C2C Rail Limited

Directors' Report and Accounts

For the year ended 31 December 2006

Company number 2938993

Registered office

75 Davies Street
London
W1K 5HT

Contents

c2c Rail Limited
Directors' Report

The Directors present their annual report, business review, the financial statements and auditors' report for the year ended 31 December 2006

Principal activities

The principal activity of the Company during the last financial year was the operation of passenger railway services between Fenchurch Street and Shoeburyness The c2c franchise is currently scheduled to end on 7 May 2011

Visit our website, www c2crail co uk, for information on timetables, fares and further information on our business.

Review of business and outlook

The Company's operational and financial performance improved during the year

The Company continued to make significant operational progress The percentage of trains arriving on time increased to 94 18% (2005 93 1%) This is the highest Public Performance Measure (PPM) in the country We intend to maintain this rating. The Company recently recorded a customer satisfaction level of 89% in the autumn 2006 National Passenger Survey We will continue to develop our stakeholder relationships, including both statutory (for example London Travel Watch) and non statutory bodies, together with local authorities and elected representatives

The operating loss was reduced by 28% in the year as a result of an 8% increase in passenger revenue The Company's financial performance is largely determined by our ability to grow passenger revenues, given that we have a largely fixed costs base Our plans to grow revenue are based on maintaining our reputation for operational excellence allied to an increased focus on customer relationship management We intend to introduce fares simplification, a range of channel based actions and further revenue protection initiatives

Results and dividend

The loss for the year attributable to the shareholders amounts to £626,000 (2005 £1,342,000 loss as restated) No dividend was paid in the year (2005 £nil)

Passenger income improved in the year by over 8% to £86,512,000 compared to £79,714,000 in 2005 This was largely as a result of a 5.4% increase in passenger numbers, and a 2 5% increase in revenue per passenger

Health and Safety

The safety of our employees and customers is of prime importance and working with our partners, BTP, Network Rail, TfL and other key stakeholders, we consistently endeavour to put in place initiatives and equipment and station CCTV that will help passengers travel in safety

c2c Rail Limited
Directors' Report

Health and Safety (continued)

Operational Safety performance improved significantly on last year with the number of signals passed at danger (SPADs), a key measure of safety performance, falling from 8 to 3 The Company maintains its own SPAD reduction strategy involving driver training, driver assessment and competence management To maintain further improvement in our SPAD rate we are working in partnership with the drivers' union, ASLEF, on a development programme that will further enhance the way we support safety awareness and competence in our driver workforce.

Environment

We are actively combating climate change in three ways making our own operations more carbon-efficient, working with government and other bodies such as the WWF and the Climate Group to help shape lower carbon transport policies, and directly encouraging people to switch to public transport We are working towards improving efficiency and reducing energy consumption in our train depots

Net savings of greenhouse gas emissions as a result of people travelling with our services rather than by car is provided in the Chief Executive's review on page 11 of the National Express Group PLC (the 'Group') 2006 Annual Report and Accounts

Our electric trains have activated regenerative braking technology, which recovers energy during braking to generate electricity and can reduce train power consumption and CO_2 emissions by about 16%

Operational review

Operational performance for the business improved in the year We operate a customer satisfaction programme where we focus on one aspect at a time, until we get that aspect right First we tackled performance and punctuality, and achieved significant improvements In the most recent National Rail Trends Public Performance Measure (PPM) tables, the percentage of our trains arriving on time rose by 1 08% to 94 18% compared to a sector average of 88 3%

During the year we worked to get the cleanliness and presentation of our trains to a consistently high standard In the National Passenger Survey's twice-yearly customer satisfaction figures we were ahead of the national average in both our focus areas of punctuality and cleanliness. In 2007 we will be focusing on customer communication, especially to keep people better informed about service disruptions We will also be working with the Association of Train Operating Companies on the simplification of the complex fare structures currently in place

c2c Rail Limited
Directors' Report

Directors

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

Name of Director	Date Appointed	Date Resigned
A C R Golton	6 February 2001	1 May 2006
A N Chivers	8 December 2003	1 May 2006
D D G Booth	30 October 2000	1 January 2007
D Franks	1 February 2004	
J B Ratcliffe	14 June 2001	22 January 2007
M J Hopwood	9 February 2004	
R O'Toole	19 September 2000	
S Goldsmith	4 May 2005	
J Adeshiyan	1 May 2006	
R J Bowley	26 July 2006	12 March 2007
S Rees	22 January 2007	
A Kang	12 March 2007	

The following Directors were appointed after year end
S Rees (appointed 22 January 2007)
A Kang (appointed 12 March 2007)

Company secretary

J Casson

Directors' liabilities

The company has granted an indemnity to one or more of its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 1985 Such qualifying third party indemnity provision remains in force as at the date of approving the Directors' Report.

