<u>Paragraph 3 Changes</u>

12.10 Paragraph 3 Changes are *quasi* force majeure events and events equivalent to a serious default by the Secretary of State. They are summarised in Appendix 2 to these notes. If a Paragraph 3 Change occurs, HS1 Co may terminate the Concession Agreement or request the Secretary of State to enter into negotiations (most likely to be as to the terms and cost of continuing the Agreement). If HS1 Co chooses to terminate, the Secretary of State can nevertheless request that HS1 Co enters into negotiations. If no negotiations are requested or the negotiations fail to produce a solution within 45 Business Days of the request, either party may then terminate the Concession Agreement. If the Paragraph 3 Change is an Adverse Relevant Change in Law (see Appendix 2 to these notes), the Secretary of State may terminate the Concession Agreement. In such a case, there is no provision for negotiations. The compensation payable to HS1 Co upon termination following a Paragraph 3 Change is calculated in accordance with the provisions of Clauses 14.2 and 14.3 (see paragraph 16 below).

<u>Government's Changes</u>

12.11 Clauses 10.7 – 10.9 set out the procedure for dealing with a proposal by the Secretary of State for a Government's Change. HS1 Co has the right to object to such a change upon certain grounds (such as the fact that it would materially and adversely affect HS1 Co's performance of the Concession Agreement). Provision is made for the agreement of any Estimated Change in Operating Costs, Loss of Revenue and Capital Expenditure arising from the proposed Government's Change. Once these are agreed the Government's Change is implemented and the Secretary of State makes payments to HS1 Co accordingly.

13. Records and Accounts

13.1 Clause 11 and Schedule 6 deal with records and accounts. These provisions separate records of design and construction of HS1 from those relating to maintenance and operation. The duration of retention of records and cost of this is also provided for.

13.2 Provision is also made in Clause 11 for the supply to the Secretary of State and the ORR of the audited accounts of HS1 Co for each accounting reference period and for the supply of all information and records reasonably requested by the ORR for the purpose of carrying out its functions.

14. Termination – Events of Default

14.1 Clause 12 entitles the Secretary of State to terminate the Concession Agreement and the HS1 Lease, the Ebbsfleet Underlease and the Ashford Leases following an Event of Default by HS1 Co. The following are Events of Default:

14.1.1 the insolvency of HS1 Co provided that the relevant petition, application or other insolvency process has not been withdrawn, set aside, dismissed or revoked within 12 weeks, or any longer period during which HS1 Co is actively and in good faith challenging it;

14.1.2 any transfer by HS1 Co of its undertakings, rights or assets which is material in the context of the performance of its obligations under the Concession Agreement;

14.1.3 a Change in Ownership otherwise than in accordance with the Concession Agreement (see paragraph 19 below);

14.1.4 a particularly serious default in relation to HS1 Co's obligations under the Concession Agreement other than those relating to Minimum Operational Standards and Asset Stewardship (as to which see paragraph 14.2 below);

14.1.5 a particularly serious default in relation to HS1 Co's obligations under the HS1 Lease, the Ebbsfleet Underlease or the Ashford Leases which is sufficiently serious in the context of the totality of HS1 Co's obligations under the Concession Agreement and the Leases as a whole

14.1.6 unavailability of insurance in respect of a material risk where such unavailability is caused by any act or omission of HS1 Co, its contractors or sub-contractors or others for whom it is responsible; and

14.1.7 failure by HS1 Co to comply with: (i) a Final Order of the ORR which has not been appealed; or (ii) where a Final Order has been appealed, a Final Order upheld by the Court; or (iii) where the Secretary of State or the ORR has applied to the Court to enforce a Provisional or Final Order, any order of the Court enforcing such order, in each case within the time periods set out in Clause 12.1.6 (see paragraph 23 below).

14.2 There is no specific Event of Default in relation to a failure to meet the Capability Requirements in Schedule 3, failure to operate above the performance floors also in Schedule 3, and failure to comply with Asset Stewardship obligations. These are matters to be enforced by the ORR through the Enforcement Procedure and termination will only occur where HS1 Co has failed to comply with a Final or Provisional Order in respect of such matters made pursuant to the Enforcement Procedure.

15. Procedure for Termination by the Secretary of State

15.1 Clause 13 sets out the procedures to be followed by the Secretary of State if he wishes to terminate the Concession Agreement on the grounds of any of the Events of Default. [*Notes regarding direct agreements will be provided separately*].

15.2 Where the Event of Default is one of those described in paragraph 14.1.7 above, the Secretary of State may terminate the Concession Agreement immediately unless the Final or Provisional Order was made as a result of a breach by the Operator of its obligations under the Operator Agreement. In the latter event, the Secretary of State may only terminate the Concession Agreement after the expiry of a period, to be agreed between the Secretary of State and the HS1 Co Security Trustee, reasonably sufficient to allow HS1 Co to terminate the Operator Agreement and make alternative arrangements to procure the operator services, and provided that HS1 Co is taking steps to remedy the Event of Default. Where in the Provisional Order or Final Order the ORR specifically required HS1 Co to terminate the Operator Agreement and enter into a new Operator Agreement with a replacement party, the Secretary of State may only terminate the Concession Agreement if HS1 Co has failed to comply with the Provisional or Final Order.

15.3 Where the Event of Default is one of those described in paragraph 14.1.1 or 14.1.2 above, the Secretary of State may terminate the Concession Agreement immediately.

15.4 For the remaining Events of Default, the Secretary of State must give notice to HS1 Co requiring HS1 Co to remedy the breach or put forward a reasonable programme for remedy, in each case within 65 Business Days. If the parties are unable to agree on whether the programme put forward is capable of remedying the breach, the programme is referred to the Disputes Resolution Procedure.

15.5 If the breach is not remedied within the 65 Business Days because HS1 Co has not used its best endeavours to do so, or HS1 Co fails to comply with a programme for such remedy agreed by the Secretary of State, or HS1 Co fails to propose an acceptable programme, the Secretary of

15.6 Except where the Concession Agreement is terminated on the ground outlined in paragraph 14.1.7 above, HS1 Co may, within ten Business Days of receipt of a notice of termination, refer the question of whether or not the Secretary of State was entitled to terminate the Agreement to the Disputes Resolution Procedure, in which case termination will not take effect until it is finally determined that such termination is valid

15.7 Where a reference is not made to the Disputes Resolution Procedure, either party may nevertheless apply to the Courts for an injunction restraining termination or for a declaration as to the validity of the termination. In such a case termination will not take effect until the Courts have decided whether or not to restrain termination or to make a declaration as to its validity.

16. Compensation on Termination for a Paragraph 3 Change

16.1 Clause 14 sets out the compensation payable to HS1 Co by the Secretary of State on termination following the occurrence of a Paragraph 3 Change (see paragraph 12.10 above and Appendix 2 below).

16.2 In respect of a Paragraph 3 Change arising out of a repudiatory breach by the Secretary of State, total sequestration, an adverse relevant change in law, or state aid, a Default Termination Compensation Amount will be paid, which will be calculated as follows:

16.2.1 the Base Senior Debt Termination Amount (which includes all amounts outstanding at termination from HS1 Co to Senior Lenders and all breakage costs reasonably incurred, less all credit balances, all amounts payable by the Senior Lenders to HS1 Co as a result of prepayment and all other amounts received by the Senior Lenders on or after the date of termination);

16.2.2 redundancy payments that have been or will be reasonably incurred by HS1 Co as a result of the termination and any Sub-Contractor Breakage Costs; and

16.2.3 the Equity Amount (the forecast annual cash flows of HS1 Co less the Senior Debt Service Cash Flows, as discounted at the Market Equity IRR).

16.3 In respect of a Paragraph 3 Change arising out of a finding of the European Court of Justice, an action of the European Commission or a national competition authority, or the unavailability of insurances in respect of material risks that the Secretary of State refuses to insure, a Non-Default Termination Compensation Amount will be paid, which will be calculated as follows:

16.3.1 the Base Senior Debt Termination Amount (see paragraph 16.2.1 above);

16.3.2 all amounts paid in respect of the acquisition of or subscription for shares in the capital of HS1 Co less any dividends or distributions paid respect of such shares; and

16.3.3 redundancy payments that have been or will be reasonably incurred by HS1 Co as a result of the termination and any Sub-Contractor Breakage Costs.

16.4 The difference between the two levels of compensation is that the value of equity in the Default Termination Compensation Amount is calculated based on forecast future revenues, whereas the Non-default Termination Compensation Amount only includes an amount in respect of payment for the purchase of shares, less distributions.

16.5 If the parties cannot agree the Default Termination Compensation Amount or the Non-Default Termination Compensation Amount, the value is to be determined in accordance with the Disputes Resolution Procedure.

17. Effect of Termination or Expiry of the HS1 Concession

17.1 Unless HS1 Co is entitled to compensation pursuant to a Paragraph 3 Change, no payment is to be made to HS1 Co upon termination of the Concession Agreement. However, if the Secretary of State has a claim for damages against HS1 Co following a termination for an Event of Default, he must give due allowance against those damages for the value of the HS1 Assets and the Ashford Assets that he has acquired as a consequence of the termination.

17.2 Upon any termination or expiry of the Concession Agreement:

17.2.1 the Secretary of State may instruct HS1 Co to procure either that the Key Contracts, the HS1 Lease, the Ebbsfleet Underlease and the Ashford Leases are terminated or that these agreements are novated or assigned to the Secretary of State or his nominee;

17.2.2 the HS1 Assets and the Ashford Assets are to vest in the Secretary of State;

17.2.3 if termination occurs during the performance of the Maintenance Works, those works are to vest in the Secretary of State; and

17.2.4 the Secretary of State has an option to purchase certain moveable property at its fair market value and free from any security interest, and to request the services of HS1 Co's staff.

18. Assignment and Sub-Contracting

18.1 Clause 16 prohibits the assignment of the Concession Agreement in whole or in part, but permits HS1 Co to sub-contract the operation, repair or maintenance of HS1 without consent (but any sub-contracting will not relieve HS1 Co of any of its obligations or liabilities under the Concession Agreement).

19. Change in Ownership

19.1 Clause 17 deals with a Change in Ownership of HS1 Co. This is the sale assignment transfer or other disposal of any legal, beneficial or equitable interest in any or all the shares of HS1 Co or any of its Associates.

19.2 Any Change in Ownership that would result in Network Rail or any of its Associates, Successors, Assignees or Nominees, or any undertaking in which Network Rail or any of its Associates holds an Interest, owning or having the ability to direct the affairs of HS1 Co is not permitted without the prior written consent of the Secretary of State.

19.3 No Change in Ownership is permitted unless HS1 Co has, 30 Business Days prior to such Change in Ownership occurring, notified the Secretary of State of the proposed Change in Ownership and provided to the Secretary of State with that notice the identity of the proposed transferee, satisfactory evidence that HS1 Co will have access to sufficient financial resources and sufficient expertise after such Change in Ownership, and establishing that the proposed transferee is a fit and proper person (including having regard to any criminal conviction of the proposed transferee or any statutory officer thereof which is material in the context of the Concession Agreement, national security concerns about the proposed transferee, or the fact that the proposed transferee is domiciled or incorporated in or controlled out of a country that is subject to economic or security sanctions imposed by the UK).

19.4 If the Secretary of State does not respond to the notice within 30 Business Days, HS1 Co shall be deemed to have provided the information required i.e. the information will be deemed to be satisfactory.

19.5 HS1 Co is not required to provide satisfactory evidence that HS1 Co will have access to sufficient financial resources and sufficient expertise where the proposed transfer is a transfer of

19.6 HS1 Co is not required to provide evidence establishing that the proposed transferee is a fit and proper person where the Secretary of State has given his prior written consent to a proposed Change of Ownership involving Network Rail.

20. Intellectual Property and Confidentiality

20.1 By Clause 18.2 the Secretary of State is granted rights in relation to the use of the HS1 Intellectual Property for the purposes of the Secretary of State carrying out his duties under the Concession Agreement, any statutory duties which the Secretary of State may have in relation to HS1, and for the purposes of the operation, repair and maintenance of the HS1 Assets and the Ashford Assets.

20.2 By Clause 18.6.1, HS1 Co acknowledges that information relating to HS1 may be disclosed by the Secretary of State in accordance with FOIA. Subject to this, both parties agree to keep confidential all commercially and technically sensitive documents and information except as may necessarily be required to be disclosed by law. The Secretary of State may disclose such information if it is required for the purposes of the Maintenance Works in the event of termination of the Concession Agreement and either party is permitted to pass such information to the ORR. The parties may also disclose such information to their professional advisers, to proposed or actual lenders to HS1 Co, to ratings agencies and to the sub-contractors of HS1 Co, subject to certain conditions aimed at limiting the extent of such disclosure and preventing further disclosure by such persons (Clause 18.6.2).

21. Disputes Resolution

21.1 Clause 23 states that save in respect of those matters which the Concession Agreement provides are to be referred to the Enforcement Procedure or the Decision Making Procedure (these apply where the ORR is involved – see paragraph 23 below), any dispute arising out of or in connection with the Concession Agreement is to be resolved in accordance with the Disputes Resolution Agreement.

21.2 Under the Disputes Resolution Agreement, Disputes are referred in the first instance to a panel of experts who are required to produce a decision within a short period of time. The parties are required to comply with such decisions. However, they may in the meantime, provided that they have first attempted to settle the dispute by mediation and have given timely notices, refer the dispute to arbitration. There are provisions in the Disputes Resolution Agreement for the joining together of disputes arising under connected contracts where the same issue arise under both contracts. Where the connected contract is a track access agreement the dispute under both the Concession Agreement and the track access agreement will normally be resolved under the HS1 Access Dispute Resolution Rules.

22. Miscellaneous

22.1 Clauses 19 to 22 deal with boilerplate issues such as amendments to the Concession Agreement, further assurance, entirety of agreement and notices. Clause 24 specifies that the applicable law is English law. Clause 25 deals with counterparts, severability and provides that no third party other than the ORR has any right under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of the Concession Agreement (although this does not affect any rights a third party may have other than under that statute).

23. Decision Making and Enforcement Procedure (Schedule 8)

23.1 The decision making procedure in Schedule 8 is to be used by the ORR to determine certain matters referred to it by HS1 Co under Clause 10 (see paragraphs 12.3, 12.5 and 12.9 above). If

23.2 The remainder of Schedule 8 deals with the Enforcement Procedure. This enables the ORR to issue Provisional Orders and Final Orders requiring HS1 Co to comply with those of its obligations in the Concession Agreement that are monitored by the ORR (in particular Clause 11 and Schedule 6 [Records and Accounts], Schedule 3 [Minimum Operational Standards] and Schedule 10 [Asset Stewardship and Periodic Review]). The procedure incorporates a period for HS1 Co to make representations and is intended to follow broadly the procedure for Provisional and Final Orders on the national railway network contained in the Railways Act 1993.

23.3 As with the decision making procedure, either the Secretary of State or HS1 Co has the right to challenge the Provisional Orders or Final Orders of the ORR in the Courts on grounds equivalent to those applicable to judicial review.

23.4 Where HS1 Co has failed to comply with a Final Decision, a Provisional Order or a Final Order, the ORR or the Secretary of State may apply to the Court to enforce such Decision or Order.

23.5 Failure to comply with Final Orders may lead to an event of default by HS1 Co giving rise to a right of termination by the Secretary of State (see paragraphs 14.1.7 and 15.2 above).

CMS Cameron McKenna LLP
January 2011

Appendix 1

Schedule 2, Paragraph 2 Events

Paragraph 2.1: Relevant Change in Law

This is a narrowly drawn provision concerning changes in law first proposed after 14 August 2009 that discriminate specifically against HS1. For example, if the change also applied adversely to competitors, then it would not to be a Relevant Change in Law for the purposes of paragraph 2.1. Relevant Changes in Law do not include the ORR exercising its statutory functions.

