c2c Rail Limited

Directors' Report and Accounts

For the year ended 31 December 2007

Company number 2938993

Registered office

7 Triton Square
London
NW1 3HG

Contents

Directors' Report	3
Statement of Directors' Responsibilities	8
Independent Auditors' Report	9
Profit and Loss Account	11
Statement of Total Recognised Gains and Losses	12
Balance Sheet	13
Notes to the Accounts	14

c2c Rail Limited
Directors' Report

The Directors present their annual report, business review, the financial statements and auditors' report for the year ended 31 December 2007

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

Results and dividend

Passenger income improved in the year by over 10% to £95,914,000 compared to £86,512,000 in 2006. The loss before taxation increased from £1,089,000 to £6,801,000

The loss for the year attributable to the shareholders amounts to £5,021,000 (2006· £626,000) The directors do not recommend the payment of a dividend (2006. £nil)

Review of business and outlook

The Company's operating loss increased to £7,318,000 primarily due to an increase in access and maintenance charges Passenger revenues grew strongly in 2007

The Company continued to make significant operational progress The percentage of trains arriving on time increased to 94.63% (2006 94 18%) This is the highest Public Performance Measure (PPM) in the country

The outlook for 2008 is for continued passenger growth subject to any economic slowdown. The increase in maintenance charges is not expected to recur but there remains some inflationary cost pressures notably in electricity charges.

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

c2c Rail Limited
Directors' Report

Key risks and uncertainties (continued)

We expect to see some modest slowdown in a number of economic indicators in 2008, 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 the private car. We do not foresee any immediate change to this competition and will seek to alleviate it 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 32 and 33 of the National Express Group PLC 2007 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 88 to 90 of the National Express Group PLC Annual Report and Accounts

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 0 45% to 94 63% compared to a sector average of 89 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 2008 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

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

c2c Rail Limited
Directors' Report

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 20%

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
D D G Booth		1 January 2007
D Franks		
J B Ratcliffe		22 January 2007
M J Hopwood		19 January 2008
R O'Toole		
S Goldsmith		18 April 2008
J Adeshiyan		30 November 2007
R J Bowley	10 March 2008 (Reappointed)	12 March 2007
S Rees	22 January 2007	
A Kang	12 March 2007	10 March 2008
J Drury	27 January 2008	

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

None of the directors had any interest in the issued share capital of the company R O'Toole is also a director of National Express Group PLC, the ultimate holding company, and his interests in the share capital of that company are disclosed in the 2007 Annual Report and Accounts of that company

The Company's Articles of Association include a provision indemnifying the Directors to the extent allowed under the Companies Act 1985

c2c Rail Limited
Directors' Report

Employees

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

The Company'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

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

Health and Safety

The safety of our employees and customers is of prime importance. Working with our partners, British Transport Police, Network Rail, Travel for London and other key stakeholders, we consistently endeavour to put in place initiatives and equipment and station CCTV that will help passengers travel in safety

Operational Safety performance improved significantly compared with last year and there were no signals passed at danger for the whole year Despite this excellent performance the company is mindful that the price of safety is constant vigilance and continues to work with staff and stakeholders to maintain and enhance its safety and competence management systems

Charitable and political donations

The Company made charitable or political donations of £nil during the year (2006 £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 34 days (2006 – 35 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

Julia Drury

J Drury
Director

Date 30th May 2008

Registered Office.
7 Triton Square
London
NW1 3HG

c2c Rail Limited
Statement of Directors' Responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period In preparing those financial statements, the directors are required to

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

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements 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 2007 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet, and the related notes 1 to 23 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' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are 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 2007 and of its loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- 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 2008

c2c Rail Limited
Profit and Loss Account

For the year ended 31 December 2007

	Note	2007 £'000	2006 £'000
Turnover	2		
Passenger income		**95,914**	86,512
Revenue grant		**17,390**	16,114
Other operating income		**4,111**	4,002
		117,415	106,628
Operating costs		**(124,485)**	(108,107)
Exceptional costs	13	**(248)**	-
Operating loss	3	**(7,318)**	(1,479)
Interest receivable	7	**797**	655
Interest payable	7	**(980)**	(915)
Other finance item net pensions credit	19	**700**	650
Loss on ordinary activities before taxation		**(6,801)**	(1,089)
Tax credit on loss on ordinary activities	8	**1,780**	463
Retained loss for the financial year		**(5,021)**	(626)

