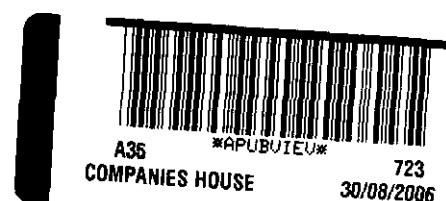


English Welsh & Scottish Railway Limited

Directors' report and financial statements

31 March 2006

Registered number 2938988



English Welsh & Scottish Railway Limited

Directors' report and financial statements

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English Welsh & Scottish Railway Limited

Directors' report

The directors' present their annual report and the audited financial statements for the year ended 31 March 2006.

Principal activities

The principal activities of the company are the haulage of freight by rail and other related services within Great Britain.

Business review and results

The company's profit on ordinary activities before taxation for the year is £10.8 million (2005: Restated Profit £22.7 million).

Dividends

The directors recommend that no dividend be paid (2005: £Nil). Accordingly, the retained profit of £7.3 million (2005: Restated Profit £13.9 million) will be transferred to reserves.

Directors and directors' interests

Brief biographical details of the current directors are provided in the financial statements of English, Welsh & Scottish Railway Holdings Limited. The directors who held office during the year were as follows:

C. Ferenbach (Chairman)
K.L. Heller (Chief Executive)
H. Conger (appointed 29 July 2005)
S. Finn
Lord Griffiths of Fforestfach
C. Mongeau
D.M. Richwhite

According to the register of directors' interests none of the directors who held office at the end of the financial year had any disclosable interest in the shares of the company at the beginning or end of the financial year. *The directors' interests in, and rights to acquire, the shares of the ultimate holding company English Welsh & Scottish Railway Holdings Limited are disclosed in the financial statements of that company.*

Management of Financial Risk

The major financial exposures faced by the company are to exchange rate and interest rate movements and the price of diesel fuel.

The EWS Group Audit Committee reviews these risks and approves guidelines covering the use of financial instruments to manage these risks and defines the overall risk limits. All the company's financial instruments are held for risk management purposes.

Further disclosure is provided in the accounts of the company's ultimate parent English Welsh & Scottish Railway Holdings Limited.

Employees

The company gives full consideration to applications for employment from disabled persons where *the requirements of the job can be adequately fulfilled by a handicapped or disabled person.* Where existing employees become disabled, it is the company's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training, career development and promotion wherever appropriate.

English Welsh & Scottish Railway Limited

Directors' report (continued)

During the year, employees have been provided with information about the company through newsletters and circulars in which employees have also been encouraged to present their suggestions and views. Regular meetings are held between local management and employees to allow a free flow of information. A staff survey was recently conducted during 2005 and management is now implementing the resulting recommendations. These have included increased briefings for employees and monthly rather than quarterly production of the employee Group newsletter.

Supplier Payment Policy

The Company policy is to pay all suppliers 30 days after the month of invoice. This policy has been in place for many years and is consistently applied.

Going Concern

After making enquiries, the directors confirm that they have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the going concern basis continues to be adopted in preparing these financial statements.

Disclosure of Information to Auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditors

In accordance with Section 386 of the Companies Act 1985, the company has dispensed with the obligation to appoint auditors annually and KPMG LLP will therefore continue in office.

By order of the board



P. Butcher
Company Secretary
McBeath House
310 Goswell Road
London
EC1V 7LW

17 May 2006

English Welsh & Scottish Railway Limited

Statement of directors' responsibilities

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable laws 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 UK Accounting Standards.

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 these 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; and
- 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 enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

English Welsh & Scottish Railway Limited

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ENGLISH WELSH & SCOTTISH RAILWAY LIMITED.

We have audited the financial statements of English Welsh & Scottish Railway Limited for the year ended 31 March 2006 which comprises the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses and the related notes. 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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities on page 3, the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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 if, in our opinion, the Directors' Report is not consistent with the financial statements, if 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 transactions with the company 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 judgements 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.