Paragraph 2.2: Relevant Change in Taxation

Similar concepts to paragraph 2.1 apply.

Paragraph 2.3: Delay in Statutory Instruments

Delay in grant of Statutory Instruments to be made pursuant to the CTRL Act and/or required to implement the HS1 project.

Paragraph 2.4: Hostilities

War, hostilities, terrorism and the like.

Paragraph 2.5: Civil Disorder

Rebellion, revolution or the threat thereof (excluding terrorism).

Paragraph 2.6: Other Force Majeure

Nuclear, chemical or biological contamination.

Paragraph 2.7: Safety

This applies where any legislation that would increase obligations under the Safety Authorisation comes into force after 14 August 2009.

Paragraph 2.8: Partial Sequestration

The nationalisation, sequestration, requisitioning or seizing by Government or any other Competent Authority of part of the HS1 Assets, the Ashford Assets or any of the shares/other equity in HS1 Co (other than in circumstances where HS1 Co or an Associate has failed to comply with taxation legislation or the like, breach of which permits such a course of action).

Paragraph 2.9: Loss of TSI Derogations

HS1 has been the subject of specific derogations from the requirement to comply with technical standards for interoperability introduced pursuant to the Interoperability Directive. The loss of any of those derogations is a Paragraph 2 Change.

Appendix 2

Schedule 2, Paragraph 3 Events (leading to termination)

Paragraph 3.1: Repudiatory Breach by the Secretary of State

This is an act or omission of the Secretary of State which could be treated as a repudiation by the Secretary of State of the Concession Agreement.

Paragraph 3.2: Total Sequestration

Similar to (but more extensive than) Partial Sequestration described at Appendix 1 (paragraph 2.8), it relates to the nationalisation, sequestration, requisitioning or seizing of the whole of the HS1 Assets, Ashford Assets or any material part of them or the whole of the shares/other equity or a controlling interest in HS1 Co (save for failure by HS1 Co or an Associate to comply with taxation legislation or the like, breach of which permits such a course of action).

Paragraph 3.3: Adverse Relevant Change in Law

As a result of a Relevant Change in Law (see Appendix 1 under paragraph 2.1), the Concession Agreement, the HS1 Lease, the Ebbsfleet Underlease or the Ashford Leases cannot be performed to a material extent, or performance of any provision of those agreements becomes illegal so as to render impractical performance of the HS1 Concession.

Paragraph 3.4: State Aid

The European Commission considers any of the financial assistance or other aid given pursuant to the Concession Agreement, the HS1 Lease, the Ebbsfleet Underlease or the Ashford Leases to be state aid and requires any of it to be repaid and HS1 Co reasonably considers that as a result its obligations under those agreements have become materially more onerous.

Paragraph 3.5: European Court

Findings of the European Court of Justice that require the Secretary of State to set aside the Concession Agreement, the HS1 Lease, the Ebbsfleet Underlease or the Ashford Leases.

Paragraph 3.6: European Commission/ national competition authority

Where the European Commission or a national competition authority takes action that will prevent the operation of the Concession Agreement, the HS1 Lease, the Ebbsfleet Underlease or the Ashford Leases.

Paragraph 3.7: Unavailability of Insurances

HS1 Co is unable to take out any of the insurances set out in Schedule 5 because it is generally unavailable in the UK insurance market, such insurance concerns material risks to the HS1 Concession, its unavailability was not caused by the acts or omissions of HS1 Co, and the Secretary of State refuses to insure against such risk.

London & Continental Railways Limited

Group Report and Accounts
31 December 2009

Registered number 2966054

Directors & secretary

Directors

Sir David Cooksey	(Non-executive Chairman)
JM Bayley	(Chief Executive)
SR Jordan	(Property Director)
PCF Hickson	(Senior Independent Director)
PS Barron	
CJ Barwick	
MC Bowe	

Secretary

CH Hamill

Registered Office

3rd Floor, 183 Eversholt Street
London
NW1 1AY

Chairman's Statement

2009 has been a year in which the Group's businesses have proved remarkably resilient in the face of difficult conditions.

The operational performance of HS1 Limited (HS1) continues to be impressive. The full timetable of franchised domestic high-speed services was successfully introduced on to High Speed 1 without any hiatus in the railway's operation in December despite the severest winter weather conditions for over 30 years.

A record number of passengers travelled on Eurostar services and Eurostar achieved a revenue result matching that of the previous year. Eurostar carried its 100 millionth passenger in August 2009, and in November it celebrated the 15th anniversary of the start of commercial services. Eurostar would have achieved an excellent result in 2009 given the economic environment were it not for the closure of one Channel Tunnel bore in the early part of the year following the September 2008 fire and the disruption, and consequent compensation for the inconvenience to passengers caused by the failure of Eurostar train sets in the Channel Tunnel on 18 and 19 December. These were disappointing setbacks to the continued progress of Eurostar but I am pleased to say that the Eurostar Board has fully accepted the recommendations of the Garnett/Gressier independent review and made good progress in their implementation.

The King's Cross Central property development scheme, in which LCR has a 36.5% interest through the King's Cross Central development partnership, also made good progress in delivering the infrastructure supporting the refurbishment of the Granary Building as a new campus for the University of the Arts London.

There has been substantial progress with the financial restructuring of LCR with most of the restructuring implemented during the year resulting in the termination of virtually all of the guarantees and financial support provided by the Government to LCR and its businesses. This has enabled HS1 to be prepared for sale and the incorporation of Eurostar as a self-standing train operator to proceed in the course of this year. I am delighted that this highly complex incorporation is being accomplished with a good will between the parties which bodes well for the future.

On 31 March, Rob Holden left the Company to become Chief Executive of Crossrail. The success of the High Speed 1 project in both construction and subsequent operation is a testament to the efforts of Rob and his team. We continue to wish him great success at Crossrail. The Company's Finance Director, Mark Bayley, succeeded Rob as Chief Executive on 1 April.

On behalf of your Board I would like to express our appreciation to all members of staff for everything they have achieved in continuing the success of Eurostar, HS1 and St. Pancras International.

Sir David Cooksey
Chairman
26 March, 2010

Operating and Financial Review

Given the profound impact of the LCR restructuring on LCR's 2009 Accounts and on the commercial, regulatory and financial position of LCR's HS1 and EIL businesses, this operating and financial review of 2009 concentrates first on progress with the restructuring before reviewing the trading activities of the Group's businesses during the year.

LCR restructuring

On 13 May 2009, the European Commission approved the State Aid aspects of the restructuring of LCR. This enabled the restructuring of the Group's financing arrangements to be implemented as follows:

- on 6 June, ownership of LCR's ordinary shares transferred to the Secretary of State for nominal consideration and LCR became a wholly-owned subsidiary of the Department for Transport
- on 7 June, ownership of LCR's financing subsidiary undertakings, LCR Finance plc and CTRL (Section 1) Finance plc, transferred to the Secretary of State, who then assumed responsibility for the funding of their debt obligations (amounting to £5.14bn) from 8 June
- in the course of 2009, the Secretary of State funded the termination of EIL's rolling stock leases which had been guaranteed by the Secretary of State, amounting to £177m
- on 23 December, all amounts due under EIL's loan obligation to the Secretary of State of £110m arising from the termination of the European Night Services project in the 1990s were cancelled

The impact on LCR's balance sheet was very significant. Together with trading results in the year, LCR's consolidated net worth was transformed from a negative shareholder equity position of more than £3bn at 1 January 2009 to positive shareholder equity of almost £1bn at 31 December 2009. LCR's debt was reduced by some £5.4bn during 2009 and at 31 December 2009 stands at £1bn of bank debt and infrastructure leasing obligations.

Restructuring of the HS1 access charging regime

As part of the financial arrangements set up to fund the construction of the railway, the internal access charge cashflows between EIL and HS1 were securitised. Transferring LCR's securitisation vehicle to the Secretary of State together with the obligation to fund the vehicle's debt service obligations enabled HS1 to implement substantial reductions in the level of access charges for use of the High Speed 1 railway by train operators.

On 29 June, HS1 published a Network Statement for industry consultation which lowered the investment recovery charge applicable to international passenger services (including Eurostar services) to a level that is comparable to the substantially lower investment recovery charge that applies to high-speed franchised domestic services on High Speed 1. Charges levied by HS1 to recover the costs of operation and maintenance of High Speed 1 (OMRC charges) were also lowered to reflect revised terms for the operation and maintenance of the railway agreed in principle with Network Rail (CTRL) Limited (the subsidiary of the national rail network operator Network Rail, which has the contract to maintain and operate High Speed 1). The Network Statement also proposed a new basis of recovering OMRC from all train operators.

The new access charging regime and terms of operation with Network Rail became effective on 17 August and, on 19 August, HS1 entered into revised track access agreements with EIL and Southeastern, the operator of franchised domestic services.

Revision to the HS1 concession

On 17 August, HS1 also entered in to a revised concession agreement with the Secretary of State which shortened the term of the High Speed 1 concession from 29 July, 2086 to 31 December, 2047. It is expected that the concession will be shortened further prior to the sale of HS1 and will terminate on 31 December 2040. The revised concession agreement also sets out refreshed standards to which the High Speed 1 railway must be operated and maintained consistent with best modern practice.

Changes to the regulatory regime for High Speed 1

On 1 October, the majority of the Secretary of State supervisory powers and functions in relation to the High Speed 1 railway under the Railways Infrastructure (Access & Management) Regulations 2005 (the 2005 Rail Regulations) were transferred to the Office of Rail Regulation (ORR). On 19 August the ORR initiated an industry consultation on a Regulatory Statement it proposed to issue in relation to the High Speed 1 railway. Following the consultation, the ORR issued its finalised Statement on 30 October, 2009. It set out the approach to be taken by the ORR in supervising HS1's delivery of a cost-efficient and high-performing railway and it contained a number of acknowledgements by the ORR in relation to the Network Statement which supported the approach taken by HS1 as compliant with the 2005 Rail Regulations.

Impact of the LCR restructuring on Eurostar

As a result of the restructuring of LCR, the access charges for High Speed 1 are now set at a level which is expected to be affordable to EIL and other potential operators of international passenger services on High Speed 1. In view of this, the Secretary of State's guarantees of EIL's access charge payments for use of High Speed 1 were terminated during the year and EIL's 'access charge' loan facility from the Secretary of State, on which its long term solvency and liquidity had previously depended, will be cancelled prior to the completion of the incorporation of Eurostar. In addition it is expected that, during 2010 and also prior to the completion of the incorporation of Eurostar, EIL will be relieved of its lease obligations in respect of Ashford International Station and that the inter-company creditor due from EIL to LCR amounting to some £1.7bn as at 31 December 2009 will be cancelled. The net effect of the restructuring of LCR on EIL is that EIL will become a viable and cash-generative participant in the Eurostar service without the need for financial support from either LCR or the Secretary of State.

Incorporation of Eurostar

Since inception, the Eurostar service has been operated as an "International Rail Grouping" which is, in effect, an unincorporated joint venture between EIL, SNCF and SNCB. The parties operate the Eurostar service in their respective countries of operation, pooling their Eurostar train fleets and sharing revenues and a number of significant costs under agreements known as the 'Revenue Sharing Protocols'. On 1 July, LCR, the Department for Transport and SNCF announced an agreement in principle to merge SNCF's Eurostar business with EIL and in September, SNCB confirmed that it too would merge its Eurostar business into the new incorporated venture. A final agreement on terms was reached on 22 December and a Framework Agreement for the incorporation of Eurostar was signed on 23 February, 2010. EIL, as recapitalised above, will be the vehicle for the formation of the incorporated Eurostar and the relative shareholdings will be SNCF 55%, LCR 40% and SNCB 5%.

There are a number of conditions precedent which need to be fulfilled before the incorporation of Eurostar completes, including EU merger clearance, the issue of safety certification for EIL to operate trains in France and Belgium, and the termination of the Eurostar Management Agreement under which Inter-Capital and Regional Rail Limited currently manages EIL's business. Completion of incorporation is expected during the second half of 2010, following the clearance of conditions precedent. At completion, the Revenue Sharing Protocols will be terminated and EIL will operate the Eurostar service in each country of operation in its own right. LCR will exchange its sole ownership of EIL for 40% of EIL as enlarged by the contributions of SNCF and SNCB's Eurostar businesses.

Completion of the incorporation of Eurostar will accomplish a major leg of LCR's restructuring and is expected to deliver the following benefits:

- Eurostar management will achieve significantly greater flexibility in sales and distribution and allocation of maintenance activities in EIL than under Revenue Sharing Protocols arrangements
- Eurostar will be better equipped to face on-rail competition through a single management with control over all key activities of the business
- a single financial reporting structure in EIL will lead to greater transparency over costs and financial performance
- Eurostar configured as a self-standing operator will be much better positioned to respond to its markets and develop services to other European destinations
- the funding committed by the prospective shareholders at completion will provide EIL with its own capital resources to withstand poor market conditions and should enable EIL to finance its own capital expenditure without further recourse to LCR

Summary of trading

Eurostar

On 31 December, 2009 Eurostar (U.K.) Limited changed its name to Eurostar International Limited in anticipation of the new Eurostar structure following completion of incorporation.

2009 saw Eurostar passenger numbers increase marginally by 1.2% to a record level of 9.22 million (2008 – 9.11 million) and Eurostar sales revenues of £630.3 million (2008 – £629.7 million). Eurostar carried its 100 millionth passenger in August and in November celebrated the 15th anniversary of the start of commercial services.

EIL's share of these revenues was £306.6 million (2008 – £307.3 million), a marginal decrease of 0.25%. EIL's contribution to infrastructure costs after the Channel Tunnel levy (and before reversal of impairments) was £59.0m (2008: £59.1m). The new access charging regime for HS1 came into effect on 19 August, substantially lowering the cost to EIL of access to High Speed 1. A comparison of EIL's result after all access charges is therefore substantially affected by this event.

The year saw a significant reduction in the volume of the high yielding business travel market but this was to some extent compensated by the resilience of the leisure market which contributed to the record passenger volume despite an increase in the lead-in return fare in the summer from £59 to £69. EIL's result has also benefited from two factors: firstly the weakness of sterling against the euro, which has increased the value of EIL's share of SNCF and SNCB revenue under the Revenue Sharing Protocols, and secondly a voluntary severance programme which reduced the headcount by approximately 10%. Overall, despite a recessionary environment and a turbulent year with operational difficulties at the beginning in the aftermath of the Channel Tunnel fire on 11 September 2008 and at the end with the failures of five Eurostar train sets in the Channel Tunnel, it was an achievement to match the result of 2008.

Following the fire on a Eurotunnel shuttle in the Channel Tunnel on 11 September 2008, the Eurostar service operated on a reduced timetable until mid February with 7% fewer trains than would normally be timetabled. This capacity shortfall caused problems at peak times, for instance Friday afternoons, causing significant loss of business. In addition average journey times were extended by 20 minutes, and first and last trains re-timed, which also contributed to significant loss of revenue, particularly from business travellers. The repaired section in the southbound tunnel re-opened on 10 February 2009 and shortly afterwards Eurostar train services returned to normal.

The service was then again seriously disrupted in December 2009. During the night of 18 to 19 December, five Eurostar trains failed in the Channel Tunnel and passengers encountered serious problems in completing their journey to London. The service was suspended from 19 to 21 December, with only a partial service running from 22 to 24 December. The service was gradually restored to normal from 26 December. The disruption affected a large number of passengers over seven days.

On 21 December, the Eurostar Board commissioned an independent review into these events led by Mr Christopher Garnett and M Claude Gressier. The Independent Review reported on 12 February, 2010 and made 21 major recommendations covering train reliability, evacuation and rescue, management of disruption and incident communications. The Eurostar Board has accepted all the Independent Review's recommendations and has established a new 'Business and Service Continuity' team to implement them as quickly as possible.