Employees

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

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

Employees (continued)

The Company uses consultative procedures agreed with its staff and elected representatives with a view to ensuring that employees are aware of the financial and economic factors which affect the Company's performance and prospects In addition the Company issues a periodic newspaper to all employees informing them of developments within the Company, whilst the National Express Group's magazine keeps employees in touch with the world wide activities of the Group The Company maintains a Company wide intranet service

The Company participates in the Group wide annual Employee Survey to monitor employee satisfaction Results are followed through using employee focus groups to understand the key issues raised in the survey. Employees make recommendations at these forums which are then developed into Company action plans

Key risks and uncertainties

The Company is subject to internal and external risk factors External risks include general economic conditions, competitor activity and regulatory changes Internal risks include failure of internal controls, regulatory compliance and industrial disputes

We expect to see some modest slowdown in a number of economic indicators in 2007, although they are predicted to remain above the long term UK average We should benefit from the proposed regeneration of the Thames Gateway region The principal alternative to our services in most of our region is private car We do not foresee any immediate change to this competition and will seek to alleviate by a combination of our continuing operating excellence and enhanced customer service Energy costs remain a potentially significant risk to our cost base We have successfully introduced regenerative braking in early 2007 and are actively pursuing other alternatives

Further discussion of these risks and uncertainties, in the context of the Group as a whole is provided in the Operating and Financial Review on page 25 of the National Express Group PLC 2006 Annual Report and Accounts

Further information on the financial risk management objectives and policies of the Group as a whole, and by default the Company, can be found on pages 80 and 81 of the National Express Group PLC Annual report and Accounts

Charitable and political donations

The Company made charitable donations of £NIL during the year (2005 £NIL)

c2c Rail Limited
Directors' Report

Supplier payment policy

It is the Company's policy to agree terms of payment prior to commencing trade with any supplier and to abide by those terms based on the timely submission of invoices Trade creditor days of the Company for the year were 35 days (2005 – 29 days) based on the ratio of Company trade creditors at the end of the year to the amounts invoiced during the year by trade creditors

Auditors

In accordance with Section 386 of the Companies Act 1985, a resolution has been passed to dispense with the obligation to appoint auditors annually Accordingly, Ernst & Young LLP shall be deemed to be re-appointed as the Company's auditors 28 days after the accounts are sent to members

Directors' statement as to disclosure of information to auditor

The directors who held office at the date of approval of the Directors' Report confirm that

- to the best of each director's knowledge there is no information relevant to the preparation of their audit report to which the Company's auditor is unaware, and
- each director has taken all steps that a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditor is aware of that information

By order of the Board

A Kang
Financial Director

Date 29/05/ 2007

Registered Office
75 Davies Street
London
W1K 5HT

c2c Rail Limited
Statement of Directors' Responsibilities

Statement of directors' responsibilities

The directors are responsible for preparing the report and accounts in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period In preparing those accounts, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the Company will continue in business

The directors confirm that these accounts comply with the above requirements

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the accounts comply with the Companies Act 1985 They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

Independent auditors' report to the members of c2c Rail Limited

We have audited the Company's financial statements for the year ended 31 December 2006 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet, and the related notes 1 to 21 These financial statements have been prepared under the accounting policies set out therein

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985 Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an 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
The directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) as set out in the Statement of Directors' Responsibilities

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 We also report to you whether, in our opinion, the information given in the Directors' Report is consistent with the financial statements In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it

Basis of audit opinion
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements

Independent auditors' report to the members of c2c Rail Limited

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2006 and of its loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985,
- the information given in the Directors' Report is consistent with the financial statements