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 2007

	2007	2006
	£'000	£'000
Loss for the financial year	**(5,021)**	(626)
Actuarial gain on defined benefit pension scheme	**978**	803
Deferred tax on actuarial gain	**(293)**	(241)
Total recognised gains and losses relating to the year	**(4,336)**	(64)

c2c Rail Limited
Balance Sheet

As at 31 December 2007

	Note	2007 £'000	2006 £'000
Fixed assets			
Tangible assets	9	**12,152**	13,801
Investments	10	**-**	-
Current assets			
Debtors	11	**16,415**	20,712
Cash at bank and in hand		**19,310**	18,509
		35,725	39,221
Creditors: amounts falling due within one year	12	**(52,734)**	(53,462)
Net current liabilities		**(17,009)**	(14,241)
Total assets less current liabilities		**(4,857)**	(440)
Creditors: amounts falling due after one year	12	**(614)**	(552)
Provisions	13	**(927)**	(255)
Net liabilities excluding net pension liability		**(6,398)**	(1,247)
Net pension liability	19	**(88)**	(910)
Net liabilities including net pension liability		**(6,486)**	(2,157)
Capital and reserves			
Share capital	15	**1,000**	1,000
Share premium account	16	**3,000**	3,000
Profit and loss account	16	**(10,486)**	(6,157)
Shareholders' deficit		**(6,486)**	(2,157)

On behalf of the Board

J Drury Julia Drury

Date 30th May 2008

The notes on pages 14 to 31 form part of the accounts

c2c Rail Limited
Notes to the Accounts
For the year ended 31 December 2007

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

c2c Rail Limited
Notes to the Accounts
For the year ended 31 December 2007

1. Accounting policies (continued)

d) Share based payments

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

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

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

e) Turnover

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

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

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

f) Taxation

Corporation tax is provided on taxable profits at the current rate

1. **Accounting policies (continued)**

g) 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

h) 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

i) 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

j) 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 are amortised on a straight line basis over the vesting period The expected return on assets of funded

1. Accounting policies (continued)

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

k) 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 a non-discounted basis at tax rates that are expected to apply in the periods in which the timing differences reverse Deferred tax assets are recognised where their recovery is considered more likely than not in that there will be suitable taxable profits from which the future reversal of underlying timing differences can be deducted.

l) Pre-contract costs

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

2. Turnover

All turnover originates in the United Kingdom
The Directors consider that the whole of the activities of the Company constitute a single class of business

3. Operating loss

	2007	2006
	£'000	£'000
Operating loss is stated after charging		
Depreciation – Owned assets	**3,103**	2,697
Depreciation – Finance lease	**1**	37
Train maintenance services and materials	**15,462**	10,361
Operating lease rentals		
- Fixed track access	**22,285**	18,636
- Rolling stock costs	**22,784**	22,526
- Variable track access	**3,135**	2,809
- Other	**5,264**	5,140
Auditors' remuneration - audit fees	**32**	24
Loss on disposal of fixed assets	**239**	-

4. Directors' emoluments

	2007	2006
	£'000	£'000
Aggregate emoluments in respect of qualifying services to the Company	**121**	237

The emoluments excluding pension contributions of the highest paid director were £54,000 (2006 £89,000) His accrued pension and accrued lump sum benefit, as at 31 December 2007, were £284 (2006. £26,620) and £190 (2006: £12,070) respectively

Messrs O'Toole, Franks, Ratcliffe, Rees, Kang and Mrs Goldsmith received no remuneration from the Company in the year to 31 December 2007. 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.

Retirement benefits were accruing to three directors during the year (2006 three directors) under a defined benefit scheme in respect of services provided to the Company

5. Staff costs

	2007	2006
	£'000	£'000
Wages and salaries (including share-based payment expense)	**17,331**	15,723
Social security costs	**1,338**	1,213
Pension costs (refer to note 19)	**2,000**	1,940
	20,669	18,876

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

	2007	2006
	No.	No.
Managerial and administrative	**103**	95
Operational	**467**	507
	570	602

6. Share based payments

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

	2007	2006
	£'000	£'000
Expense arising from share and share option plans	7	49

During the year ended 31 December 2007, c2c Rail Limited had five (2006 five) share-based payment arrangements, which are described in note 7 to the National Express Group PLC 2007 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

	2007		2006	
	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	**20,677**	**725**	68,497	544
Lapsed during the year	**(74)**	**585**	(4,510)	579
Exercised during the year	**(18,767)**	**729**	(43,310)	459
Outstanding at 31 December[1]	**1,836**	**681**	20,677	725
Exercisable at 31 December	**1,836**	**681**	5,074	858
Options with a nil exercise price				
At 1 January	**19,099**	**nil**	7,611	nil
Granted during the year	**5,900**	**nil**	12,617	nil
Transfers during the year	**(20,937)**	**nil**	-	-
Lapsed during the year	-	-	(1,129)	nil
Exercised during the year	-	-	-	-
Outstanding at 31 December	**4,062**	**nil**	19,099	nil
Exercisable at 31 December	-	-	-	-
Total outstanding at 31 December	**5,898**		39,776	
Total exercisable at 31 December	**1,836**		5,074	