Despite the disruption to the Eurostar services at the end of the year, the reliability of the service as measured by trains arriving within fifteen minutes of their scheduled time increased to 93.5% (2008 – 92.4%). There has been little impact from the introduction of the new high speed domestic services on High Speed 1.

It is encouraging for the Eurostar business that, despite the adverse economic climate and the train failures in December, it continues to grow its share of the rail - air market between London – Paris and London – Brussels. For 2009 as a whole Eurostar's market share on London – Paris grew from 75.9% to 78.2% and on London – Brussels it grew from 73.2% to 78.7%, fractionally exceeding Eurostar's market share of the Paris route for the first time.

HS1 Limited

HS1's major achievement in 2009 was the successful introduction of high-speed domestic services on HS1. A preview service from Ashford to St. Pancras International commenced on 29 June and the full timetable was introduced on 13 December. The full introduction of services immediately preceded the severest winter weather conditions seen in South East England for over 30 years but was achieved with very few technical problems in relation to HS1. In fact, commuters who could not use the existing rail service on the classic rail network because of the weather conditions were invited to use their tickets to travel in to London on the new high-speed service. Operationally HS1 was responsible for a moving annual average of less than 6 seconds delay to each train service in 2009 (2008 – 7.66 seconds). Prior to the introduction of the full domestic service timetable the delay fell below 5 seconds and the small increase following their introduction demonstrates the quality of the High Speed 1 infrastructure and the excellent collaboration between Southeastern, the train operator, and Network rail (CTRL), the operator of High Speed 1 and HS1 to introduce the services without disruption.

In terms of the forthcoming sale of HS1, the success in introducing new rolling stock and a full timetable of domestic services demonstrates HS1's capability to introduce new rolling stock and train services from other potential future train operators seeking to run services on High Speed 1.

As noted above the economics of HS1 have changed substantially with the introduction of the new access charging regime on 19 August. In relation to the passenger and freight markets it serves, HS1's revenue is now sensitive to demand for train paths. In relation to franchised domestic services the Secretary of State has confirmed an intention to ensure that, in the event of a sale of HS1 and with effect from the end of the Southeastern franchise in 2014, HS1 will be entitled to receive (subject to conditions) a minimum level of access charge income in respect of franchised domestic services until the end of the concession for High Speed 1.

Despite the generally adverse economic conditions, the income generated by retail and car parking continued to grow. The retail income is predominantly derived from HS1's retail estate at St. Pancras International where all units became fully let and open for trading during 2009. On a like-for-like basis the sales reported by retailers at St. Pancras showed an increase of 4.4%, with total sales reaching £95.8m for the year. HS1 recorded retail letting income of £14.5m for the year, an increase of 17%.

There has been significant growth in car park utilisation at Ebbsfleet during 2009 and a deal to underpin a minimum level of revenue was concluded with train operators shortly before the year end. With the commencement of the full domestic service in December and an active campaign by the train operator Southeastern to market season tickets, the utilisation and revenue from Ebbsfleet car par is expected to continue growing.

Property development

2009 was a significant year for LCR's participation in the King's Cross Central development scheme, a 67 acre regeneration site north of King's Cross and St. Pancras International stations. LCR completed the injection of its land interests in the site with the neighbouring land interests of DHL into a development partnership with Argent, the development property arm of the Hermes fund management group. LCR now has a 36.5% interest in the scheme and Argent acts as asset manager and development manager. The partnership made good start in delivering the site infrastructure for the conversion of the Granary Building north of the Regent's Canal into a new campus for the University of the Arts London and secured grant funding from the Homes and Communities Agency for the affordable housing element of the scheme. Through a tough year for property development, King's Cross Central remained one of a few active construction sites and, as a consequence, there is a pipeline of serious interest from commercial occupiers. A concession to develop, refurbish and operate The Great Northern Hotel has also been let to the RAM Hotels Group.

At Stratford, LCR continued to support the Olympic Delivery Authority as it delivers the Athletes Village for the London 2012 Olympics and maintained preparations for the post-Olympics development of the remainder of LCR's land interests at Stratford, amounting to some 7m sq.ft.. The ultimate success of the post-Olympics development is likely to be assured by the investment accompanying the Olympic facilities and the continued delivery by Westfield of its new shopping development on land LCR sold to Westfield in 2007.

The development by Manhattan Loft of St. Pancras Chambers (the former Midland Grand Hotel at the southern end of St. Pancras International) has made considerable progress with the construction of the new Marriott Renaissance hotel, expected to complete next year, and the handover of all 67 residential apartments in 2009.

Financing

The financial restructuring steps described above removed several elements of long term debt from LCR's balance sheet, comprising some £3.79bn of Government-guaranteed bond obligations, £1.34bn of asset-backed bonds, £177m of EIL leasing obligations and £110m of Government loans to EIL. These amounts, together with support for debt servicing of £25m, are characterised as 'Capital Contributions from the Secretary of State' in these financial statements.

The £5.45bn enhancement to the balance sheet has been partially offset by an impairment to the value of High Speed1 infrastucture (net of related grants) of £1.1bn, as a result of the reduction in access charges payable by EIL and the shortened length of the concession, but nevertheless has placed the Group on a very substantially firmer footing.

Safety

Safety continues to be an important issue for all LCR Group companies. A culture that recognises and practises safety is seen as very important for employees, suppliers, customers and the overall success of the business. The High Speed 1 railway is maintaining an excellent safety record during operation with the number of reportable accidents significantly below the industry average, and the Group is focussed on ensuring the ongoing safety of Eurostar services across the HS1 infrastructure.

2009 has been a year in which the Group's businesses have proved resilient in the face of difficult conditions. There has been substantial progress with the restructuring of LCR with most of the financial restructuring implemented during the year and termination of virtually all of the guarantees and financial support provided by the Government to LCR and its businesses. This has enabled HS1 to be prepared for sale and the incorporation of Eurostar as a self-standing train operator to proceed in the course of this year.

Mark Bayley

Mark Bayley
Chief Executive
26 March, 2010

Directors' Report

The Directors present their report, together with the accounts of the Group for the year ended 31 December 2009.

Principal activities

The Company is the parent undertaking of the London & Continental Railways Group and has the following activities, carried out through the Company and its subsidiaries:

- to operate passenger train services between the UK and the near Continent through the Channel Tunnel through the subsidiary Eurostar International Limited ('EIL' – formerly Eurostar (U.K.) Limited or 'EUKL'), in conjunction with the national railways of France and Belgium (SNCF & SNCB).
- to own and operate the 'High Speed 1' railway ('HS1') between London and the Channel Tunnel, through the subsidiary company HS1 Limited ('HS1 Co').
- to manage the Company's interests in the redevelopment of the substantial sites at King's Cross and Stratford and to settle remaining ex-HS1 property interests and obligations.

Staffing resource is provided for certain HS1 and property roles by LCR's subsidiary company Channel Tunnel Rail Link Limited ('CTRLL').

Results and dividends

The profit and loss account is set out on page 24 and shows an overall loss for the year of £1,348.6 million (2008: £286.8m). Further revenue growth arose from domestic access charge income, but the most significant impact on trading results has been an impairment to the carrying value of HS1 fixed assets and goodwill explained in notes 8 and 9. As noted on page 7 the Group's reserves were significantly enhanced by a number of capital contributions from the Secretary of State, which have returned the balance sheet to positive shareholder's funds approaching £1 billion. The Directors do not propose to pay a dividend.

Review of business and future developments

The statement on pages 3 to 8 sets out the review of business and future developments, including a review of the risks facing the Group and of its key performance indicators.

LCR's Ordinary shares were acquired by the Secretary of State on 6 June 2009. Subsequently, on 7 June 2009 the Secretary of State also acquired LCR's subsidiaries, LCR Finance plc and CTRL Section 1 Finance plc, and assumed the Group's obligations to CTRL Section 1 Finance plc of some £1.3 billion. On 8 June 2009 the Secretary of State assumed LCR's obligations in respect of £3.75 billion of bonds issued by LCR Finance plc, together with accrued interest. The transfer of these obligations to the Secretary of State has resulted in the recognition of a capital contribution of £5.14 billion from HM Government, which has increased Group shareholders' funds accordingly, together with further capital contributions from other financial restructuring steps.

HS1 Co entered into a revised concession agreement on 17 August 2009 with the Secretary of State for Transport ('Secretary of State'). The revised concession agreement expires 31 December 2047, a reduction from the previous term which ran until 2086. Following a review of access charges to take account of prospects and changes to the regulatory environment, as well as the results of a consultation process, HS1 Co entered into new access charging agreements with its Train Operating Company ("TOCs") customers on 17 August 2009. Access charges levied to EIL are substantially lower than under the original agreements.

EIL operated a largely successful year's Eurostar services from St Pancras International station, and HS1 Co successfully established domestic train services on its infrastructure, operated by LSER. HS1 Co receives a substantial part of its income from TOCs London South Eastern Railways ("LSER") and EIL for their use of HS1 under a number of long term agreements between the companies. Further income is received from stations' operations, retail and car parking activities. HS1 Co subcontracts operations and maintenance to Network Rail (CTRL) under a long-term operator agreement.

Following the revised concession and access charging agreements a revaluation of the HS1 asset was undertaken under FRS 11 on a stand-alone basis, resulting in an impairment of HS1 infrastructure fixed assets of £2.86 billion, offset by a related release of deferred Government Grants of £1.78 billion. The impairment is the result of the reduction in both concession length and the level of access charges.

HM Government announced in November 2007 that the LCR Group is to be broken up with intention of selling HS1. The Company is actively working with the Department for Transport and LCR to achieve the sale of HS1, but the timing will be dependent on market conditions.

The Secretary of State has confirmed an intention to ensure that, in the event of a sale of the Company and with effect from the end of the LSER franchise in 2014, the Company will be entitled to receive (subject to conditions) a minimum level of income in respect of domestic rail services until a revised HS1 concession end-date of 2040.

The Group will continue to derive trading income from the EIL and HS1 businesses until sold or restructured, following which LCR will derive income from its longer-term property development interests.

Post balance sheet events

A '*Framework Agreement Relating to the Implementation of Futur Eurostar*', which sets the details of the new Eurostar business and formally commits the parties concerned, was signed in February 2010.

Government classification

In 2006 the Office of National Statistics (ONS) classified LCR as a 'public sector non-financial corporation' with effect from 1999, on the basis that the Government's Special share (see note 24) gives it the power to control LCR's general corporate policy. LCR's Government-guaranteed debt was also classified as public sector borrowing, backdated to 1999. As noted above, the Company's shares were acquired by the Secretary of State on 6 June 2009, making the group a wholly-owned entity of the Secretary of State, and the Government-guaranteed debt was taken into the public sector in June 2009. In September 2009 the ONS confirmed that the LCR parent company is now classified as 'general government' whilst its subsidiaries remain as public corporations.

Financial instruments

The main financial instruments the Group holds at 31 December 2009 are:

- Cash deposits;
- Current asset investments held with fund managers;
- Bank debt;
- Finance leases; and
- Trade debtors, trade creditors, and other instruments incidental to the Group's operations.

Previously held Government guaranteed bonds and asset-backed bonds were transferred to the Secretary of State in June 2009, and interest hedging activities were closed during 2009.

The Group holds or issues financial instruments for the following purposes:

- to fund the future obligations arising from HS1, Eurostar and property operations;
- to finance working capital in the HS1 and Eurostar businesses; and
- to invest surplus funds which are currently not required for working capital.

The Group has previously financed its HS1 construction activities and operations by the proceeds from a mixture of medium to long-term Government guaranteed bonds and asset-backed bonds and by bank facilities secured against Government grant income and HS1 access charges. At 1 January 2009 the Group had in issue £3.75 billion bonds repayable in four tranches in 2010, 2028, 2038 and 2051 and £1.25 billion (nominal) of asset-backed bonds with final maturities in 2035 and 2051, but all such bond obligations were transferred to the Secretary of State in June 2009. Debt remaining in place in the Group comprises £829 million of short to medium term bank debt, and finance leasing arrangements on certain HS1 electrical assets.

Funds not immediately required for the Group's operations are invested through managed funds at floating rates of interest and are denominated in sterling. Interest rate derivatives have been used where appropriate to hedge floating rate returns. The Group, through its subsidiary LCR Treasury Management Limited ('LCRTM'), had entered into a series of interest rate swaps designed to minimise exposure to interest rate fluctuation over the period to the first bond maturity in 2010. All hedging has now either matured or has been closed out.

The types of financial instrument used for investment purposes must be approved in advance by the Board prior to obtaining the consent of the Secretary of State. The Board also sets down limits, both in terms of capital invested and market price risk, for this activity. During the year, the only investment instruments held are listed debt securities and bank deposits. It is not the Group's usual policy to trade in its listed debt securities.

The risks arising from the Group's financial instruments have been reduced by the financial restructuring in the year, but remain interest rate risk, liquidity risk and foreign currency risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group has previously financed itself through a mixture of Government guaranteed or asset-backed bond issues, bank and other borrowings. At 1 January 2009 the Group had in issue £5.0 billion of bonds, issued by subsidiary companies and bearing interest principally at fixed coupon rates, together with £843 million of bank debt.

The Group, through LCRTM, has historically used interest rate swaps to manage the Group's exposure to interest rate fluctuations in the period through to the redemption of the first Government-guaranteed bonds in 2010. To achieve this, the Group entered into a number of interest rate swaps in 1999 and 2002 with a view to eliminating interest rate exposure on an expected profile of receipts and payments in the LCR Group over that period. Additionally, market management operations at the time the bonds were issued in 1999 and 2002 resulted in a net cost of £3.8 million, which was being recognised over the life of the corresponding bonds. A pre-hedging exercise prior to the issue of asset-backed bonds and debt in 2003 resulted in a gain of £60 million, which was being amortised over the lives of the corresponding financial instruments.

During 2009 the remaining interest rate swap terminated and all deferred hedging amounts remaining at June 2009 were released to P&L account, upon the transfer of bond obligations to the Secretary of State. No interest rate swaps remain at 31 December 2009. At 31 December 2009 the Group retains bank debt of £829 million at fixed interest rates, which is not hedged.

Liquidity risk

The Group's objective is to ensure that sufficient funding is available to fund the operational HS1 and EIL businesses, the planned restructuring and have funds available for the development of its property development portfolio.

The Group's funding objective is to maintain a balance between continuity of funding and flexibility through the use of borrowings with a range of maturities. Having transferred bond obligations to the Secretary of State in the year, the Group has drawn debt facilities of £829 million at 31 December 2009 which are secured against Government direct or guaranteed payments and cash collateral, with short to medium-term maturities as set out in note 17d.

The funds which are currently not being used to fund the Group's activities have been invested in managed funds with a range of maturities to match commitments and the bond coupon payments. Managed funds have an average one-month LIBID benchmark.

Currency risk

The Group has transactional currency exposures arising in the Eurostar business from sales and purchases in Euros. The Group hedges against the currency exposure on certain defined future cashflows by forward purchase or sale of Euros but does not hedge against its total currency exposure due to the uncertainty of EIL's future cashflows and a degree of offset in the exposure existing between receipts and payments. Net liabilities arising from trading arrangements and denominated in foreign currencies amounted to £12 million at 31 December 2009 (2008: £7m liability).

Credit risk

HM Government funds or guarantees the Group's bank debt, and unconditionally and irrevocably guaranteed the Group's obligations under bonds until their transfer in June 2009.