Ernst & Young LLP

Ernst & Young LLP
Registered auditor
London
Date 30 May 2007

c2c Rail Limited
Profit and Loss Account

For the year ended 31 December 2006

	Note	2006 £'000	2005* £'000
Turnover	2		
Passenger income		**86,512**	79,714
Revenue grant		**16,114**	9,079
Other operating income		**4,002**	4,501
		106,628	93,294
Operating costs		**(108,107)**	(95,727)
Operating loss	3	**(1,479)**	(2,433)
Interest receivable	7	**655**	629
Interest payable	7	**(915)**	(877)
Other finance item Pensions	19	**650**	500
Loss on ordinary activities before taxation		**(1,089)**	(2,181)
Taxation on loss on ordinary activities	8	**463**	839
Retained loss for the financial year		**(626)**	(1,342)

* Restated for change in accounting policy for share-based payment (see note 1)

All activities relate to continuing operations

There is no difference between the loss on ordinary activities before taxation and the retained loss for the year stated above and their historical cost equivalents

c2c Rail Limited
Statement of Total Recognised Gains and Losses
For the year ended 31 December 2006

	2006 £'000	2005* £'000
Loss for the financial year	**(626)**	(1,342)
Actuarial gain/(loss) on defined benefit pension scheme	**803**	(1,400)
Deferred tax on actuarial gain/(loss)	**(241)**	420
Total recognised gains and losses relating to the year	**(64)**	(2,322)

*Restated for change in accounting policy for share-based payment (see note 1)

c2c Rail Limited
Balance Sheet

As at 31 December 2006

	Note	2006 £'000	2005 £'000
Fixed assets			
Tangible assets	9	**13,801**	15,812
Investments	10	-	-
Current assets			
Debtors	11	**20,712**	19,623
Cash at bank and in hand		**18,509**	17,825
		39,221	37,448
Creditors: amounts falling due within one year	12	**(53,979)**	(52,839)
Net current liabilities		**(14,758)**	(15,391)
Total assets less current liabilities		**(957)**	421
Creditors: amounts falling due after one year	12	**(35)**	(60)
Provisions for liabilities and charges	13	**(255)**	(949)
Net assets excluding net pension liability		**(1,247)**	(588)
Net pension liability	19	**(910)**	(1,554)
Net assets including net pension liability		**(2,157)**	(2,142)
Capital and reserves			
Share capital	15	**1,000**	1,000
Share premium account	16	**3,000**	3,000
Profit and loss account	16	**(6,157)**	(6,142)
Equity shareholders' deficit		**(2,157)**	(2,142)

On behalf of the Board

A Kang A Kang

Date 29/5/07.

The notes on pages 14 to 29 form part of the accounts

c2c Rail Limited
Notes to the Accounts
For the year ended 31 December 2006

1. Accounting policies

a) Fundamental accounting concept

The accounts have been prepared on a going concern basis as the ultimate parent Company has provided support to the Company and has undertaken to continue to do so for the foreseeable future

b) Basis of preparation

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

c) Statement of compliance

The entity is required to comply with United Kingdom ('UK') accounting standards and UK Company legislation except in special circumstances where management concludes that compliance would be so misleading that it would conflict with the objective to present a true and fair view of its accounts On this basis, the entity has departed from the following requirements

- Financial Reporting Standard ('FRS') 17 'Retirement Benefits' - The Company has accounted for its constructive but not legal obligation for the Railways Pension Scheme ("RPS") under the terms of its franchise agreement,

Details of the background and rationale for these departures are provided in note 19, including the impact on the Company's financial performance and position of adopting this accounting treatment as required by FRS 18 'Accounting Policies' and UK Company legislation.

d) Change in accounting policy

The Company has adopted FRS 20, 'Share-based payment' in these financial statements The adoption of this standard represents a change in accounting policy and the comparative figures have been restated accordingly

The effect of the change in accounting policy was to increase staff costs, loss for the year and decrease total recognised gains and losses by £49,000 (2005 £28,000) Net assets are unaffected by this change

In addition, the Company has adopted the Amendment to FRS 17 issued in December 2006, which amends the disclosure requirements in respect of defined benefit pension schemes

1. Accounting policies (continued)

e) Share based payments

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

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

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

f) Turnover

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

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

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

g) Taxation

Corporation tax is provided on taxable profits at the current rate

1. Accounting policies (continued)

h) Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost Depreciation is provided on a straight line basis to write off the cost less estimated residual value of fixed assets over their expected useful economic lives as follows -