[1] Included within this balance are options over nil (2006 5,074) 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 2007 had an exercise price of 681p (2006 between 585p and 863p) excluding options with a nil exercise price The range of exercise prices for options was as follows

Exercise price (p)	2007	2006
350-650	-	74
650-950	**1,836**	20,603
950-1250	-	-
	1,836	20,677

6. Share based payments (continued)

The options have a weighted average contractual life of 3 years (2006 5 years) Options were exercised regularly throughout the year and the weighted average share price at exercise was 1232p (2006 910p)

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	
	2007	2006
Risk free interest rate	-	-
Expected volatility	**19%**	19%
Peer group volatility	**25.9%**	31 2%
Expected option life in years	**3 years**	3 years
Expected dividend yield	**2.8%**	3 5%
Weighted average share price	**1295p**	931p
Weighted average exercise price	**0p**	0p
Weighted average fair value of options granted	**1194p**	369p-841p

Experience to date has shown that approximately 15% (2006 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

	2007	2006
	£'000	£'000
Interest receivable		
Bank interest	**8**	8
Interest receivable from group undertakings	**789**	647
	797	655
Interest payable		
Interest payable to group undertakings	**(980)**	(914)
Other	**-**	(1)
	(980)	(915)

8. Taxation

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

	2007 £'000	2006 £'000
Current taxation		
UK corporation tax credit at 30% (2006: 30%)	**1,677**	319
	1,677	319
Deferred taxation:		
Origination and reversal of timing differences	**473**	91
Defined benefit pension	**(63)**	(35)
Adjustments in respect of previous year	**(307)**	88
	103	144
Tax credit on loss on ordinary activities	**1,780**	463

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

	2007 £'000	2006 £'000
Loss on ordinary activities before taxation	**(6,801)**	(1,089)
Notional credit at UK corporation tax rate of 30%	**(2,040)**	(327)
Depreciation in excess of capital allowances	**419**	79
Effect of short-term timing differences	**54**	(23)
Permanent disallowables	**(110)**	(48)
Current tax credit for the year	**(1,677)**	(319)

(c) In July 2007, proposed changes to UK corporation tax were enacted From 1 April 2008 the rate of corporation tax on profits will be reduced from 30% to 28% As a result the company's deferred tax provision (as per note 14) has been reduced by approximately £1,000.

c2c Rail Limited
Notes to the Accounts
For the year ended 31 December 2007

9. Tangible fixed assets

	Plant and equipment owned £'000	Plant and equipment leased £'000	Total £'000
Cost			
At 1 January 2007	28,799	204	29,003
Additions	1,694	-	1,694
Disposals	(318)	-	(318)
At 31 December 2007	**30,175**	**204**	**30,379**
Depreciation			
At 1 January 2007	14,999	203	15,202
Charge for the year	3,103	1	3,104
Disposals	(79)	-	(79)
At 31 December 2007	**18,023**	**204**	**18,227**
Net book value			
At 31 December 2007	**12,152**	**-**	**12,152**
At 31 December 2006	13,800	1	13,801

10. Investments

The Company held the following unlisted investments at 31 December 2007 and 31 December 2006

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

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

11. Debtors

	2007 £'000	2006 £'000
Trade debtors	**6,488**	6,913
Amounts due from group undertakings	**721**	395
Corporation tax	**1,604**	319
Other debtors	**3,675**	3,806
Prepayments and accrued income	**3,927**	9,279
	16,415	20,712

12. Creditors: amounts falling due within one year

	2007 £'000	2006 £'000
Trade creditors	**9,102**	9,647
Amounts due to group undertakings	**13,795**	19,316
Deferred season ticket income	**17,620**	16,394
Social security and other taxation	**969**	376
Accruals and deferred income	**6,032**	3,015
Other creditors	**5,216**	4,714
	52,734	53,462

Other creditors includes deferred fixed asset grants of £335,000 (2006 £417,000) which are due within one year Amounts due after one year are disclosed below