Fixed assets

The movements of tangible fixed assets are shown in note 9 to the accounts. Tangible fixed assets include the gross cumulative costs incurred on the HS1 infrastructure, including land acquired by the Group for the HS1 route but held by the Secretary of State. Government grants received in respect of HS1 are shown within creditors in note 16 as deferred income, subject to impairment review, and are being released to the profit and loss account over the expected lives of the relevant HS1 assets. Fixed assets also include land and buildings owned by the Secretary of State over which the Group has development rights and which were valued at their development market value on transfer as set out in note 9, or at cost.

On a Group basis an annual impairment review of fixed assets has previously been carried out on the combined assets of the HS1 and Eurostar operations, which until 31 December 2008 had indicated no impairment in value against the combined cost of HS1, the carrying value of the Eurostar inter-capital operating assets and the carrying value of goodwill within intangible fixed assets. It was appropriate in 2009, given the move to Government ownership and an intention to break up the Group, to assess impairment of the HS1, Eurostar and property assets as individual businesses.

In recent years the EIL accounts have reflected impairment provisions against the value of inter-capital rolling stock and other operating assets and properties, based on an assessment of future cashflows under FRS 11. During 2009 EIL's trading position was enhanced by a reduction in HS1 access charges upon entering revised agreements and, following a review of cashflows, EIL reversed its earlier impairments during 2009. Such impairments had not been recognised in the Group accounts, and the Group is now re-aligned with EIL's net book values. Impairment provisions remain in respect of EIL's 'Regional' rolling stock.

Following the revised concession and access charging agreements a revaluation of the HS1 asset was undertaken by HS1Co under FRS 11 on a stand-alone basis, resulting in an impairment of HS1 infrastructure fixed assets down to circa. £1.7 billion, net of Government grants. In these Group accounts the impairment to cost is £2.86 billion and an acceleration of deferred Government Grant amortisation of £1.78 billion. The impairment is the result of the reduction in both concession length and the level of access charges.

In the Directors' opinion the market values of development land, surplus land and investments in development partnerships, match or exceed the book value of LCR's investments and land assets.

Directors and their interests

The Directors who served during the year were as follows:

Executive Directors

RD Holden	(Chief Executive – resigned 31 March 2009)
JM Bayley	(formerly Finance Director, appointed Chief Executive 1 April 2009)
SR Jordan	

Non Executive Directors

CJ Barwick	
PS Barron	
MC Bowe	
Sir David Cooksey	(Non-executive Chairman)
PCF Hickson	(Senior Independent Director)

No Director has had, at any time, any interest in the shares of any Group company.

Employees

The Group is a non-discriminatory employer operating an equal opportunities policy, committed to the employment and promotion of all staff on the basis of merit, without regard to race, colour, sex, marital status or disability. Where appropriate, training is adjusted to cater for an individual's disability and the disabled share the same conditions of services as other staff in relation to career development and promotion.

The Group is committed to effective employee communication which is achieved by in-house newsletters, an intranet and regular briefing sessions across its subsidiary companies. By this means employees are systematically provided with information on matters concerning them, and achieve a common awareness of factors affecting the performance of the Group.

Health and safety

The Group's policies and procedures relating to health and safety at work recognise the requirements of current legislation and are kept under constant review to ensure a safe working environment for all associated staff. The Group has a commitment to improve continually its performance in the areas of health, safety and the environment.

Within HS1Co there is active support for NRCTRL and its contractors in its promotion of strict adherence to all safety standards to ensure a safe environment for all parties using the railway including train operators and their passengers and staff and customers of the facilities in and adjacent to the stations.

Environment

The Group recognises the importance of its environmental responsibilities and has developed an environmental management system (EMS) which establishes a policy along with initiatives designed to minimise the Company's impact on the environment. The system is reviewed regularly and monitored through the assessment of environmental key performance indicators. Environmental programmes are operated by the Eurostar and HS1 businesses.

Since 2007 EIL has operated an environment programme, the *Tread Lightly* Initiative. This programme has three key aims:

- To reduce Eurostar's CO^2 emissions by 25% per traveller journey by 2012
- To deliver a 10-point business-wide plan to reduce the full range of the Company's environmental impacts
- To ensure that all journeys post 14 November 2007 are carbon neutral through offsetting projects

Eurostar published its first *Tread Lightly* Report in 2009, revealing progress towards achieving its environmental targets.

Higher load factors and a switch of electricity supply in the Channel Tunnel have chiefly contributed to a cut of more than a quarter (31%) in carbon dioxide emissions (CO_2) per passenger journey compared with 2007. Eurostar has now raised its target to a 35% saving by 2012.

Progress on the 10-point plan has included a big increase in waste recycling at Eurostar's UK maintenance depot and a reduction of over 70% in waste being sent to landfill from directly managed sites compared to 2007.

On 14 November 2007, Eurostar became the first train operator in the world to make all passenger journeys carbon neutral at no extra charge. Since then, travellers who have switched from plane to train have reduced the emissions from their journeys by an estimated 40,000 tonnes of CO_2 compared with if they had made their journeys by air.

Within the infrastructure business HS1Co has reviewed its approach to environmental management during the year and has established a 5 Year Plan for Environment and Sustainability. The plan recognises that HS1's performance is heavily reliant on the performance of our key contractors and customers and sets out to agree objectives and targets with these stakeholders and mechanisms to monitor progress towards achievement.

The carbon footprint for HS1 (excluding OHL traction power) for April 2008 - March 2009 was established as 24,146 tCO^2. This represents the first full year footprint since operation commenced and will be used as a baseline for measurement of subsequent year's performance. St Pancras Station accounts for approximately 60% of HS1's non traction electricity consumption so energy reduction at the station is key. Initiatives have focused on optimising use of the building management system within the station and energy reduction targets are now being implemented. Substantial quantities of waste arise from the operation of St Pancras and initiatives have led to the proportion of waste now being recycled exceeding 45%. Preparation has been made during the year for the introduction of the Carbon Reduction Commitment which is a new legal requirement designed to encourage energy conservation.

Charitable and political donations

No charitable donations were made during 2009. A charitable donation of £5,000 was made during 2008 to the Foundation for Science and Technology. No political donations were made during the year (2008: £nil)

Creditor payment policy

The Group agrees terms of payment with suppliers and contractors in advance and abides by those terms of payment.

Disclosure of information to auditors

Each of the Directors at the date of the approval of the financial statement confirms that, so far as they are aware, there is no relevant audit information of which the Company's auditors are unaware, and each Director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditor

A resolution concerning the re-appointment of KPMG Audit Plc as auditor will be proposed to the shareholders.

BY ORDER OF THE BOARD

CH Hamill
Company Secretary
26 March 2010

Corporate Governance

The Directors set out in this report how the principles of good governance are applied within LCR. The Company is a private limited company and from 1 January 2009 until 6 June 2009 had eight ordinary shareholders which were Bechtel Limited, EDF Energy PLC, French Railways Limited, Sir William Halcrow & Partners Limited, National Express Group PLC, Ove Arup & Partners Limited, Systra and SG Securities (UK) Limited. The whole of LCR's ordinary share capital was acquired by the Secretary of State for Transport on 6 June 2009 making the Secretary of State for Transport the sole ordinary shareholder in the Company from that date. One special share was held by the Secretary of State for Transport from 1 January 2009 until 28 July 2009 when it was redeemed at the direction of the Secretary of State for Transport. During 2009, the Company continued to pursue its key corporate objective by which the Board has resolved at all times to be guided. That objective is to maximise the enterprise value of LCR while minimising the expected drawings on the Access Charge Loan facility and/or other Public Sector Support.

By a written resolution passed on 28 July, 2009, the Company adopted new Articles of Association.

Under the new Articles of Association of the Company, LCR is obliged to comply with most of the provisions of the Combined Code on Corporate Governance. In so far as the principles and provisions set out in the Combined Code are relevant to a private company, the Company seeks to be compliant with the Code.

The Workings of the Board and its Committees

The Board meets at least six times a year, and has a schedule of matters which are reserved to it for decision. The Board ensures the Company has adequate funding in place by monitoring (through regular reporting from the Executive Directors) the sources and levels of funding available to the Company. Board members receive monthly management accounts of the Group and a written report on funding from the Finance Director (now from the Chief Financial Officer) at each Board meeting. During 2009 the Board comprised the Non-Executive Chairman (Sir David Cooksey), Senior Independent Director (PCF Hickson), the Chief Executive Officer (RD Holden), Finance Director (JM Bayley), Property Director (SR Jordan) and three other Non-Executive Directors (PS Barron, CJ Barwick and MC Bowe). PCF Hickson is chairman of the Remuneration Committee and the Nomination Committee. He has also chaired the Audit Committee from 1 January to 28 March, 2008 and was then succeeded in this role by MC Bowe from 29 March, 2008. During 2009, the Board was chaired by Sir David Cooksey. RD Holden resigned as Chief Executive on 31 March 2009 and was replaced by JM Bayley from 1 April 2009. The Board resolved to fill the Finance Director vacancy by appointing a Chief Financial Officer and appointed SD Phillips to the position from 1 April 2009. The Chief Financial Officer is not a director of the Company.

The dates of the Board Meetings, Committee Meetings, and the attendances at them are set out below:

LCR Board Meetings

Name / Date	27/01	31/03	13/05	03/06	28/07	24/09	24/11	16/12
PS Barron	✓	✓	✓	✓	✓	✓	✓	✓
CJ Barwick	✓	✓	✓	✓	✓	✓	✓	✓
JM Bayley	✓	✓	✓	✓	✓	✓	✓	✓
MC Bowe	✓	✓	No	✓	✓	✓	✓	✓
D Cooksey	✓	✓	✓	✓	✓	✓	✓	✓
PCF Hickson	✓	✓	No	✓	✓	✓	✓	✓
RD Holden	✓	✓	n/a	n/a	n/a	n/a	n/a	n/a
SR Jordan	✓	✓	✓	✓	✓	✓	✓	✓

LCR Audit Committee Meetings

Name	27/01	31/03	28/07	24/09	24/11
PS Barron	✓	✓	✓	✓	✓
CJ Barwick	✓	✓	✓	✓	✓
MC Bowe	✓	✓	✓	✓	✓
D Cooksey	✓	✓	✓	✓	✓
PCF Hickson	✓	✓	✓	✓	✓

LCR Nomination Committee Meetings

The Nomination Committee did not meet during 2009.

The Non-Executive Directors meet without the Executives present from time to time.

At all times during 2009, the number of Non-Executive Directors on the Board and on each committee of the Board exceeded the number of Executive Directors. The Non-Executive Directors have a wide range of backgrounds and experience and are of sufficient calibre and character to bring independent judgment to bear on issues of strategy, performance, resources and standards of conduct. The Directors consider that PS Barron, CJ Barwick, MC Bowe, Sir David Cooksey and PCF Hickson are all Independent. MC Bowe was considered by the Directors to be independent from her appointment on 31 January 2008 notwithstanding that she was appointed by the Secretary of State for Transport who was at that time the special shareholder. The Directors' reason for considering MC Bowe to be independent during 2009 is that the Company had (until 6 June 2009) eight ordinary shareholders as well as one special shareholder, and the position of special shareholder ended with the redemption of the special share on 28 July 2009.

Appropriate insurance cover is in place in respect of legal action against the Company's Directors.

All Directors have had access to the advice and services of the Company Secretary, CH Hamill, who is responsible to the Board for ensuring that the Board procedures and applicable rules and regulations are followed. The appointment and removal of a Company Secretary is a matter for the Board as a whole. The Directors are able to take independent professional advice at the expense of the Company if they consider it necessary.

The Non-Executive Directors have responsibility to ensure that the strategies proposed by the Executive Directors are fully considered. All Directors receive appropriate and timely information in order to enable them to fulfill their duties; briefing papers are distributed to all Board members by the Company Secretary in advance of meetings.

From time to time, and in order to comply with provision A.6.1 of the Code, the Board conducts (or instructs a third party to conduct) an evaluation of its performance, and the performance of its committees and individual directors. The last such evaluation was conducted during 2007 and none was conducted in 2009. The results of the 2007 evaluation demonstrated that the Directors were satisfied with the performance of the Board (as a whole) and that of its committees and the mix of skills and attributes of Board members.

Audit Committee

The Audit Committee comprises all the Non-Executive Directors of the Company and, during 2009, all members of the Committee were considered by the Directors to be Independent.

At least one member of the Committee has recent and relevant financial experience. The Committee's formal terms of reference were reviewed, and new terms adopted by the Board on 29 July, 2008. The Committee met five times during 2009. The Committee monitors the integrity of the financial statements of the Company, reviews the internal financial controls and the internal control and risk management systems. It provides a forum for reporting by the Company's external auditors. The Committee meets with the external auditors at least once a year without the Executive Directors present. The Audit Committee was chaired during 2009 by MC Bowe. The external auditors are reappointed annually by the shareholders of the Company.

From time to time the Company asks KPMG to provide non-audit professional services and did so during 2009. Before doing so, the Company considers the nature of such non-audit services and the appropriateness of receiving them from KPMG. In addition, the Audit Committee receives each year a letter of confirmation from KPMG confirming that, in its professional judgement, it remains independent within the meaning of its regulatory and professional requirements and that its objectivity is not impaired.

Nomination Committee

The Nomination Committee was chaired by PCF Hickson during 2009. Sir David Cooksey and CJ Barwick were also members during 2009. By agreement of the Board, RD Holden became an additional member of the Committee with effect from 20 May, 2008. He ceased to be a member on 31 March 2009, the date he left the Company. Formal terms of reference of the Committee were adopted by the Board on 29 July, 2008. The Committee did not meet during 2009. The appointments of JM Bayley as Chief Executive Officer and SD Phillips as Chief Financial Officer were considered and approved by the Board as a whole.

Remuneration Committee

The Remuneration Committee comprises all non-executive directors and was chaired during 2008 by PCF Hickson. The independent members of the Committee during 2009 were PS Barron, CJ Barwick, MC Bowe, Sir David Cooksey and PCF Hickson. Revised formal terms of reference of the Committee were adopted by the Board on 29 July, 2008. The Committee has delegated responsibility for setting the remuneration of all Executive Directors including pension rights and any compensation payments. It recommends and monitors the level and structure of remuneration for senior management. The Board as a whole considers the remuneration of the Non-Executive Directors.

The remuneration of the Executive Directors is designed to align their interests with the objectives of the Company including the new corporate objective, and to incentivise them to perform at the highest level. The provisions of Schedule A to the Code have been considered and applied in developing the remuneration of the Executive Directors. The levels of remuneration for the Non-Executive Directors reflect each individual's time commitment and responsibilities of the role, including the chairmanship of committees of the Board and the assumption of non-executive directorships in key subsidiaries within the LCR Group.

During 2009 CJ Barwick was a director of London & Continental Stations & Property Limited. He resigned with effect from 31 March 2009 as that company is now dormant.

During 2009 and until he left the Company on 31 March 2009 RD Holden was released by the Board to serve as a council member on the Council of University College London. Mr. Holden received no remuneration for this post.

As the Company is not listed, share options are not available to the Directors.

The Remuneration Committee engaged the services of Kepler Associates in 2009 to advise on executive remuneration. During 2009 the Company was also advised by Towers Watson on pension related matters connected to the Group's defined benefit scheme.

The Company has not adopted a formal policy on the duration of directors' service contracts, which in practice have no fixed termination date, but which provide for 12 months notice of termination on either side. In setting directors' remuneration the Committee does not specifically take account of the pay and conditions in other Group undertakings. This is because, in the Committee's view, the roles of the Company's directors (now primarily focussed on achieving the Company's restructuring objectives) are different from those of the Group's trading subsidiaries.