Plant and equipment	3 - 10 years or lease term

i) Leased assets

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

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

j) Grants

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

k) Retirement benefits

The Company contributes to a defined benefit pension scheme on behalf of the majority of employees Full details are provided in note 19 including the departure from FRS 17 required for the Company's RPS obligations

The trustees complete a full actuarial valuation triennially, separately for each section of the RPS, but the obligation is updated annually by independent actuaries using the projected unit credit method for financial reporting purposes

The Company participates in the RPS, a defined benefit scheme which covers the whole of the UK Rail industry This is partitioned into sections and the Company is responsible for the funding of the sections whilst it operates the relevant franchise In contrast to the pension schemes operated by most businesses, the RPS is a shared cost scheme, which means that costs are formally shared 60% employer and 40% employee A liability is recognised, although this is offset by a franchise adjustment so that the net liability represents the deficit that the Group expects to fund during the franchise term This represents a departure from FRS 17 so as to present fairly the Company's financial performance, position and cash flow in respect of its obligations for the RPS

The current service cost and gains and losses on settlements and curtailments are recognised in staff pension costs within operating costs in the income statement Past service costs are included in operating costs where the benefits have vested, otherwise they

1. Accounting policies (continued)

are amortised on a straight-line basis over the vesting period The expected return on assets of funded defined benefit schemes and the interest on pension scheme liabilities comprise the finance element of the pension cost and are included in interest costs Actuarial gains and losses arising from experience adjustments, changes in actuarial assumptions and amendments to pension plans are charged or credited to the statement of total recognised gains and losses in the period in which they arise

The charges in respect of defined contribution schemes are recognised when they are due The Company has no legal or constructive obligation to pay further contributions into a defined contribution scheme if the fund has insufficient assets to pay all employees benefits relating to employee service in the current and prior periods

l) Deferred tax

Deferred tax is recognised in respect of all material timing differences that have originated, but not reversed, by the balance sheet date Deferred tax is measured on non-discounted basis at tax rates that are expected to apply in the periods in which the timing differences reverse Deferred tax assets are recognised where their recovery is considered more likely than not in that there will be suitable taxable profits from which the future reversal of underlying timing differences can be deducted

m) Pre-contract costs

Pre-contract costs associated with securing new rail franchises are expensed as incurred, except where it is virtually certain that franchise will be awarded, in which case they are recognised as an asset and are expensed to profit and loss account over the life of the franchise Costs associated with commencement of new contracts are expensed as incurred

2. Turnover

All turnover originates in the United Kingdom.

The Directors consider that the whole of the activities of the Company constitute a single class of business

3. Operating loss

	2006	2005
	£'000	£'000
Operating (loss) is stated after charging:		
Depreciation – Owned assets	**2,697**	2,185
Depreciation – Finance lease	**37**	62
Operating lease rentals		
- Fixed track access	**18,636**	8,069
- Rolling stock costs	**22,526**	21,801
- Variable track access	**2,809**	2,962
- Other	**5,140**	5,129
Auditors' remuneration - audit fees	**24**	20

c2c Rail Limited
Notes to the Accounts
For the year ended 31 December 2006

4. Directors' emoluments

	2006 £'000	2005 £'000
Aggregate emoluments in respect of qualifying services to the Company	**237**	179

The emoluments excluding pension contributions of the highest paid director were £88,783 (2005 £178,959). His accrued pension and accrued lump sum benefit, as at 31 December 2006, were £26,620 (2005 £77,629) and £12,070 (2005 £116,442) respectively

Messrs O'Toole, Hopwood, Booth, Franks, Golton, Ratcliffe, and Mrs. Goldsmith received no remuneration from the Company in the year to 31 December 2006 Mr O'Toole was also a director of National Express Group PLC at the end of the year and his interests are disclosed in the Annual Report of that Company Messrs Adeshiyan, Ratcliffe and Booth exercised share options during the year (2005 one director)

Retirement benefits accrued during the year to three directors (2005 one director) under a defined benefit scheme in respect of services provided to the Company

5. Staff costs

	2006 £'000	2005 £'000
Wages and salaries (including share-based payment expense)	**15,723**	15,300
Social security costs	**1,213**	1,144
Pension costs (refer to note 19)	**1,940**	1,500
	18,876	17,944