English Welsh & Scottish Railway Limited

Opinion

In our opinion the financial statements:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 March 2006 and of the profit for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP
KPMG LLP
Chartered Accountants
Registered Auditor
1 The Embankment
Neville Street
Leeds
LS1 4DW



17 May 2006

English Welsh & Scottish Railway Limited

Profit and loss account

For the year ended 31 March 2006

<i>£ million</i>	<i>Note</i>	2006	2006	2005	2005
				As Restated (Note 1)	As Restated (Note 1)
Turnover	2		485.3		472.4
Operating costs excluding exceptional costs	3 & 5		(465.9)		(451.8)
Operating profit before exceptional costs			<u>19.4</u>		<u>20.6</u>
Exceptional costs	5		(14.7)		(2.5)
Total operating costs			<u>(480.6)</u>		<u>(454.3)</u>
Operating profit			<u>4.7</u>		<u>18.1</u>
Profit on sale of fixed assets			8.3		10.6
EBIT			<u>13.0</u>		<u>28.7</u>
Other finance income	8	5.9		3.5	
Net interest payable and similar charges	9	<u>(8.1)</u>		<u>(9.5)</u>	
			(2.2)		(6.0)
Profit on ordinary activities before taxation	4		<u>10.8</u>		<u>22.7</u>
Tax on profit on ordinary activities	10		(3.5)		(8.8)
Retained profit on ordinary activities after taxation			<u>7.3</u>		<u>13.9</u>

All of the company's activities are continuing.

EBIT represents earnings before interest, other finance income and tax.

English Welsh & Scottish Railway Limited

Statement of total recognised gains and losses

For the year ended 31 March 2006

<i>£ million</i>	<i>Note</i>	2006	2005 As Restated (Note 1)
Profit for the financial year		7.3	13.9
Actuarial gain on pension scheme	22	27.6	20.8
Movement on deferred tax relating to pension asset	22	(8.3)	(6.2)
Assets acquired as consideration	11	7.0	-
Total recognised gains and losses for the year		<u>33.6</u>	<u>28.5</u>
Prior year adjustment – Adoption of FRS 17	1	(43.3)	
Total gains and losses recognised since last financial statements		<u>(9.7)</u>	

English Welsh & Scottish Railway Limited

Balance sheet

At 31 March 2006

<i>£ million</i>	<i>Note</i>	2006	2005
			As Restated (Note 1)
Fixed assets			
Goodwill	12	0.5	0.6
Tangible assets	11	318.9	323.7
		<u>319.4</u>	<u>324.3</u>
Current assets			
Stocks	13	18.2	15.9
Debtors due within one year	14	78.1	76.3
Cash at bank and in hand		-	15.3
		<u>96.3</u>	<u>107.5</u>
Creditors: amounts falling due within one year	15	<u>(141.5)</u>	<u>(217.7)</u>
Net current liabilities		<u>(45.2)</u>	<u>(110.2)</u>
Total assets less current liabilities		274.2	214.1
Creditors: amounts falling due after more than one year	16	(39.0)	-
Deferred income due after more than one year	17	(3.8)	(4.2)
Provisions for liabilities and charges	18	(62.9)	(58.4)
Net assets excluding pension asset / (liability)		<u>168.5</u>	<u>151.5</u>
Pension asset / (liability)	22	4.5	(12.1)
Net assets including pension asset / (liability)		<u>173.0</u>	<u>139.4</u>
Capital and reserves			
Called up share capital	19	18.9	18.9
Share premium account	20	71.8	71.8
Capital reserve	20	8.7	8.7
Revaluation reserve	20	6.9	-
Profit and loss account	20	66.7	40.0
Equity shareholders' funds		<u>173.0</u>	<u>139.4</u>

These financial statements were approved by the board of directors on 17 May 2006 and were signed on its behalf by:



K.L. Heller
Chief Executive

English Welsh & Scottish Railway Limited

Reconciliation of movements in shareholders' funds

For the year ended 31 March 2006

<i>£ million</i>	<i>Note</i>	2006	2005 As Restated (Note 1)
Profit for the year		7.3	13.9
Assets acquired as consideration	11	7.0	-
Actuarial gain on pension scheme	22	27.6	20.8
Movement on deferred tax relating to pension scheme	22	(8.3)	(6.2)
Net increase in shareholders' funds		<u>33.6</u>	<u>28.5</u>
Opening shareholders' funds as previously reported		182.7	163.7
Prior Year adjustment – Adoption of FRS 17	1	(43.3)	(52.8)
Opening shareholders' funds as restated		<u>139.4</u>	<u>110.9</u>
Closing shareholders' funds		<u>173.0</u>	<u>139.4</u>

English Welsh & Scottish Railway Limited

Notes

1 Accounting Policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

Basis of Preparation

The financial statements have been prepared in accordance with applicable Accounting Standards and under the historical cost accounting rules.

At the 31 March 2006, the company had net current liabilities of £45.2m. The directors have considered the future working capital requirements of the business, and on the basis that ongoing financial support has been guaranteed by the ultimate parent undertaking, English Welsh & Scottish Railway Holdings Limited, the financial statements have been prepared in the going concern basis.