Directors' emoluments

The remuneration of the Directors for the year ended 31 December 2009 was as follows:

	Remuneration	Pension	2009	2008
Executive Directors	£	£	£	£
RD Holden (resigned 31 March 2009)	209,154	184,325	393,479	1,077,333
JM Bayley	596,450	21,348	617,798	489,864
SR Jordan	318,219	50,600	368,819	273,487
Non-executive Directors				
CJ Barwick	45,000	-	45,000	44,250
PS Barron	42,000	-	42,000	42,000
MC Bowe	47,250	-	47,250	38,500
Sir David Cooksey	250,000	-	250,000	250,000
PCF Hickson	50,000	-	50,000	50,000
	1,558,073	256,273	1,814,346	2,265,434

Remuneration includes the value of benefits, deferred bonuses and performance-related bonuses paid during the year. Overall remuneration of £393,479 to RD Holden includes deferred and performance-related bonuses of £301,923, part of which were paid as pension contributions. Remuneration for JM Bayley includes deferred and performance-related bonuses of £282,650, and £49,019 for SR Jordan. Pension contributions for RD Holden and SR Jordan reflect sums paid to a money purchase scheme.

JM Bayley is a member of the Group's defined benefit pension scheme, and the value of his accrued benefits has risen from a basic annual pension entitlement of £21,493 at 31 December 2009 to a basic annual pension entitlement of £24,532 at 31 December 2009, plus a basic lump sum of less than £20,000 in each case.

No Director held, during the year, any beneficial interest in the shares of the Company or any of its subsidiaries. No amounts were paid as an expense allowance, or to third parties for the services of directors.

RD Holden's service agreement was dated 18 December 1996 and was terminated on 31 March 2009. No sums were paid for loss of office. JM Bayley's service agreement is dated 18 April 1997 and SJ Jordan's is dated 1 August 1996. Each has no fixed expiry date and has a 12 month notice period. No director's service agreement contains a provision for compensation to become payable upon termination.

Internal Control

The Audit Committee is responsible for assessing the Company's system of internal control, for reviewing its effectiveness, and for making recommendations on internal control issues to the Board. The internal control systems are designed to provide reasonable, though not absolute, assurance against the risks faced by the business including material

In accordance with the requirements of the Code, all of the principal risks facing the Company are kept under review and the Board ensures that appropriate control systems are in place.

The Board retains responsibility for financial risk identification and compliance matters and receives regular reports in all of these areas including treasury and investment matters. Formal control is exercised through a management structure which includes clear lines of accountability and documented financial delegations of authority from the Board. These are subject to periodic review.

The Company's overall management process integrates the role of the Board, the boards of LCR's principal subsidiary companies and the LCR Executive Committee which meets regularly to consider all key business issues including safety. The Company prepares an annual budget, performance against which is actively monitored by the Board, identifies risks and takes mitigating actions which are monitored for effectiveness.

The Company's principal operating subsidiary Eurostar International Limited (EIL) has its own separately constituted board of directors which includes a number of Independent Non-Executive Directors. The EIL board has its own audit and remuneration committees and RD Holden is a member of both those committees. JM Bayley joined the board of EIL as an additional non executive director with effect from 1 April 2009 and is also a member of the audit and remuneration committees of EIL. The EIL board has appointed Grant Thornton as the internal auditor of the Company, and remitted them to carry out regular reviews of the effectiveness of the controls in place. Under the 'Eurostar (UK) Governance Agreement' dated November 1998 to which LCR is also a party, both EIL and LCR are obliged to ensure that EIL complies with the Combined Code as if it were a listed company.

The system of internal financial controls in LCR is monitored by the Chief Financial Officer and the Chief Executive Officer who are accountable to the Audit Committee. In addition, the external auditor reports to the Audit Committee matters regarding internal financial controls which arise as a result of its audit work. No material weaknesses in the system of internal financial control have been identified by these reviews.

Safety matters are reported on and discussed at each meeting of the LCR Executive Committee by the HS1 Managing Director, and the HS1 Head of Safety. The Chief Executive Officer reports to the LCR Executive Committee on Eurostar operational safety, and on all safety matters (including Eurostar operational safety, HS1 construction and operational safety) to the LCR Board.

Through these arrangements the Directors have reviewed the effectiveness of the Company's system of internal control.

Annual General Meetings

A written resolution is proposed to the shareholders annually to receive the accounts of the Company in respect of the previous year and to reappoint the external auditors and authorise the Board to fix their remuneration.

Statement of directors' responsibilities in respect of the Directors' Report and the financial statements

The directors are responsible for preparing the Directors' 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 they have elected to prepare the Group and the parent Company's financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

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 Group and the parent Company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the parent Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect 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 UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent Auditors' report

to the members of London & Continental Railways Limited

We have audited the financial statements of the Group and parent Company (the "financial statements") of London & Continental Railways Limited for the year ended 31 December 2009 set out on pages 24 to 49. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with sections 495 and 496 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's member those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 21 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at www.frc.org.uk/apb/scope/UKNP.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and the parent Company's affairs as at 31 December 2009 and of its loss for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter 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.

Independent Auditors' report

to the members of London & Continental Railways Limited (continued)

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.

Stephen Bligh

Stephen Bligh (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
8 Salisbury Square
London
26 March 2010

Group Profit and Loss Account

for the year ended 31 December 2009

	Note	Year ended 31 December 2009 £'m	Year ended 31 December 2008 £'m
Turnover	2	537.4	427.6
Operating expenditure	3	(1,765.8)	(408.9)
Operating profit on ordinary activities before exceptional items		*112.8*	*18.7*
Operating exceptional cost – impairment of fixed assets (net of deferred grant release)	3	*(1,077.4)*	-
Operating exceptional cost – impairment of goodwill	3	*(263.8)*	
Operating (loss) / profit on ordinary activities before interest		(1,228.4)	18.7
Share of operating loss in Associate		(1.7)	-
Total operating (loss) / profit		(1,230.1)	18.7
Interest receivable and similar income	4	53.8	26.6
Interest payable and similar charges	5	(173.8)	(333.2)
Loss on ordinary activities before taxation		(1,350.1)	(287.9)
Taxation	6	1.5	1.1
Loss on ordinary activities for the financial year	25	(1,348.6)	(286.8)

All turnover and operating loss derives from continuing activities in the current and prior years.

Group Statement of Total recognised Gains and Losses
for the year ended 31 December 2009

	Year ended 31 December 2009 £'m	Year ended 31 December 2008 £'m
Loss for the financial year (before share of associates)	(1,346.9)	(286.8)
Share of operating loss in Associate	(1.7)	-
Actuarial gains and losses (note 28)	(25.4)	(41.5)
Total gains and losses recognised since last annual report	(1,374.0)	(328.3)

Group Statement of Historical Cost Losses
for the year ended 31 December 2009

	Note	Year ended 31 December 2009 £'m	Year ended 31 December 2008 £'m
Reported loss on ordinary activities before taxation		(1,350.1)	(287.9)
Realisation of property revaluation gain of previous years (on disposal of revalued property)	25	16.2	11.7
Historical cost loss on ordinary activities before tax		(1,333.9)	(276.2)
Historical cost loss for the year after tax		(1,332.4)	(275.1)

Reconciliation of movements in Group Shareholders' Funds / (Deficit)
for the year ended 31 December 2009

	Note	Year ended 31 December 2009 £'m	Year ended 31 December 2008 £'m
Loss for the financial year	25	(1,348.6)	(286.8)
Actuarial gains and losses	28	(25.4)	(41.5)
Net loss taken from shareholders' deficit		(1,374.0)	(328.3)
Shareholders' deficit at 1 January		(3,094.6)	(2,766.3)
Capital contributions from the Secretary of State	25	5,449.8	-
Shareholders' funds / (deficit) at 31 December		981.2	(3,094.6)

LCR

Balance Sheets

as at 31 December 2009

	Note	Group 2009 £'m	Group 2008 £'m	Company 2009 £'m	Company 2008 £'m
Fixed assets					
Intangible assets	8	-	266.1	-	-
Tangible assets	9	3,254.7	6,327.5	32.9	53.5
Investments in subsidiaries	10	-	-	176.9	0.2
Investment in associate	11	22.0	-	-	-
Loans advanced to associate	11	44.1	-	-	-
Investment in Associate		66.1	-	-	-
Total fixed assets		3,320.8	6,593.6	209.8	53.7
Current assets					
Stocks and work in progress	12	30.9	38.6	6.8	11.5
Debtors: within one year	13	*124.8*	*154.6*	*9.7*	*9.7*
after one year	13	*2.9*	*3.6*	*701.3*	*1,731.1*
Total debtors		127.7	158.2	711.0	1,740.8
Short term investments	14	40.8	112.8	40.8	112.8
Cash at bank and in hand	15	172.8	95.0	75.0	17.8
		372.2	404.6	833.6	1,882.9
Creditors: amounts falling due within one year	16	(342.0)	(442.7)	(77.9)	(88.6)
Net current assets / (liabilities) due within one year		*27.3*	*(41.7)*	*54.4*	*63.2*
Debtors due after one year		*2.9*	*3.6*	*701.3*	*1,731.1*
Net current assets / (liabilities)		30.2	(38.1)	755.7	1,794.3
Total assets less current liabilities		3,351.0	6,555.5	965.5	1,848.0
Creditors: amounts falling due after more than one year	17	(2,287.2)	(9,591.6)	(139.3)	(3,935.5)
Provisions for liabilities	19	(7.4)	(9.2)	-	-
Pension scheme deficit	28	(75.2)	(49.3)	-	-
Net assets / (liabilities)		981.2	(3,094.6)	826.2	(2,087.5)
Capital and reserves					
Called up share capital	24	1.0	1.0	1.0	1.0
Share premium account	25	47.7	47.7	47.7	47.7
Revaluation reserve	25	19.2	35.4	-	-
Capital redemption reserve	25	21.4	21.4	21.4	21.4
Profit and loss account	25	891.9	(3,200.1)	756.1	(2,157.6)
Equity shareholder's funds / (deficit)		981.2	(3,094.6)	826.2	(2,087.5)

Approved by the Board of Directors on 26 March 2010
JM Bayley, Director

JM Bayley

LCR

Group Statement of Cash Flows

for the year ended 31 December 2009

	Note	Year ended 31 December 2009 £'m	Year ended 31 December 2008 £'m
Net cash inflow from operating activities	29(a)	106.3	38.7
Returns on investments and servicing of finance			
Interest received (including short term investments)		69.6	86.6
Interest paid		(99.5)	(281.4)
Interest element of finance lease rental payments		(31.7)	(34.3)
Net cash outflow from returns on investment and servicing of finance		(61.6)	(229.1)
Taxation			
Corporation tax received		1.5	-
Capital expenditure and financial investment			
Purchase of tangible fixed assets, including HS1		(2.1)	(76.3)
Sale of tangible fixed assets		53.3	76.8
		51.2	0.5
Cash inflow / (outflow) before use of liquid resources and financing		97.4	(189.9)
Management of liquid resources			
Short term investments returned – capital		6.0	66.9
Cash inflow / (outflow) before financing		103.4	(123.0)
Financing			
Repayment of bank debt		(14.3)	(7.1)
Capital element of finance lease rentals paid and leases terminated		(169.4)	(5.3)
Loans advanced to associate		(44.1)	-
Capital contributions from Secretary of State –cash items		202.2	-
Net cash outflow from financing		(25.6)	(12.4)
Increase / (decrease) in cash in the year	29(c)	77.8	(135.4)

Notes to the Accounts at 31 December 2009

1. Accounting policies

Basis of preparation

The financial statements are prepared on a going concern basis, in accordance with applicable accounting standards and under the historical cost accounting rules, modified to include the revaluation of certain fixed assets.

Basis of consolidation

The Group financial statements consolidate the accounts of London & Continental Railways Limited and its subsidiary undertakings drawn up to 31 December 2009. No profit and loss account is presented for London & Continental Railways Limited as permitted by Section 408 of the Companies Act 2006 (note 7).

On acquisition of a business, the acquisition method of accounting is adopted, and the Group profit and loss account and cashflow statement include the results and cashflows of subsidiary and business undertakings purchased during the period from their dates of acquisition. Purchase consideration is allocated to assets and liabilities on the basis of fair value at the date of acquisition.

Turnover

Turnover, which excludes value added tax, principally comprises the Group's share of the income generated by the Eurostar rail passenger services together with access charge income for domestic rail services on the HS1, (including until August 2009 Government-paid 'Domestic Capacity Charge' for access to the HS1) and other related incomes. Passenger revenue is recognised on the date of travel.

Tangible fixed assets

Tangible fixed assets are stated at cost or valuation less accumulated depreciation. Cost represents the cost of acquisition or construction. An annual review for impairment of fixed assets is carried out in accordance with FRS 11.

Depreciation is calculated so as to write off the cost of tangible fixed assets on a straight line basis over their expected useful economic lives, commencing from the date they enter into service, which are as follows:

Inter-capital rail and other assets:

Freehold and leasehold buildings	40 years or term of lease if less
Rolling stock	6-30 years
Plant and equipment	4-10 years

HS1 railway assets:

The depreciation of fixed assets has been reviewed following changes to the HS1 concession, notably the reduction in concession length. The HS1 infrastructure will be returned to the Secretary of State in 2047 for nil proceeds, but with much of its useful economic life remaining. Accordingly, in line with FRS5 from 17 August 2009 the Company has adopted an economic life of 125 years for land, buildings and structures. In order to reflect fully the cost to the Company of returning the residual value of the HS1 assets to SoS for no consideration, a concession charge is recognised in the Profit and Loss account.

High-speed railway assets are depreciated over their estimated economic lives:

Land, buildings and structures	125 years
Leased electrification assets	50 years (length of lease)
Depot buildings	25 - 40 years
Track and overhead catenary	25 years
Signalling and plant	12-15 years

HS1 renewals are capitalised into fixed assets and depreciated over their useful lives as above. Income from renewals charges is recognised when earned and cash received into escrow in advance of expenditure is treated as other receivables.

Assets under construction or development are not depreciated until completed.

Certain properties, which passed to LCR control in 1996, are required for HS1 and will not be sold by the Group. These properties are carried at nil cost as they will ultimately pass back to Government control in 2047 for £nil consideration. Land used for HS1 will be leased from the Government by the Group, until 2047. HS1 land and buildings which have been funded by the Group since June 1996, but whose title rests with the Secretary of State for Transport, are included at cost as a fixed asset within the HS1 asset category. The value of these fixed assets will be realised through the generation of operational income over the HS1 concession period.

Development and surplus land

Development lands which passed to LCR control in May 1996 are recognised at a valuation based on their development market value on transfer, as set out in note 9. Following the adoption of FRS 15, transitional provisions have been applied to retain the current book value without adopting a policy of regular revaluation. As the revaluation reserve is realised over time by property disposal it is released to the profit and loss account. Design and development costs incurred on the lands are initially capitalised and offset against sale of the land or transfer to joint ventures. Further surplus lands where LCR has the rights to sale are included in fixed assets at cost, and in the case of ex-HS1 surplus lands held for short term sales, are included within 'stocks' at net realisable value.

Goodwill

In accordance with FRS 10, goodwill arising on acquisitions made since 1998 is capitalised within intangible fixed assets and amortised, subject to regular impairment reviews, over its useful economic life, up to a maximum duration of the HS1 franchise to 2047. Negative goodwill arising on acquisitions made in 1996 was taken directly to reserves on consolidation and will be charged or credited to the profit and loss account on any subsequent disposal outside of the group.

Leases and financing arrangements

Assets held under finance leases are capitalised and included in tangible fixed assets at fair value. The obligations relating to finance leases, net of finance charges in respect of future periods, are included within creditors. The interest element of the rental obligation is allocated to accounting periods during the lease term to reflect the constant rate of interest on the remaining balance of the obligation for each accounting period. Rentals under operating leases are charged to the profit and loss account on a straight line basis over the life of the lease.