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

	2006 No.	2005 No
Managerial and administrative	**95**	89
Operational	**507**	521
	602	610

6. Share based payments

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

	2006 £'000	2005 £'000
Expense arising from share and share option plans	**49**	**28**

During the year ended 31 December 2006, c2c Rail Limited had five share-based payment arrangements, which are described in note 7 to the National Express Group PLC 2006 Annual Report and Accounts

6. Share based payments (continued)

For the following disclosure, share options with a nil exercise price have been disclosed separately to avoid distorting the weighted average exercise prices The number of share options in existence during the year was as follows

	2006		2005	
	Number of share options	Weighted average exercise price (p)	Number of share options	Weighted average exercise price (p)
Options without a nil exercise price				
At 1 January	68,497	544	121,516	506
Granted during the year	-	-	-	-
Lapsed during the year	(4,510)	579	(12,716)	582
Exercised during the year	(43,310)	459	(40,303)	417
Outstanding at 31 December[1]	20,677	725	68,497	544
Exercisable at 31 December	5,074	858	25,971	515
Options with a nil exercise price.				
At 1 January	7,611	nil	-	nil
Granted during the year	12,617	nil	7,611	nil
Lapsed during the year	(1,129)	nil	-	nil
Exercised during the year	-	-	-	-
Outstanding at 31 December	19,099	nil	7,611	nil
Exercisable at 31 December	-	-	-	-
Total outstanding at 31 December	39,776		76,108	
Total exercisable at 31 December	5,074		25,971	

[1] Included within this balance are options over 5,074 (2005 25,971) shares for which no expense has been recognised in accordance with the transitional provisions of FRS 20 as the options were granted before 7 November 2002 and have not been subsequently modified

The options outstanding at 31 December 2006 had exercise prices that were between 585p and 863p (2005 between 398p and 863p) excluding options with a nil exercise price The range of exercise prices for options was as follows

Exercise price (p)	2006	2005
350-650	74	45,875
650-950	20,603	22,622
950-1250	-	-
	20,677	68,497

6. Share based payments (continued)

The options have a weighted average contractual life of 5 years (2005 6 years) Options were exercised regularly throughout the year and the weighted average share price at exercise was 910p (2005 893p)

The weighted average fair value of the remaining share options granted during the year was calculated using a stochastic model, with the following assumptions and inputs

	Share options with nil exercise price	
	2006	2005
Expected volatility	19 0%	25 0%
Peer group volatility	31 2%	34 0%
Expected option life in years	3 years	3 years
Expected dividend yield	3 5%	3 3%
Weighted average share price	931p	906p
Weighted average exercise price	0p	0p
Weighted average fair value of options granted	841p	821p

Experience to date has shown that approximately 15% (2005· 15%) of options are exercised early, principally due to redundancies This has been incorporated into the calculation of the expected option life for the share options without nil exercise price

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

For share options granted during the year under the LTIP, the TSR targets have been reflected in the calculation of the fair value of the options above

7. Interest

	2006	2005
	£'000	£'000
Interest receivable		
Bank interest	**8**	7
Interest receivable from group undertakings	**647**	622
	655	629
Interest payable		
Interest payable to group undertakings	**(914)**	(873)
Other	**(1)**	(4)
	(915)	(877)

c2c Rail Limited
Notes to the Accounts
For the year ended 31 December 2006

8. Taxation

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

	2006 £'000	2005 £'000
Current taxation:		
UK corporation tax credit at 30% (2005 30%)	319	1,044
	319	1,044
Deferred taxation		
Origination and reversal of timing differences	91	(187)
Defined benefit pension	(35)	(18)
Adjustments in respect of previous year	88	-
	144	(205)
Tax credit on loss on ordinary activities	**463**	839

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

	2006 £'000	2005* £'000
Loss on ordinary activities before taxation	(1,089)	(2,181)
Notional credit at UK corporation tax rate of 30%	(327)	(654)
Depreciation in excess of (lower than) capital allowances	79	(258)
Effect of short-term timing differences	(23)	(32)
Permanent disallowables	(48)	(100)
Current tax credit for the year	**(319)**	(1,044)

* Restated for change in accounting policy for share-based payment (see note 1)