The company is exempt from the requirement of Financial Reporting Standard 1 to prepare a cash flow statement as it is a wholly owned subsidiary undertaking of English Welsh & Scottish Railway Holdings Limited, and its cash flows are included within the consolidated cash flow statement of that company.

Under Financial Reporting Standard 8, the company is exempt from the requirement to disclose transactions with related parties in the group as all of the company's voting rights are controlled within the group.

Changes in accounting policy

The company has adopted Financial Reporting Standard 17, 'Retirement Benefits', 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 to adopt FRS 17 was to: (i) increase staff costs by £9.8 million (2005: £9.8 million); (ii) increase other finance income by £5.9 million (2005: £3.5 million); and (iii) decrease deferred taxation by £1.2 million (2005: £1.8 million). The overall impact was to decrease the profit for the year by £2.7 million (2005: £4.5 million) and to reduce shareholders funds by £43.3 million (2005: £52.8 million).

Goodwill

Goodwill is disclosed as an intangible asset and is amortised over 20 years as this is considered to reflect most appropriately its useful economic life. The goodwill that arose on the acquisition of the business of Rail Charter Services Ltd. is being amortised over 10 years being the period for which the assets acquired have a derogation to operate on the rail network.

Fixed assets and depreciation

Tangible fixed assets are stated at original cost less accumulated depreciation.

Depreciation is provided by the company to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives from the time assets come into service as follows:

- Freehold buildings 40 years
- Leasehold land and buildings life of lease
- Plant, machinery and equipment 3 to 15 years
- Rolling stock 20 to 50 years
- Infrastructure 10 to 30 years

Rolling stock improvements are depreciated over the remaining life of the relevant asset. No depreciation is provided on freehold land.

English Welsh & Scottish Railway Limited

Notes (continued)

1 Accounting Policies (continued)

Leases

Where the company enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a 'finance lease'. The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated over its estimated useful life or the term of the lease, whichever is shorter. Future instalments under such leases, net of finance charges, are included within creditors. Rentals payable are apportioned between the finance element, which is charged to the profit and loss account, and the capital element which reduces the outstanding obligation for future instalments.

All other leases are accounted for as 'operating leases' and the rental charges are charged to the profit and loss account on a straight line basis over the life of the lease.

Government grants

Capital based government grants are included within deferred income in the balance sheet and credited to trading profit over the estimated useful economic lives of the assets to which they relate. Revenue based government grants are credited to trading profit in the period in which the expenditure to which they relate is incurred.

Stocks

Stocks are stated at the lower of cost and net realisable value.

Pensions and other post-retirement benefits

The company's employees are members of two group wide pension schemes, a defined benefits scheme and a defined contribution scheme. As explained above, the company has adopted the principles of Financial Reporting Standard 17, Retirement Benefits.

For the defined benefit scheme, pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and are discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liabilities. The increase in the present value of the liabilities of the company's defined benefit pension scheme expected to arise from employee service in the period is charged to operating profit. The expected return on the scheme's liabilities arising from the passage of time are included in other finance income. Actuarial gains and losses are recognised in the statement of total recognised gains and losses.

Pension scheme surpluses, to the extent that they are considered recoverable, or deficits are recognised in full and presented on the face of the balance sheet net of the related deferred tax.

For the defined contribution scheme, the amount recognised in the profit and loss account is equal to the contributions payable to the scheme during the year.

Taxation

The charge for taxation is based on the profit for the period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Full provision is made for deferred tax assets and liabilities arising from timing differences on accelerated capital allowances, accruals for pension costs, unrelieved tax losses and other short term timing differences.

No provision is made for timing differences on revaluation surpluses on fixed assets unless there is a firm commitment to sell the asset in question, nor is any provision raised on gains rolled over in replacement assets.

English Welsh & Scottish Railway Limited

Notes (continued)

1 Accounting Policies (continued)

Foreign Exchange

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction or at the contract rate if the transaction is covered by a forward exchange contract. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date or, if appropriate, at the forward exchange contract rate. All differences are taken to the profit and loss account except to the extent that they are recoverable from a third party in which case they are recorded as a debtor.

Hedging

Gains and losses on hedging contracts are recognised in the profit and loss account when they are closed out.

Capitalisation of financing costs

Costs of raising finance are capitalised and amortised over the term of the loan agreement.

2 Turnover

Turnover is stated net of value added tax and represents amounts invoiced to third parties and estimates in respect of amounts not invoiced for sales arising in the year.

Turnover and operating profit is attributable to the haulage of freight by rail and other related services.