The Group has entered into financing arrangements whereby rolling stock was sold under hire purchase contracts and then leased back, such leases are regarded as finance leases. Operating lease rentals are recognised as income in equal annual amounts over the lease term.

Short term investments

Short term investments, comprising surplus funds invested by external fund managers in investment grade short term financial instruments, are recognised inclusive of accrued interest at the balance sheet date and the corresponding gains and losses are recognised in the profit and loss account.

Cash and liquid resources

Cash, for the purposes of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts repayable on demand. Liquid resources are current asset investments which are disposable without curtailing or disrupting the business and are either readily convertible into known amounts of cash at or close to their carrying values or traded in an active market. Liquid resources, for the purposes of the cash flow statement, principally comprise the Group's short term investments in money market managed funds, short dated bonds, commercial paper and government securities.

Stocks and work in progress

Stocks, which mainly relate to spares and consumables held principally for the purpose of maintaining rolling stock and HS1, are stated at the lower of cost and net realisable value. Certain initial spares and components are held at original purchase price and depreciated over the life of the assets they support. The cost of repairs and replacements to these stocks is charged to the profit and loss account as incurred. Work in progress is stated at the lower of cost and net realisable value.

Certain stocks are jointly owned with the state railways of France and Belgium. The stock included in the balance sheet equals the value placed on the stock physically in the possession of the Group; no account is taken of jointly owned stock which is held in France and Belgium.

Ex-HS1 properties held for sale, which were previously under the control of HS1, are stated at net realisable value.

Long term contracts

The amount of profit or loss attributable to the stage of a long term contract is recognised when the outcome of the contract can be foreseen with reasonable certainty. Amounts recoverable on contracts are included in debtors and represent income recognised in excess of payments on account.

Concession charge

A provision is made over the life of the HS1 concession for the estimated value of the grant of the HS1 concession, representing the residual value of the HS1 assets to be returned to the Secretary of State for nil consideration at the end of the concession in 2047.

Financial instruments

Interest bearing borrowings are recognised initially at proceeds received less attributable issue costs. Subsequent to initial recognition, interest bearing borrowings are stated at amortised cost with any difference between the cost and redemption value being recognised in the profit and loss account over the period of the borrowings on the basis of a constant rate on the carrying amount of the debt. Issue costs of raising finance are deferred and offset against debt in the balance sheet in line with FRS 4 and amortised over the lives of the appropriate instruments. The amortisation charge is included within 'interest payable and similar charges'.

Derivative financial instruments

The Group uses interest rate swaps to manage interest rate risks arising from the Group's operations and sources of finance. The Group does not hold or issue derivative financial instruments for speculative purposes. For an interest rate swap to be treated as a hedge, the instrument must be related to actual assets and liabilities. It must involve the same interest basis as the hedged item and must reduce the exposure to interest rate fluctuations on the Group's operations. Gains and losses on instruments used for hedging are not recognised until the exposure that is being hedged is itself recognised.

Deferred taxation

Deferred tax is recognised, with discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Government grants

Government grants relating to capital expenditure on HS1 accrued to London & Continental Railways Limited and were contributed to subsidiary companies undertaking HS1 construction work as appropriate. From a Group perspective, Government grants received in respect of capital expenditure are credited to a deferred income account, subject to impairment reviews, and are released to the profit and loss account annually against depreciation over the expected lives of the relevant assets. Grants of a revenue nature are credited to income so as to match them with the expenditure to which they relate.

Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate ruling at the balance sheet date and differences are taken to the profit and loss account. All other exchange differences are taken to the profit and loss account.

Pensions

All the Group's employees are eligible to participate in the retirement and death benefits which are provided for by payments to a segregated section of the Railways Pension Scheme, a shared-cost defined benefit scheme. Contributions to the Scheme are paid in accordance with the Scheme's rules. The charge to the profit and loss account reflects the current service cost of such obligations, the interest cost on liabilities and the expected return on scheme assets in accordance with FRS 17 'Retirement benefits'. Movements in the Scheme's assets and liabilities are reported through the profit and loss account and statement of total recognised gains and losses as appropriate (see note 28).

As a multi-employer scheme in which it is not possible to allocate the underlying assets and liabilities of the scheme on a consistent and reasonable basis between each participating group company, full provision for the deficit under FRS 17 is made only in the LCR Group accounts, with the parent company and most subsidiaries accounting for the scheme as if it were a defined contribution scheme, as required by FRS 17. It has been possible to estimate EIL's share of the deficit for the first time in 2009, and this sum has been recorded in EIL's financial statements, ahead of the formation of the joint 'Futur Eurostar' organisation.

Employees may alternatively be given the option to elect to establish private pension arrangements into which the Group will contribute. Such contributions are charged to the profit and loss account as incurred.

2. Turnover

The turnover shown in the accounts, which excludes value added tax, principally comprises the Group's share of the income generated by the Eurostar inter-capital rail services irrespective of where the sale was made together with access charge income for domestic rail services on the HS1, (including until August 2009 Government-paid 'Domestic Capacity Charge' and similar payments for access to the HS1) and other related incomes. All of the material operations of the Group constitute railway operations, in a single geographical segment.

3. Operating expenditure

(a) The loss on ordinary activities is stated after charging / (crediting) the following:

	Year ended 31 December 2009 £'m	Year ended 31 December 2008 £'m
Staff costs:		
Wages and salaries	55.0	64.6
Social security costs	5.1	5.6
Pension costs (including RPS, note 28)	6.8	7.3
Other staff costs	6.1	2.6
	73.0	80.1
Income recognised by subsidiary on contracts	4.1	14.6
Less attributable costs recovered	(4.1)	(14.6)
	-	-
Materials, supplies and external services	204.9	182.4
Infrastructure access charges:		
Eurotunnel	101.4	93.8
Depreciation	141.8	173.6
HS1 Concession charge	5.9	-
Amortisation of capital grant (HS1 and Eurostar)	(72.1)	(87.0)
Impairment of HS1 and EIL fixed asset (note 9)	2,879.9	-
Accelerated amortisation of deferred Government Grants (HS1 and Eurostar)	(1,802.5)	-
Amortisation of goodwill (note 8)	2.3	3.6
Impairment of goodwill (note 8)	263.8	-
Gains arising from disposal of fixed assets, land & property in which the Group has an interest	(32.6)	(37.6)
	1,765.8	408.9

(b) The operating expenditure includes:

	2009 £'m	2008 £'m
Auditors' remuneration: audit of these financial statements (2009: £50,000, 2008: £45,000)	-	-
Auditors' remuneration: amounts receivable by the auditors and their associates in respect of:		
Audit of financial statements of subsidiaries pursuant to legislation	0.2	0.3
All other services to Company and subsidiaries	0.4	0.1
Depreciation - leased assets	10.3	15.1
- owned assets	131.5	158.5
Operating lease rentals - land and buildings (Plant & machinery £nil (2008: £nil)	1.3	2.3

No capital Government grants have been received since 2006. Prior-year capital grants received by the Group are reflected within long term creditors as deferred income, less amortisation and impairment.

LCR

(c) The average number of staff employed by the Group during the period was 1,372 (2008: 1,485).

(d) Analysis of staff by function:	2009 Number	2008 Number
Railway operations	1,299	1,394
HS1 management and construction	38	44
Property management	20	34
Group management	15	13
Total	1,372	1,485

(e) Staff costs of the Company (average no. employed, inc property: 20, 2008:17) were:

	2009 £'m	2008 £'m
Wages and salaries	2.2	3.1
Social security costs	0.3	0.3
Pension costs	0.6	0.4
Other staff costs	0.4	0.3
	3.5	4.1

(f) Directors' emoluments

Total emoluments payable to the Directors of the Company were:

	Year ended 31 December 2009 £'000	Year ended 31 December 2008 £'000
	1,814.3	2,265.4

Full details of Directors' remuneration are set out on page 19.

4. Interest receivable and similar income

	Year ended 31 December 2009 £'m	Year ended 31 December 2008 £'m
Interest and similar income from:		
Short term investments, deposits and cash balances	2.6	24.4
Net interest credit from pension scheme (note 28)	-	2.2
Interest rate hedging	51.2	-
	53.8	26.6

Interest rate hedging income arose from the release of deferred hedging gains, upon the transfer of CTRL Section 1 Finance plc obligations to the Secretary of State.

5. Interest payable and similar charges

	Year ended 31 December 2009 £'m	Year ended 31 December 2008 £'m
Interest and similar charges payable on:		
Government-guaranteed bonds with maturity:		
Repayable within five years	20.6	50.0
Repayable after more than five years	58.0	131.4
Asset-backed bonds repayable after more than five years	20.3	75.1
Bank loans and overdrafts repayable within five years	5.7	5.7
Bank loans repayable after more than five years	38.8	39.5
Finance leases and hire purchase contracts	27.7	31.5
Net interest charge from pension scheme (note 28)	1.2	-
Other interest	1.5	-
	173.8	333.2

Bond interest charges include interest amounts payable or receivable from attributable interest rate swaps and amortised issue costs, and arose in the period until bond obligations transferred to the Secretary of State in June 2009.

6. Taxation

	Year ended 31 December 2009 £'m	Year ended 31 December 2008 £'m
Current tax credit	1.5	-
Deferred tax release	-	1.1
Taxation	1.5	1.1

Any tax losses incurred in the year will be carried forward for offset against future profits. The credit in 2008 released an earlier deferred tax provision in respect of subsidiary company CTRL Section 1 Finance plc.

Current tax reconciliation

	Year ended 31 December 2009 £'m	Year ended 31 December 2008 £'m
Loss on ordinary activities before tax	(1,350.1)	(287.9)
United Kingdom Corporation tax charge (28%, 2008:28.5%)	(378.0)	(82.1)
Effects of:		
Unrelieved tax losses, asset impairment, claims	379.5	82.1
Total current tax credit – see above	1.5	-

7. Profit and loss attributable to members of the parent company.

The result dealt with in the accounts of the parent company was a loss of £1,061.7 million, comprising an operating profit of £21.7 million (2008: loss of £122.9m) together with an impairment provision of £1,083.4 million against the value of sums due from subsidiary companies EIL and HS1Co (2008: £195.1m). In 2008 there was additionally a gain of £602.8 million on the sale of CTRL(UK) Limited to HS1 Limited.

8. Intangible fixed assets (Group)

	Goodwill £'m
Cost	
At 1 January 2009 and 31 December 2009	287.9
Amortisation:	
At 1 January 2009	(21.8)
Charged in year	(2.3)
Impairment to carrying value	(263.8)
At 31 December 2009	(287.9)
Net book value at 31 December 2009	-
Net book value at 31 December 2008	266.1

Goodwill arose on the acquisition of CTRLUK and URS, and was being amortised over the life of the HS1 concession to 2086, subject to impairment considerations. Unamortised goodwill was fully impaired in August 2009, reflecting the impairment review of LCR's interests in HS1, as explained in note 9, under FRS 11.

9. Tangible fixed assets
(a) Group

	Freehold Property* £'m	Plant and equipment £'m	Rolling Stock £'m	HS1 Plant & machinery £'m	HS1 Land & buildings £'m	Develm't lands £'m	Total £'m
Cost or valuation							
At 1 January 2009	74.4	82.4	413.4	2,096.4	4,271.7	88.9	7,027.2
Additions	1.0	1.0	-	-	-	-	2.0
Disposals**	-	-	-	-	-	(53.1)	(53.1)
Re-classification	-	-	-	(2.1)	2.1	-	-
At 31 December 2009	75.4	83.4	413.4	2,094.3	4,273.8	35.8	6,976.1
Depreciation / impairment value:							
At 1 January 2009	(36.3)	(78.7)	(208.1)	(253.5)	(123.1)	-	(699.7)
Charged in year	(2.5)	(1.5)	(10.7)	(86.5)	(40.6)	-	(141.8)
Impairment of fixed assets	-	-	(19.5)	(861.1)	(1,999.3)	-	(2,879.9)
Disposals	-	-	-				
At 31 December 2009	(38.8)	(80.2)	(238.3)	(1,201.1)	(2,163.0)	-	(3,721.4)
Net book value at 31 December 2009	36.6	3.2	175.1	893.2	2,110.8	35.8	3,254.7
Net book value at 31 December 2008	38.1	3.7	205.3	1,842.9	4,148.6	88.9	6,327.5

* Leasehold property assets and enhancements with a cost of £13.7 million and net book value of £13.0 million (2008: £12.4 million) are included within the Freehold category above.

** The disposal of development properties arose from the sale of surplus land, and the transfer of King's Cross lands base value into the development partnership as explained in note 11.

On a Group basis an annual impairment review of fixed assets has previously been carried out on the combined assets of the HS1 and Eurostar operations, which until 31 December 2008 had indicated no impairment in value against the combined cost of HS1, the carrying value of the Eurostar inter-capital operating assets and the carrying value of goodwill within intangible fixed assets.

It was appropriate in 2009, given the move to Government ownership and an intention to break up the group, to assess impairment of the HS1, Eurostar and property assets as individual businesses, in line with those conducted by the individual entities. A review of fixed assets was carried out in accordance with FRS 11 at August 2009 to establish whether there had been any impairment arising from the changes to HS1 concession and charging, and reviewed at 31 December 2009.

Within the HS1 business a review of fixed assets was carried out at 17 August 2009 following the signing of the revised concession terms and access charging agreements to establish whether there had been any impairment, in accordance with FRS 11. Within the Company's business a single cash generating unit is identified within its fixed assets, being assets associated with the provision of high-speed train paths. The benefits derived from owning and operating HS1 are evaluated when considering the value of HS1 related assets.

This asset group was subjected to a "value in use" review based on discounting projected operating cash flows from the assets. A pre tax discount rate of 10% was used representing the estimated weighted average cost of capital of quoted companies with similar infrastructure activities and risks (2008: 5.15% based on LCR's internal cost of capital reflecting its unique financing structure).

The review of the HS1 business projections indicates an impairment in value against the recorded cost of the HS1 asset (net of Government grants), and accordingly an impairment provision of £2.86 billion has been made against such assets in these accounts, partly offset by an accelerated amortisation of deferred Government grant of £1.78 billion. At 31 December 2009 the depreciated carrying value of the impaired HS1 assets above, net of deferred Government grants (notes 16 and 17) was £1,686 million.

In evaluating the future cash flows derived from train operators and related income the Directors have taken into account the future current contractual income streams from current contractual arrangements and from anticipated income over the term of the existing HS1 concession to 2047 (2008: to 2086).

HS1 assets comprise amounts incurred in developing and constructing the HS1, including property acquired, stated gross of Government grants, and including assets held under finance leases and the cost of a new Eurostar maintenance depot at Temple Mills.

Within the EIL business three major income generating units have been identified within its fixed assets, being assets associated with the provision of Eurostar inter-capital train services, the provision of other train services and freehold properties with alternative uses.

The book value of each of these asset groups was compared to the higher of net realisable value and a value in use (or alternative use) review based on discounting projected operating cashflows from the assets. The net realisable value of rolling stock and other assets is considered to be in excess of the book value based on the expected valuation of the assets upon completion of the Furtur Eurostar transaction.

As a result of this review and the significant reduction in HS1 infrastructure access charges, an impairment reversal of £187 million was made by EIL in 2009 against inter-capital assets previously fully impaired. On a group basis the inter-capital impairments had not been adopted, with the effect that the group carrying value of EIL's assets now accords with those in EIL's financial statements.

The Group adopts EIL's impairment provisions against 'rolling stock for the provision of other train services' and against EIL's Manchester depot which is not used for Eurostar operations and currently has no prospective income-generating use, and a further impairment charge of £19.5 million arose in 2009 against such rolling stock.