(c) There are no significant factors affecting the future tax charge

9. Tangible fixed assets

	Plant and Equipment Owned £'000	Plant and Equipment Leased £'000	Total £'000
Cost			
At 1 January 2006	28,080	200	28,280
Additions	719	4	723
At 31 December 2006	**28,799**	**204**	**29,003**
Depreciation			
At 1 January 2006	12,302	166	12,468
Charge for the period	2,697	37	2,734
At 31 December 2006	**14,999**	**203**	**15,202**
Net book value			
At 31 December 2006	**13,800**	**1**	**13,801**
At 31 December 2005	15,778	34	15,812

c2c Rail Limited
Notes to the Accounts
For the year ended 31 December 2006

10. Investments

The Company held the following unlisted investments at 31 December 2006 and 31 December 2005

	Country of Registration	No. of shares held	Class of share	Proportion held
ATOC Limited	UK	1	Ordinary (4p)	4%
Rail Settlement Plan Limited	UK	1	Ordinary (4p)	4%
Rail Staff Travel Limited	UK	1	Ordinary (4p)	4%
NRES Limited	UK	1	Ordinary (4p)	4%

The principle activity of the above companies is to provide a range of services to all passenger rail operators, each of which have an equal share in the companies

11. Debtors

	2006 **£'000**	2005 £'000
Trade debtors	**6,913**	5,483
Amounts due from group undertakings	**395**	439
Corporation tax	**319**	1,104
Other debtors	**3,806**	1,849
Prepayments and accrued income	**9,279**	10,748
	20,712	19,623

12. Creditors: amounts falling due within one year

	2006 **£'000**	2005 £'000
Trade creditors	**9,647**	8,296
Amounts due to group undertakings	**19,316**	19,365
Deferred season ticket income	**16,394**	15,759
Social security and other taxation	**376**	367
Accruals and deferred income	**8,246**	9,052
	53,979	52,839
Creditors: amounts falling due after one year		
Finance lease creditor due within 1-2 years	**35**	60

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13. Provisions for liabilities and charges

	1 January 2006 £'000	Released in the year £'000	Utilised in the year £'000	**31 December 2006 £'000**
Deferred tax excluding tax on pension liability	365	(179)	-	**186**
Insurance	584	(279)	(236)	**69**
	949	(458)	(236)	**255**

The insurance provision arises from the estimated exposure at the year end on existing insurance claims which are open for up to six years. The provision is held for that period until utilised

14. Deferred tax

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

	£'000
At 1 January 2006	(365)
Decrease in the year	179
At 31 December 2006	**(186)**

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

	2006 £'000	2005 £'000
Capital allowances in excess of depreciation	**(245)**	(393)
Other timing differences	**59**	28
	(186)	(365)

15. Share capital

Authorised	**2006 £'000**	2005 £'000
4,000,000 Ordinary shares of 25p each	**1,000**	1,000
Allotted, called up and fully paid		
4,000,000 Ordinary shares of 25p each	**1,000**	1,000

16. Reserves

	Share premium account £'000	Profit and loss account £'000	Total £'000
At 1 January 2006 as previously reported	3,000	(6,142)	(3,142)
Actuarial gain on defined benefit pension scheme	-	803	803
Deferred tax on actuarial gain	-	(241)	(241)
Share based payments	-	49	49
Retained loss for the year	-	(626)	(626)
At 31 December 2006	**3,000**	**(6,157)**	**(3,157)**

17. Reconciliation of movements in shareholders' deficit

	2006 £000	2005 £000
Total recognised loss in the year	**(64)**	(2,322)
Share based payments	**49**	28
	(15)	(2,294)
Shareholders' deficit/funds at 1 January 2006	**(2,142)**	152
Shareholders' deficit at 31 December	**(2,157)**	(2,142)

18. Operating lease commitments

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

	Fixed Track Access 2006 £'000	**Rolling Stock 2006 £'000**	**Land and Buildings 2006 £'000**	**Other 2006 £'000**	**Total 2006 £'000**
Leases which expire					
Within two to five years	22,054	22,592	7,455	5,731	57,832
	22,054	**22,592**	**7,455**	**5,731**	**57,832**

	Fixed Track Access 2005 £'000	Rolling Stock 2005 £'000	Land and Buildings 2005 £'000	Other 2005 £'000	Total 2005 £'000
Leases which expire					
Over five years	16,185	22,383	6,402	8,217	53,187
	16,185	22,383	6,402	8,217	53,187