Creditors: amounts falling due after one year

	Finance leases		Deferred fixed asset grant		Total	
	2007	2006	**2007**	2006	**2007**	2006
	£'000	£'000	**£'000**	£'000	**£'000**	£'000
Between one and two years	-	35	**513**	340	**513**	375
Greater than five years	-	-	**101**	177	**101**	177
	-	35	**614**	517	**614**	552

c2c Rail Limited
Notes to the Accounts
For the year ended 31 December 2007

13. Provisions

	1 January 2007 £'000	Provided in the year £'000	Utilised in the year £'000	**31 December 2007 £'000**
Deferred tax excluding tax on pension liability (Note 14)	186	-	(166)	**20**
Insurance	69	663	(73)	**659**
Redundancy	-	248	-	**248**
	255	911	(239)	**927**

The insurance provision arises from the estimated exposure at the year end on existing insurance claims which are open for up to six years The provision is held until utilised The redundancy provision relates to exceptional redundancy costs that will be incurred in the early part of 2008 as a result of the UK group integration project that was announced in 2007

14. Deferred tax

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

	£'000
At 1 January 2007	(186)
Decrease in the year	166
At 31 December 2007	**(20)**

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

	2007 £'000	2006 £'000
Capital allowances in excess of depreciation	**(96)**	(245)
Other timing differences	**76**	59
	(20)	(186)

15. Share capital

Authorised	**2007 £'000**	2006 £'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

c2c Rail Limited
Notes to the Accounts
For the year ended 31 December 2007

16. Reserves

	Share capital	Share premium account	Profit and loss account	Total
	£'000	£'000	£'000	£'000
At 1 January 2007	1,000	3,000	(6,157)	(2,157)
Actuarial gain on defined benefit pension scheme (Note 19)	-	-	978	978
Deferred tax on actuarial gain	-	-	(293)	(293)
Share based payments	-	-	7	7
Retained loss for the year	-	-	(5,021)	(5,021)
At 31 December 2007	**1,000**	**3,000**	**(10,486)**	**(6,486)**

17. Reconciliation of movements in shareholders' deficit

	2007	2006
	£000	£000
Total recognised loss in the year	**(4,336)**	(64)
Share based payments	**7**	49
	(4,329)	(15)
Shareholders' deficit at 1 January	**(2,157)**	(2,142)
Shareholders' deficit at 31 December	**(6,486)**	(2,157)

18. Operating lease commitments

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

	Fixed Track Access	Rolling Stock	Land and Buildings	Other	Total
	2007	2007	2007	2007	2007
	£'000	£'000	£'000	£'000	£'000
Leases which expire					
Within two to five years	24,226	22,475	5,087	1,211	52,999

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

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 nine 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

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

In calculating the Company's constructive obligations in respect of the RPS, the Company has calculated the pension deficit for its RPS section in accordance with FRS 17 and the assumptions set out below This deficit is 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

19. Retirement benefits (continued)

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

True and fair override disclosure

	2007	2006
	£'000	£'000
Balance Sheet		
Net pension liability (net of deferred tax)	**-**	(1,610)
Statement of total recognised gains and losses		
Actuarial gains	**2,400**	850
Tax on actuarial gains	**(720)**	(255)
	1,680	595
Profit and loss account		
Finance income	**(100)**	(150)
Deferred tax credit	**30**	45
	(70)	(105)

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%

19. Retirement benefits (continued)

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.

	2007	2006	2005
Rate of increase in salaries	**4.8%**	4 5%	4 2%
Rate of increase of pensions	**3.3%**	3 0%	2 7%
Discount rate	**5.8%**	5 1%	4 8%
Inflation assumption	**3 3%**	3 0%	2 7%
Expected rates of return on scheme assets			
Equities	**8.0%**	7 9%	8 0%
Bonds	**5.8%**	5 1%	4 8%
Properties	**6.3%**	6 2%	6 2%
Other	**4.8%**	4 3%	3 8%
Post retirement mortality in years			
Current pensioners at 65 – male	**17.8**	17 8	17 8
Current pensioners at 65 – female	**20.1**	20 1	20 1
Future pensioners at 65 – male	**18.8**	18 8	18 8
Future pensioners at 65 - female	**21.3**	21 3	21 3

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

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

Analysis of the amount charged to operating profit

	2007 £000	2006 £000
Current service cost	**(2,000)**	(1,940)
Total operating charge	**(2,000)**	(1,940)

Analysis of the amount credited to finance income·

	2007 £000	2006 £000
Expected return on pension scheme assets	**2,500**	2,100
Interest on pension scheme liabilities	**(1,900)**	(1,600)
Interest on franchise adjustment	**100**	150
Net credit to finance income	**700**	650