The Group is party to an arrangement for the use of Ashford International Station under which the Group pays tolls based upon passenger usage. Under the terms of the arrangement the Group has guaranteed minimum rental charges to the financier of the station. An amount equal to the discounted present value of the guaranteed minimum rental charges is included within land and buildings and leasing creditors. The net book value of station assets under finance leases at 31 December 2009 was £17.1 million (2008: £18.8m). Assets held under finance leases comprise rolling stock with a net book value of £nil at 31 December 2009 (2008: £108m) and HS1 electrical distribution assets with a net book value of £68.7 million at 31 December 2009 (2008: £127.8m).

Included within Development lands of £35.8 million is an amount of £2.9 million for land interests which passed to LCR control in May 1996 and were recognised at a professional valuation based on their development market value on transfer, less amounts realised to date. On adoption of FRS 15, transitional provisions were applied to retain the current book value without adopting a policy of regular revaluation. The assets were recognised by the creation of a revaluation reserve (note 25) which will become realised gains as each parcel of land is sold. Of the revalued amounts, a gain of £16.2m was realised during the year on the transfer of land to the King's Cross Central Limited Partnership in March 2009 and transferred to Profit & Loss account, and the remaining £16.3 million is within the 'investment in Associate' asset. Development lands also include surplus lands with a cost of £ 32.9 million which LCR has the right to sell.

Other properties which passed to LCR control in 1996 and which are required for HS1 are valued at £nil as they will ultimately pass back to Government control in 2047 for no consideration. In addition, properties which were funded by the Group but whose title rests with the Secretary of State for Transport are included within HS1 assets at cost. Land used for HS1 will be leased to the Group by the Government until 2047.

The carrying value of intangible fixed assets is considered in note 8.

(b) Company

Assets of £32.9 million represent costs incurred in developing the Group's development property portfolio and related surplus lands (above), which are not currently depreciated (2008: £53.5 million). Additionally, plant and equipment with an historical cost of £0.1 million is being depreciated.

10. Investments (Company)

Investments at cost:	**Company 2009 £'m**
Cost of investments at 1 January 2009	0.2
Cost of investment in Eurostar International Limited - shares acquired	176.8
Sale of investments in LCR Finance plc and CTRL Section 1 Finance plc	(0.1)
Cost of investments at 31 December 2009	176.9

During 2009 the Company acquired 998 £1 Ordinary shares in EIL for consideration of £176.8 million, the proceeds of which were used by EIL to terminate its rolling stock leases. In addition, LCR subscribed for a further £1 Ordinary share at par which was used by EIL to repurchase and cancel its 701,000 shares held by LCR since 1996. Both steps were undertaken as part of the wider plans to reorganise the Group. LCR had no cost in the original shareholding. LCR Limited has fully impaired the amounts owed to it by EIL, but the investment in EIL of £176.8 million is considered by the Directors to have an ongoing value, representing the UK's share of the total Eurostar business.

The Company holds 100% of the Ordinary share capital of each of the following principal investments:

Company name	Principal activity
Eurostar International Limited	Operation of international train passenger services
HS1 Limited	Owner and operator of combined HS1 Infrastructure
Channel Tunnel Rail Link Limited	Provision of management resources to HS1 and property activities

At 31 December 2009 the Company also holds 100% of the Ordinary share capital of LCR Insurance Limited which transacts property insurance on behalf of the Group, LCR St Pancras Chambers Limited which holds LCR's interests in the St Pancras Chambers redevelopment and did not trade in 2009, and Eurostar Express Limited which holds certain rolling stock assets.

The company sold its 100% holdings in LCR Finance plc and CTRL Section 1 Finance plc to the Secretary of State for Transport in June 2009 for £1 each. LCR Treasury management, which previously undertook hedging activities for the group ceased trading in 2009.

Through EIL the Group holds 33% of Eurostar Group Limited which provides services to the Eurostar partner railways including Eurostar (UK) Limited, and whose net assets are not significant.

The Company also holds a 36.5% share in the King's Cross Central Limited Partnership, formed in 2008 in conjunction with fellow partners Argent and Exel, at nominal cost. The Partnership is developing the King's Cross site owned jointly by LCR and Exel, having transferred LCR and Exel's land interests to the partnership in 2009.

All investments are registered in England and Wales except for LCR Insurance Limited which is registered in the Isle of Man.

11. Investments in associates (Group)

Cost:	**Interests in associated undertaking £'m**	**Loans to associated undertaking £'m**
At 1 January 2009	-	-
Additions	23.7	-
Share of operating loss	(1.7)	-
Loans advanced	-	44.1
At 31 December 2009	22.0	44.1

The interest in associate represents the group's 36.5% share of the King's Cross Central Limited Partnership, a joint venture with Argent and Exel. The King's Cross Central Limited partnership is a UK registered partnership owned by the King's Cross Central Property Trust, a property unit trust vehicle established in Jersey. In March 2009 the Group's land interest at King's Cross was sold to the partnership in consideration for the issue of 73% of the partnership's trust units, 50% of which were subsequently sold to Argent. The investment of £22.0 million represents the cost of LCR's ongoing 50% interest in the land, excluding unrealised gains and LCR's share of operating results.

Loans of £44.1 million were advanced to the King's Cross Central Limited Partnership during 2009 have a fixed repayment date in 2019. Interest payable on the loans will be derived from longer-term development success and will be recognised on receipt.

12. Stocks and work in progress (Group)

	2009 £'m	2008 £'m
Spares and consumables - Eurostar rolling stock	15.9	19.5
Spares and consumables - HS1	8.2	7.6
Property interests held for sale (ex-HS1)	6.8	11.5
	30.9	38.6

The Company's balance sheet includes surplus land held for resale, of £6.8 million (2008: £11.5m).

13. Debtors

	Group		Company	
	2009	2008	2009	2008
Amounts recoverable within one year:	£'m	£'m	£'m	£'m
Trade debtors	12.4	13.5	-	-
Other debtors	94.4	62.3	8.0	-
Amounts recoverable on contracts	6.0	8.7	-	7.5
Prepayments and accrued income	12.0	70.1	1.7	2.2
Amounts owed by subsidiary undertakings	-	-	-	-
	124.8	154.6	9.7	9.7
Amounts recoverable after more than one year:				
Amounts owed by subsidiary undertakings and associate	-	-	701.3	1,731.1
Other debtors	2.9	3.6	-	-
	2.9	3.6	701.3	1,731.1
Total debtors	127.7	158.2	711.0	1,740.8

Other debtors of the Group include receivables of £2.4 million representing cash amounts held in escrow to fund certain future renewals and replacements. Access to the funds is restricted under the terms of the revised concession agreement. The Company has further impaired the amounts recoverable from subsidiaries, in expectation of debt waivers as part of the Group's financial restructuring.

14. Short term investments

	Group and Company	
	2009 £'m	2008 £'m
Funds under management	40.8	112.8

Managed funds, which include accrued interest at the balance sheet date, are invested in certificates of deposit, money markets or other short term securities with credit ratings of AA, A1, P1 or better. Interest rate risk on these investments is set out in note 22.

15. Cash at bank and in hand

Cash at bank and in hand of £172.8 million at 31 December 2009 included an amount of £73.5 million held by Deutsche Bank as collateral for sums borrowed by the Group from EIB and used for funding the construction of HS1 (2008: £58.2m). Interest rate risk on these investments is set out in note 22.

16. Creditors: amounts falling due within one year

	Group 2009 £'m	Group 2008 £'m	Company 2009 £'m	Company 2008 £'m
Bank overdraft	-	-	-	-
Bank loans (note 17d)	21.1	14.3	-	-
Trade creditors	20.1	19.8	2.4	2.7
Other creditors including taxation	108.8	94.7	69.4	74.3
Accruals and deferred income	158.1	208.7	6.1	9.6
Deferred Government grants	30.2	86.8	-	-
Amounts owed to subsidiary undertakings	-	-	-	2.0
Finance lease obligations (note 17c)	3.7	18.4	-	-
	342.0	442.7	77.9	88.6

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

	Group 2009 £'m	Group 2008 £'m	Company 2009 £'m	Company 2008 £'m
Government-guaranteed bonds (note 17a)	-	3,726.0	-	-
Asset-backed bonds (note 17b)	-	1,339.3	-	-
Finance lease obligations (note 17c)	187.8	342.9	-	-
Bank loans (note 17d)	807.5	828.6	-	-
Deferred Government grants	1,288.3	3,105.7	-	-
Other creditors & deferred income	3.6	139.3	-	-
Loan from HM Government (below)	-	109.8	-	-
Amounts owed to subsidiary undertakings	-	-	113.0	3,909.2
Discount on acquisition of subsidiaries	-	-	26.3	26.3
	2,287.2	9,591.6	139.3	3,935.5

Obligations under Government-guaranteed bonds and asset-backed bonds were transferred to the Secretary of State in June 2009. In addition, EIL's rolling stock finance leases of £176.8 million were terminated during the year using funds from the Secretary of State, and the loan of £109.8 million from HM Government to EIL was waived. All such transactions were reflected as capital contributions from the Secretary of State (see note 25).

The reduction in deferred Government grants reflects the accelerated amortisation of HS1 infrastructure grants, linked to the impairment of HS1 fixed assets, as explained in note 9.

Maturity of financial liabilities (Group):

Government grants received for the HS1 infrastructure are being amortised against depreciation over the expected lives of the relevant HS1 assets.

Other key financial liabilities have the following maturity profile:

a, Government guaranteed bonds (Group)	**2009**	**2008**
Payable within two to five years:	**£'m**	**£'m**
Maturing in 2010	-	1,000.0
Payable after more than five years:		
Maturing in 2028	-	1,225.0
Maturing in 2038	-	425.0
Maturing in 2051	-	1,100.0
	-	2,750.0
Total gross liability	-	3,750.0
Issue costs	-	(24.0)
Net liability	-	3,726.0

As noted on page 3, on 7 June 2009 the Secretary of State acquired LCR's subsidiary company LCR Finance plc and subsequently on 8 June assumed LCR's obligations standing at £3.79 billion in respect of bonds and accrued interest outstanding to LCR Finance plc at that date.

	2009	**2008**
b, Asset-backed bonds (Group)	**£'m**	**£'m**
Payable after more than five years:		
£747,989,000 maturing in 2035	-	748.0
£500,000,000 index-linked bond maturing in 2051	-	595.0
Gross liability – including index-linked accretion	-	1,343.0
Issue costs	-	(3.7)
Net liability	-	1,339.3

On 7 June 2009 the Secretary of State acquired LCR's subsidiary company CTRL Section 1 Finance plc, and assumed the Group's net obligations of £1.34 billion to service the asset-backed bonds as at that date. Until June 2009 the asset-backed bonds were securitised on future HS1 Section 1 access charge income, which was paid or guaranteed by Government, and fully de-risked.

c, Leasing obligations and accrued lease interest (Group)	**2009**	**2008**
	£'m	**£'m**
Within one year	3.7	18.4
Within two to five years	9.0	54.2
After five years	178.8	288.7
	191.5	361.3

During the year the Group terminated finance leases relating to EIL's rolling stock.

d, Bank loans (Group)	**2009**	**2008**
	£'m	**£'m**
Within one year	21.1	14.3
Within two to five years	84.4	84.4
After five years	723.1	744.2
	828.6	842.9

Bank loans represent bilateral facilities with the European Investment Bank ('EIB') and the Kreditanstalt fur Wiederaufbau ('KfW'). At 31 December 2009 loans totalling £828.6 million are secured on Government direct or guaranteed payments and cash collateral.

All facilities bear interest at fixed rates. Debt of £528.6 million is scheduled to be repaid on a profile between 2010 and 2015, while £300 million of debt is repayable between 2021 and 2028. Cash collateral of £73.5 million (2008: £58.2m) is held against these loan balances – see note 15.

Maturity of financial liabilities (Company)

Amounts owed to subsidiary undertakings at 31 December 2008 principally represented the proceeds of bonds issued by subsidiaries. Such obligations were transferred to the Secretary of State in June 2009.

18. Interest rate risk profile of financial liabilities

The interest rate profile of the key financial liabilities of the Group as at 31 December 2009 was:

	Fixed rate £'m	Floating rate £'m
Bank loans	828.6	-
Leasing obligations	-	191.5
	828.6	191.5

The fixed rate liabilities comprise bank loans totalling £829 million on which interest is payable at an average 5.33%.

The floating rate liabilities comprise HS1 leasing obligations of £192 million on which interest is payable based on rates linked to RPI.

19. Provisions for liabilities (Group)

	At 1 January 2009 £'m	Provided/ (utilised) in year £'m	At 31 December 2009 £'m
Onerous lease provision	7.9	(7.9)	-
HS1 concession charge	-	6.0	6.0
Other provisions (including Eurostar frequent traveller provision)	1.3	0.1	1.4
Total provisions	9.2	(1.8)	7.4

The onerous contract provision represents the cost of future Network Rail access charges which were deemed to be onerous under Financial Reporting Standard 12 (Provisions and Contingencies), following the vacation of Waterloo International station; the remaining provision was released in the period to 31 March 2009.

The HS1 concession charge arises over the life of the HS1 concession, to provide the estimated residual value of the HS1 assets to be returned to the Secretary of State for nil consideration in 2047.

20. Deferred taxation

There is no potential liability to deferred tax at 31 December 2009 (2008: £nil). Significant accumulated losses are being carried forward by the Group, which have the potential to offset future profits. The Group has an unrecognised deferred tax asset of approximately £1.0 billion (2008: £0.9bn) which has not been recognised due to uncertainty over the timing of future utilisation.

21. Borrowing facilities

The Group had no undrawn bank borrowing facilities at 31 December 2009 (2008: £nil).

22. Interest rate risk of financial assets

The Group held the following financial assets as at 31 December 2009:

	31 December 2009 £'m	31 December 2008 £'m
Short term investments (note 14) - sterling	40.8	112.8
Cash at bank and in hand (note 15) - sterling	172.8	95.0
	213.6	207.8

Short term investments are held with fund managers and comprise certificates of deposit and sums placed on money markets at call and for extended periods. These floating rate financial assets bear interest fixed in advance for periods ranging from overnight to typically less than three months by reference to LIBOR. Cash at bank is invested in the short term at underlying floating rates.

23. Fair values of financial assets and financial liabilities

The fair value of bank debt at 31 December 2009 is £911.1 million against a book value of £828.6 million (2008: £972.5 million against £842.9 million). All bond obligations were transferred to the Secretary of State in 2009. The fair value of Government guaranteed bonds and asset-backed bonds as at 31 December 2008 was respectively £4.03 billion against a gross book liability of £3.75 billion, and £1.50 billion against a book liability of £1.34 billion.

There are no other differences between the book values and fair values of the Groups' financial assets and financial liabilities as stated in notes 13 to 17. Short term investments include accrued interest and reflect market values, whilst gains or losses under interest rate derivative financial instruments are fixed six-monthly and are recognised on an accruals basis. The liability arising in the event of termination of swaps is set out below.

Hedges

As explained in the Directors' Report on pages 9 to 15, the Group's policy has been to hedge interest rate risk over the period of HS1 construction and initial operation, using interest rate swaps. There are no swaps remaining at 31 December 2009 (2008: £0.1 billion nominal of fixed to floating rate swaps with an asset value of £1.1 million). Gains and losses on instruments used for hedging are recognised when the exposure that is being hedged is itself recognised. There were no unrecognised gains or losses on instruments used for hedging at 31 December 2009 (2008: £nil).