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

19. Retirement benefits

The majority of the Company's employees are members of the c2c Rail Shared Cost Section of the RPS, a funded defined benefit scheme ('the Scheme') The RPS is a shared cost scheme, which means that costs are formally shared 60% employer and 40% employee To date, the Group, within which this Company is a member, has experienced five changes of UK Train franchise ownership where the current owner has funded the scheme during the franchise term and the pension deficit at franchise exit has transferred to the new owner, without cash settlement

However, although the Group's past experience has proven otherwise, our legal advice has opined that in certain situations, some of the liability for the deficit on the relevant sections of the RPS could theoretically crystallise for funding by an individual train operating Company ('TOC') at the end of the franchise By entering into the franchise contract, the TOC becomes the designated employer for the term of the contract and under the rules of the RPS must fund its share of the pension liability in accordance with the schedule of contributions agreed with the Scheme trustees and actuaries and for which there is no funding cap set out in the franchise contract We understand that franchise contracts entered into in the future will clarify that RPS pension deficits and surpluses will not be the responsibility of the outgoing franchisee following exit

To comply with FRS 17, the Company is required to account for its legal obligation under the formal terms of the RPS and its constructive obligation that arises under the terms of each franchise agreement

In determining the appropriate accounting policy for the RPS to ensure that the Company's financial statements present a true and fair view of its financial position, financial performance and cash flows, Group management has consulted with TOC industry peers and has concluded that the Company's constructive but not its legal RPS defined benefit obligations should be accounted for in accordance with FRS 17. This accounting policy means that the Company's financial statements reflect that element of the deficits anticipated to be settled by the Company during the franchise term and will prevent gains arising on transfer of the existing RPS deficits to a new owner at franchise exit

In calculating the Company's constructive obligations in respect of the RPS, the Company has calculated the pension deficits for its RPS section in accordance with FRS 17 and the assumptions set out below These deficits are reduced by a "franchise adjustment" which is that portion of the deficit projected to exist at the end of the franchise and for which the Company will not be required to fund The franchise adjustment, which has been calculated by the Company's actuaries, is offset against the present value of the RPS liabilities so as to show a true and fair view of the financial performance, position and cash flows of the Company's obligations

If the Company had accounted for its legal obligation in respect of the RPS instead of the constructive obligation, and had not recognised an intangible asset for the right to operate the franchise, the following adjustments would have been made to the financial information

19. Retirement benefits (continued)

True and fair override disclosure

	2006	2005
	£'000	£'000
Balance Sheet		
Net pension liability (net of deferred tax)	**(1,610)**	(2,100)
Statement of total recognised gains and losses		
Actuarial gains/(losses)	**850**	(360)
Tax on actuarial gains/(losses)	**(255)**	108
	595	(252)
Profit and loss account		
Finance income	**(150)**	(100)
Deferred tax credit	**45**	30
	(105)	(70)

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

Date of actuarial valuation	31 December 2004
Actuarial method used	Projected unit
Rate of investment returns per annum	4 8% - 6 8%
Increase in earnings per annum	4 3%
Scheme assets taken at market value	£36 5m
Funding level	95 5%

The results of these triennial valuations are then updated by independent professionally qualified actuaries for financial reporting purposes, in accordance with FRS 17 The main actuarial assumptions underlying the FRS 17 valuations are·

	2006	2005
Rate of increase in salaries	**4.5%**	3 7%
Rate of increase of pensions	**3.0%**	2 7%
Discount rate	**5.1%**	4 8%
Inflation assumption	**3.0%**	2 7%
Expected rates of return on scheme assets		
Equities	**7 9%**	8 0%
Bonds	**5 1%**	4 8%
Properties	**6.2%**	6 2%
Other	**4 3%**	3 8%
Post retirement mortality in years		
Current pensioners at 65 – male	**17.8**	17 8
Current pensioners at 65 – female	**20.1**	20 1
Future pensioners at 65 – male	**18.8**	18 8
Future pensioners at 65 - female	**21.3**	21 3

19. Retirement benefits (continued)

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

Scheme assets are stated at their market value at the respective balance sheet dates The expected rate of return on assets is determined based on the market prices prevailing on that date