19. Retirement benefits (continued)

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

	2007	2006
	£000	£000
Actual return less expected return on pension scheme assets	**600**	2,100
Other actuarial gains / (losses)	**378**	(1,297)
Actuarial gain recognised in the statement of total recognised gains and losses	**978**	803

The actual return on plan assets is £3,100,000 (2006 £4,200,000)

The amounts recognised in the balance sheet at 31 December are

Assets in the scheme	**2007**	2006	2005
	£000	£000	£000
Equities	**46,900**	43,100	36,900
Bonds	**6,300**	5,200	4,600
Property	**5,700**	5,100	3,900
Cash	**-**	200	200
Total fair value of scheme assets	**58,900**	53,600	45,600
Present value of scheme liabilities	**(59,100)**	(59,600)	(54,300)
Franchise adjustment	**-**	2,300	3,000
Defined benefit obligation	**(59,100)**	(57,300)	(51,300)
Members' share of deficit	**78**	2,400	3,480
Deficit in the scheme	**(122)**	(1,300)	(2,220)
Related deferred tax asset	**34**	390	666
Net pension liability	**(88)**	(910)	(1,554)

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

	2007	2006
	£000	£000
Fair value of scheme assets at 1 January	**53,600**	45,600
Expected return	**2,500**	2,100
Cash contributions – Employer	**1,500**	1,407
Cash contributions - Employee	**900**	900
Benefits paid	**(2,300)**	(1,400)
Members' share of return on assets	**2,100**	2,893
Actuarial gain recognised in statement of total recognised gains and losses	**600**	2,100
Fair value of scheme assets at 31 December	**58,900**	53,600

c2c Rail Limited

Notes to the Accounts

For the year ended 31 December 2007

19. Retirement benefits (continued)

Movement in the present value of the defined benefit scheme liabilities, which is partly funded, is as stated below The RPS is a shared cost scheme, which means that costs are formally shared 60% employer and 40% employee The movement on the scheme liabilities below represents 100% of the scheme liabilities

	2007	2006
	£000	£000
Defined benefit obligation at 1 January	**(57,300)**	(51,300)
Current service cost	**(2,000)**	(1,940)
Benefits paid	**2,300**	1,400
Cash contributions - Employees	**(900)**	(900)
Finance charge	**(1,900)**	(1,600)
Interest on franchise adjustment	**100**	150
Members' share of movement on liabilities	**222**	(1,813)
Actuarial gain/(loss) recognised in statement of total recognised gains and losses	**378**	(1,297)
Defined benefit obligation at 31 December	**(59,100)**	(57,300)

History of experience gains and losses·

	2007	2006	2005	2004
	£000	£000	£000	£000
Fair value of scheme assets	**58,900**	53,600	45,600	36,300
Present value of the defined benefit obligation	**(59,100)**	(57,300)	(51,300)	(39,460)
Members' share of deficit	**78**	2,400	3,480	2,280
Deficit in scheme	**(122)**	(1,300)	(2,220)	(880)
Experience adjustments arising on liabilities	**(500)**	(1,800)	(3,300)	(1,080)
Experience adjustments arising on assets	**600**	2,100	3,100	1,000

The Company's expected cash contribution to the scheme in 2008 is £1,670,000 The cumulative amount of actuarial gains recognised in the statement of total recognised gains and losses since 1 January 2004 is £961,000 (2006 loss of £17,000) The Directors are unable to determine how much of the pension scheme deficit recognised on implementation of FRS 17, 'Retirement benefits' and taken to equity of £1,150,000 is attributable to actuarial gains and losses since inception of those pension schemes Consequently the Directors are unable to determine the amount of actuarial gains and losses that would have been recognised in the statement of total gains and losses before 1 January 2004

20. Capital commitments

	2007 £000	2006 £000
Contracted	**127**	112
Authorised but not contracted	**64**	48

21. Cash flow statement

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

The accounts of National Express Group PLC for the year ended 31 December 2007 contain a consolidated statement of cash flows

22. 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 £41,536 (2006 £35,501) in the year with thetrainline com, a subsidiary of Trainline Holdings Limited, which was 14% owned by a fellow subsidiary of the Company At the year end there was £nil (2006 £8,978) due to thetrainline com within creditors National Express Group PLC disposed of its shareholding in Trainline Holdings Limited on 4 July 2006

23. Immediate and ultimate parent undertakings

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

The ultimate parent Company is National Express Group PLC

The results of the Company are included in the consolidated accounts of National Express Group PLC for the year ended 31 December 2007

Copies of these accounts are available from -

The Secretary
National Express Group PLC
7 Triton Square
London
NW1 3HG