24. Called up share capital

	31 December 2009	31 December 2008
Authorised:	£	£
314,207,571 Ordinary shares of 25 pence each	78,551,893	78,551,893
1 Special share of 25 pence	n/a	-
	78,551,893	78,551,893
Issued, called up and fully paid:	£	£
3,831,982 Ordinary shares of 25 pence each	957,996	957,996
1 Special share of 25 pence	n/a	-
	957,996	957,996

The Special share of 25p was redeemed and cancelled on 28 July 2009. It was issued to the Secretary of State for Transport in 1999 and gave certain rights to participate in or regulate the Company's affairs, but carried no right to attend or vote at general meetings of the Company. As noted on page 3, on 6 June 2009 the Company's entire Ordinary share capital was acquired by the Secretary of State for Transport.

25. Reserves

Group	Share premium	Unrealised revaluation reserve	Capital redemption reserve	Profit and loss account: Negative goodwill	Profit and loss account: Profit and loss
	£'m	£'m	£'m	£'m	£'m
At 1 January 2009	47.7	35.4	21.4	353.8	(3,553.9)
Loss for the year after tax	-	-	-	-	(1,348.6)
Actuarial losses (note 28)	-	-	-	-	(25.4)
Capital contributions from SoS					5,449.8
Revaluation reserve realised		(16.2)			16.2
At 31 December 2009	47.7	19.2	21.4	353.8	538.1

The revaluation reserve of £19.2 million relates to the remaining value of unrealised development lands (notes 9 and 11). The capital redemption reserve of £21.4 million arose in 1999.

The Capital contributions from the Secretary of State for Transport arose from financial support for a number of restructuring transactions during the year. In June 2009 the transfer of debt obligations to the Secretary of State resulted from the acquisition of LCR's financing subsidiaries LCR Finance plc and CTRL Section 1 Finance plc, totalling £5.14 billion. The termination of EIL's rolling stock leases contributed £176.8 million, the HMG loan waiver amounted to £109.8 million and bank debt support payments were £25.4 million (see note 17).

Company reserves	Share premium £'m	Capital redemption reserve £'m	Profit and loss account £'m
At 1 January 2009	47.7	21.4	(2,157.6)
Loss for the year (including impairment of amounts owed by subsidiary company, and gain on sale of investment –note 7)	-	-	(1,061.7)
Capital contributions from SoS			3,975.4
At 31 December 2009	47.7	21.4	756.1

26. Contingencies

Contingent liabilities – Group

The Group is from time to time party to or affected by legal proceedings and claims and enters into guarantees, financing arrangements and commitments which are in the ordinary course of business, including claims by residents close to HS1 for disturbance and loss of property value arising since the opening of the HS1. It is not possible to predict with certainty the results of these claims, but the Directors, taking into account counter-claims, claims against third parties, provisions in the accounts, and having due regard to professional advice, do not anticipate that the outcome of these proceedings, claims, guarantees, financing arrangements and commitments, either individually or in aggregate, will have a materially adverse affect upon the Group's financial position.

The Group has provided a further loan facility to its associate, the King's Cross Central Limited Partnership amounting to £5.4 million at 31 December 2009.

27. Commitments

(a) There are no contracted capital expenditure not provided for at 31 December 2009 (2008: £1.2m-Group), (Company: £nil).

(b) At 31 December 2009 the Group had contracts in place to purchase foreign currency with nominal value of £9.4 million (2008: £8.3m). The Directors do not consider there to be a material difference between the nominal and fair values of the currency commitments.

(c) Payments under operating leases expiring as shown are:

Group	**Land and buildings**	
	2009	**2008**
	£'m	**£'m**
Within one year	-	0.2
Two to five years	0.4	0.2
Over five years	1.7	1.8

Company
At 31 December 2009 and 2008 the Company had no commitments to annual operating lease payments. The Company is guarantor for £829 million of bank debt with EIB and KfW borrowed by subsidiary company HS1 Co.

28. Pensions

The Group's principal pension arrangement is provided by a section of the Railways Pension Scheme, which all employees are eligible to join. Alternatively, some employees have elected to operate private pension arrangements into which the Group contributes, amounting to £0.5 million in 2009. The Group's contributions are charged to the profit and loss account as incurred, together with adjustments prescribed by FRS17 to derive the current service cost of the Railways Pension Scheme. All contributions were fully paid up at 31 December 2009 and 2008.

Railways Pension Scheme

The Group operates the 'Eurostar Shared Cost Section' of the Railways Pension Scheme, which provides defined benefits based on final pensionable earnings. The assets of the funded scheme are held separately from those of the Group, being invested in managed funds. Contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the Group. The contributions are determined in consultation with qualified actuaries using the Projected Unit Method.

The latest actuarial assessment of the Eurostar Section was as at 31 December 2007 which revealed that the market value of the scheme's assets exceeded the accrued liabilities of £232.7 million by 10.5% having taken into account the level of contributions set out below. The main assumptions used were price inflation of 3.2% per annum, that the rate of investment return would be between 2.5% and 4.25% per annum above the rate of price inflation, and that future pensionable pay awards would exceed price inflation by 1% per annum. The long term funding rate has emerged at 23.0%.

The contributions of the Group and the employees were initially set during the period of Government ownership at a reduced level such that there would be no significant anticipated surplus or deficit for the schemes on a long-term basis. A surplus was being utilised over the period to September 2003 during which time it was originally proposed to maintain the employer and employee contributions at the reduced rates of 7.5% and 5% respectively (12.5% total).

As the long term funding rate rose, however, it was agreed to increase total contributions to 15% from July 2000, 17.5% from 1 January 2003, 20% from July 2003, 22.5% from January 2004, 25% from 1 July 2005, 26.4% from September 2008 and 27.2% from 1 July 2009. The rate is projected to fall to the long term funding rate of 23% from January 2018. In each case the employee and employer shares are 40% and 60% respectively.

The actuarial 10.5% scheme surplus at 31 December 2007 is derived from the above profile of assumed contribution rates. The actuarial deficit and scheme contributions will be kept under regular review with contributions being set in consultation with the scheme's trustees and advisors.

Below we provide information on how the 'Eurostar' Section of the Railways Pension Scheme (comprising the LCR group companies) has been accounted for under FRS 17. This information has been prepared from an estimate of the updated financial position of the Section using the methodology prescribed by FRS 17 as at 31 December 2009.

As a shared-asset multi-employer scheme the provisions of FRS 17 are applied in the LCR Group accounts only, with disclosure in subsidiary companies, though noting that in 2009 it has been possible to estimate EIL's share of the deficit at £62.0 million and this sum has been recorded in EIL's financial statements for the first time, ahead of the formation of the joint 'Futur Eurostar' organisation.

The main assumptions used in the FRS 17 valuation (% per annum) are noted below:

Rate of increase in salaries: 5.3% (2008: 4.6%, 2007: 4.9%)
Rate of increase in pension payments & deferred pensioners: 3.8% (2008: 3.1%, 2007: 3.4%)
Inflation assumption: 3.8% (2008: 3.1%, 2007: 3.4%)

The most significant difference in assumption is the discount rate used, which in the case of the FRS 17 valuation is based on AA-corporate bond yields. As at 31 December 2009 a discount rate of 5.65% was used (2008: 6.1%, 2007: 5.9%).

The expected return on Section assets is assumed at 8.0% (2008: 8.0%, 2007: 8.0%) and is determined as the average of the expected returns on the assets held by the Section on the accounting date. The rates of return for each class are set out in the table below, determined as follows:

Equities and property: At consistent rates with median rates adopted by the scheme actuary.
Bonds: Overall rates set to reflect the yields on the bond holdings.
Other assets: Mainly cash holdings, rate reflects current short-term returns on such deposits.

Reconciliation to the balance sheet

Using the FRS 17 basis, the Group's share of the deficit in the scheme increased further to £75.2 million at 31 December 2009 (2008: deficit £49.3 million, 2007: deficit £9.2 million), and such provision is made in these accounts. The increased deficit was caused principally by the assumptions underlying future pension liabilities, and the reduced discount rate in 2009, despite a modest recovery in asset values.

The assets and liabilities in the scheme at 31 December were as follows:

	2009 £'m	Expected rate of return %	2008 £'m	Expected rate of return %	2007 £'m	Expected rate of return %
Equities	179.4	8.3	147.7	8.2	203.5	8.2
Bonds	10.2	4.5	6.4	5.7	14.2	5.9
Property	10.8	6.4	10.4	7.0	13.3	7.0
Other	0.5	4.0	0.7	3.9	1.0	4.4
Total market value of assets	200.9	8.0	165.2	8.0	232.0	8.0
Present value of scheme liabilities (net of members' share)	(276.1)		(214.5)		(241.2)	
Deficit in the scheme	(75.2)		(49.3)		(9.2)	
Related deferred tax asset	-		-		-	
Balance sheet: pension deficit	**(75.2)**		**(49.3)**		**(9.2)**	

	2009 £'m	2008 £'m
Analysis of other pension costs charged to operating loss:		
Current service cost	6.3	6.9
Analysis of the amount charged to other finance income:		
Interest cost on Section liabilities	9.2	9.0
Expected return on Section assets	(8.0)	(11.2)
Net cost / (credit) to other finance income	1.2	(2.2)

Analysis of amounts recognised in STRGL:	2009 £'m	2008 £'m	2007 £'m
(Gain) / loss on Section assets	(13.3)	52.3	0.1
Loss / (gain) on Section liabilities	38.7	(10.8)	(8.0)
Total loss / (gain) recognised in STRGL	25.4	41.5	(7.9)

Reconciliation of Section liabilities:	Year ended 31 December 2009 £'m	Year ended 31 December 2008 £'m
Opening Section liabilities	247.3	247.3
Service Cost	10.4	11.4
Interest Cost	15.4	15.0
(Loss) / gain on Section liabilities	63.9	(18.1)
Actual benefit payments	(10.7)	(8.3)
Section liabilities - gross	326.3	247.3
Adjustment of members share of deficit	(50.2)	(32.8)
Closing Section liabilities (LCR share)	276.1	214.5

Reconciliation of value of assets:	Year ended 31 December 2009 £'m	Year ended 31 December 2008 £'m
Opening value of Section assets	165.2	232.0
Expected return on assets	13.3	18.7
Gain / (loss) on assets	22.2	(87.1)
Employer contributions	7.0	6.1
Employee contributions	3.9	3.8
Actual benefit payments	(10.7)	(8.3)
Closing value of Section assets	**200.9**	**165.2**

Historic Information:

	Year ended 31/12/2009 £'m	Year ended 31/12/2008 £'m	Year ended 31/12/2007 £'m	Year ended 31/12/2006 £'m	Year ended 31/12/2005 £'m
Section liabilities	326.3	247.3	247.3	240.9	226.3
Assets	200.9	165.2	232.0	212.0	181.2
Deficit	(125.4)	(82.1)	(15.3)	(28.9)	(45.1)
Experience (gain) / loss on Section liabilities	(0.2)	(4.7)	1.0	1.2	2.1
Experience (gain) / loss on Section assets	(13.3)	52.3	0.1	(7.2)	(11.5)

29. Notes to the Group cash flow statement

(a) Reconciliation of operating result to net cash flow from operating activities

	Year ended 31 December 2009 £'m	Year ended 31 December 2008 £'m
Operating (loss) / profit	(1,228.4)	18.7
Fixed asset impairment (net of grant amortisation)	1,077.4	-
Depreciation	141.8	173.6
Amortisation and impairment of goodwill	266.1	3.6
Decrease in debtors	30.4	132.5
Decrease / (increase) in stocks and work in progress	7.8	(10.3)
Decrease in creditors, deferred income and provisions	(188.8)	(279.4)
Net cash inflow / (outflow) from operating activities	106.3	38.7

(b) Reconciliation of net cash flow to movement in net debt

	Year ended 31 December 2009 £'m	Year ended 31 December 2008 £'m
Increase / (decrease) in cash in the year	77.8	(135.4)
Cash inflow from change in debt	183.7	12.4
Decrease in short-term investments in the year	(73.5)	(142.6)
Change in net debt arising from cash flows	188.0	(265.6)
Change in net debt arising from non-cash movements	5,197.5	(10.7)
Movement in net debt in year	5,385.5	(276.3)
Net debt at 1 January 2009	(6,172.2)	(5,895.9)
Net debt at 31 December 2009	(786.7)	(6,172.2)

(c) Analysis of changes in net debt

	At 1 January 2009 £'m	Cash flow £'m	Non-cash movements £'m	At 31 December 2009 £'m
Cash at bank and in hand	95.0	77.8	-	172.8
Overdrafts	-	-	-	-
Total cash	95.0	77.8	-	172.8
Short term investments	112.8	(73.5)	1.5	40.8
Government-guaranteed bonds	(3,750.0)	-	3,750.0	-
Asset-backed bonds (more than 1 year)	(1,343.0)	-	1,343.0	-
Bank debt due (more than 1 year)	(842.9)	14.3	-	(828.6)
HM Government loan (long term principal)	(103.0)	-	103.0	-
Finance leases (capital element)	(341.1)	169.4	-	(171.7)
Total	(6,172.2)	188.0	5,197.5	(786.7)

Non-cash movements on short-term investments represent accrued investment returns on managed funds invested over the medium term, including accrued interest at market values. Non-cash movements on Government-guaranteed bonds and asset-backed bonds represent the principal debt obligations transferred to the Secretary of State on acquisition of LCR's finance subsidiaries. These sums, plus index-linked accretion and accrued interest, represent capital contributions as set out in note 25. Non-cash movements on the HM Government loan arise from debt waiver, whilst cash movements on finance leases represent the capital repaid, mainly through lease termination.

30. Parent undertaking and controlling parties

At 31 December 2008 the Group's principal shareholders were Bechtel Limited, EDF Energy PLC, National Express Group PLC, French Railways Limited and SG Securities (UK) Limited. As noted on page 3, on 6 June 2009 the Company's entire share capital was acquired by the Secretary of State for Transport.

31. Related party transactions

Eurostar International Limited ('EIL'), the Group's main trading subsidiary, operates the Eurostar passenger rail service in conjunction with SNCF and SNCB, the national railways of France and Belgium respectively. A number of agreements exist between EIL and SNCF which regulate the sharing of revenues and costs incurred in the ordinary course of business.

The Group's principal shareholder companies as set out in note 30 and together with their subsidiaries, are considered to be related parties of the Group. Although the Group periodically transacts business with most of the related parties the amounts involved are not considered to be material, with the following exceptions:

EIL is managed by Inter Capital & Regional Rail Limited ('ICRRL'), the consortium of National Express Group, British Airways, SNCF and SNCB, which is considered to be a related party. ICRRL are remunerated by a management fee equivalent to 2% of EIL revenue, and also participate in the operating result of EIL by reference to their agreed bid for management services.

In addition, the companies consolidated within the Group acquired HS1 design and construction related services and goods from shareholder companies amounting to £0.9 million (2008: £9.3m) in the ordinary course of business and at market rates. At 31 December 2009 the amount due to such shareholders was £nil (2008: £0.8m).

UBS A.G., a company connected to SG Securities (UK) Limited was the counter-party to a number of interest rate swap transactions, now matured. At 31 December 2008 the potential asset on termination of these swaps was £1.1 million. Fees of £1.7 million were paid to UBS in 2009 for their role as financial advisor to the LCR group (2008: £2.6m).

Finance lease arrangements exist with EDF Energy for the provision of HS1 electrical distribution fixed assets with a cost of £134 million, over a 50 year period. A long-term maintenance and renewal contract also exists, with annual fees of approximately £4 million.

During 2009 the Group concluded a number of significant transactions with the Secretary of State for Transport, relating to the Group's financial restructuring. In June 2009 the transfer of debt obligations to the Secretary of State resulted from the acquisition of LCR's financing subsidiaries LCR Finance plc and CTRL Section 1 Finance plc, totalling £5.14 billion. The termination of EIL's rolling stock leases contributed £176.8 million, the HMG loan waiver amounted to £109.8 million and bank debt support payments were £25.4 million.

At 31 December 2009 the net amount due to the Secretary of State was £28.8 million.