Analysis of the amount charged to operating profit

	2006 £000	2005 £000
Current service cost	(1,940)	(1,500)
Total operating charge	(1,940)	(1,500)

Analysis of the amount credited to finance income

	2006 £000	2005 £000
Expected return on pension scheme assets	2,100	1,700
Interest on pension scheme liabilities	(1,600)	(1,300)
Interest on franchise adjustment	150	100
Net credit to finance income	650	500

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

	2006 £000	2005 £000
Actual return less expected return on pension scheme assets	2,100	3,100
Other actuarial gains and losses	(1,297)	(4,500)
Actuarial gain/(loss) recognised in the statement of total recognised gains and losses	803	(1,400)

The amounts recognised in the balance sheet at 31 December are

Assets in the scheme	**2006 £000**	2005 £000
Equities	43,100	36,900
Bonds	5,200	4,600
Property	5,100	3,900
Cash	200	200
Total fair value of scheme assets	53,600	45,600
Present value of scheme liabilities	(57,200)	(50,820)
Franchise adjustment	2,300	3,000
Defined benefit obligation	(54,900)	(47,820)
Deficit in the scheme	(1,300)	(2,220)
Related deferred tax asset	390	666
Net pension liability	**(910)**	**(1,554)**

19. Retirement benefits (continued)

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

	2006 £000	2005 £000
Fair value of scheme assets at 1 January	45,600	36,300
Expected return	2,100	1,700
Cash contributions – Employer	1,407	1,060
Cash contributions - Employee	900	800
Benefits paid	(1,400)	(700)
Members' share of return on assets	2 893	3,340
Actuarial gain recognised in statement of recognised gains and losses	2,100	3,100
Fair value of scheme assets at 31 December	53,600	45,600

Movement in the present value of the defined benefit obligation, which is partly funded, is as stated below The RPS is a shared cost scheme, which means that costs are formally shared 60% employer and 40% employee The defined benefit obligation disclosed below represents only the Company's share of the liability

	2006 £000	2005 £000
Defined benefit obligation at 1 January	(47,820)	(37,180)
Current service cost	(1,940)	(1,500)
Benefits paid	1,400	700
Cash contributions - Employees	(900)	(800)
Finance charge	(1,600)	(1,300)
Interest on franchise adjustment	150	100
Liability movement for members' share of assets	(2,893)	(3,340)
Actuarial loss recognised in statement of recognised gains and losses	(1,297)	(4,500)
Defined benefit obligation at 31 December	(54,900)	(47,820)

History of experience gains and losses

	2006 £000	2005 £000	2004 £000
Fair value of scheme assets	53,600	45,600	36,300
Present value of the defined benefit obligation	(54,900)	(47,820)	(37,180)
Deficit in scheme	(1,300)	(2,220)	(880)
Experience adjustments arising on liabilities	(1,800)	(3,300)	(1,080)
Experience adjustments arising on assets	2,100	3,100	1,000

The actual return on assets was £4,200,000 (2005 £4,800,000) The Company expects to make contributions of £1,500,000 in 2007

19. Cash flow statement

The Company has taken advantage of the exemption granted by FRS No 1 (Revised), "Cash flow statements", whereby it is not required to publish its own statement of cash flows

The accounts of National Express Group PLC, for the year ending 31 December 2006, contain a consolidated statement of cash flows.

20. Related party transactions

The Company has taken advantage of the exemption under FRS 8 from providing details of related party transactions with fellow subsidiaries which are 90% owned or more as they are included within the consolidated accounts of its ultimate parent Company National Express Group PLC, which are publicly available

In respect of services provided, the Company made transactions of £35,501 (2005 £33,626) in the year with thetrainline com, a subsidiary of Trainline Holdings Limited, which is 14% owned by a fellow subsidiary of the Company At the year end there was £8,978 (2005 £nil) due to thetrainline com within creditors

21. Immediate and ultimate parent undertakings

The Company is a wholly owed subsidiary undertaking of, and is controlled by, National Express Trains South Limited, a Company registered in England and Wales

The ultimate parent Company is National Express Group PLC

The results of the Company are included in the consolidated accounts of National Express Group PLC for the year ending 31 December 2006

Copies of these accounts are available from -

The Secretary
National Express Group PLC
75 Davies Street
London
W1K 5HT