3 Operating costs

<i>£ million</i>	2006	2005 As Restated
Raw materials and consumables (raw materials and fuel)	76.4	60.8
Other external charges	130.0	120.8
Staff costs (Note 7)	197.8	202.0
Operating lease rentals	46.4	46.2
Depreciation and other amounts written off tangible fixed assets including amortisation of grants	30.0	24.5
	<u>480.6</u>	<u>454.3</u>

English Welsh & Scottish Railway Limited

Notes (continued)

4 Profit on ordinary activities before taxation

<i>£ million</i>	2006	2005
<i>Profit on ordinary activities before taxation is stated after charging:</i>		
Auditors' remuneration:		
- Audit	0.2	0.1
- Other services	0.1	0.2
Depreciation and other amounts written off tangible fixed assets:		
- owned	22.8	25.1
- owned accelerated depreciation (Note 5)	6.9	-
- leased	1.1	0.8
Rentals payable under operating leases		
- plant and machinery	45.1	45.0
- other	1.3	1.2
Other exceptional items (Note 5)	7.8	2.5
<i>after crediting:</i>		
Government Grants	0.3	0.5
Amortisation of other contributions to capital expenditure	0.5	0.9
Management charge to other group companies	3.5	5.1
Rents receivable from property	10.7	9.7

The audit fee disclosed above relates to all audit services for the company and its fellow group companies.

English Welsh & Scottish Railway Limited

Notes (continued)

5 Exceptional Costs

<i>£ million</i>	2006	2005
Redundancy costs	7.8	2.5
Accelerated depreciation on certain tangible assets	6.9	-
	<u>14.7</u>	<u>2.5</u>

In the final quarter of the year ended 31 March 2006 a review of headcount requirements by management identified a number of further headcount savings and this redundancy program is currently in progress.

The tax effect of the above transactions was to reduce the company's tax charge by £2.3 million (2005: £0.8 million).

6 Remuneration of directors

	2006	2005
Aggregate emoluments of directors	<u>£594,652</u>	<u>£769,491</u>

The highest paid director received emoluments of £544,332 in the year (2005: £737,491).

No directors had benefits accruing under a defined benefit pension scheme or exercised any options during the current year (2005: £nil).

Directors and related party transactions are disclosed in the accounts of English Welsh & Scottish Railway Holdings Limited the company's ultimate parent company.

English Welsh & Scottish Railway Limited

Notes (continued)

7 Staff numbers and costs

The average number of persons employed by the company (including directors) during the year was as follows:

	2006 No.	2005 No.
Management and operation of rail freight services	4,695	5,050

The aggregate payroll costs of these persons were as follows:

<i>£ million</i>	2006	2005 As Restated
Wages and salaries	153.8	161.4
Social security costs	12.9	14.2
Other pension costs (Note 22)	16.3	16.4
Other staff costs	14.8	10.0
	197.8	202.0

8 Other finance income

<i>£ million</i>	2006	2005 As Restated
Expected return on pension scheme assets	27.8	25.9
Interest on pension scheme liabilities	(21.9)	(22.4)
	5.9	3.5

9 Net interest payable and similar charges

<i>£ million</i>	2006	2005
Interest receivable on bank deposits	-	0.1
Interest payable and similar charges:		
On bank loans and overdrafts wholly repayable within five years	(4.2)	(2.2)
Interest payable to other group companies	(3.9)	(7.4)
	(8.1)	(9.5)

English Welsh & Scottish Railway Limited

Notes (continued)

10 Taxation

Analysis of charge for the year

£ million	2006	2005 As Restated
<i>Current tax</i>		
UK corporation tax	4.7	5.1
Adjustments in respect of previous periods	(0.8)	0.6
	<u>3.9</u>	<u>5.7</u>
<i>Deferred tax</i>		
Origination and reversal of timing differences – current year	(0.1)	2.8
Origination and reversal of timing differences – prior years	(0.3)	0.3
	<u>3.5</u>	<u>8.8</u>

Factors affecting the tax charge for the year

£ million	2006	2005 As Restated
Profit on ordinary activities before tax	<u>10.8</u>	<u>22.7</u>
Profit on ordinary activities before tax multiplied by the standard rate of UK corporation tax of 30% (2005: 30%)	3.2	6.8
<i>Effects of:</i>		
Expenses not deductible for tax purposes	1.5	1.4
Capital allowances in excess of depreciation	(0.7)	(4.3)
Other timing differences	0.7	1.2
Adjustments to tax charge in respect of previous periods	(0.8)	0.6
Current tax charge for the period	<u>3.9</u>	<u>5.7</u>

English Welsh & Scottish Railway Limited

Notes (continued)

11 Tangible fixed assets

<i>£ million</i>	Land & Buildings	Rolling Stock	Other Plant, Machinery and Equipment	Infra-structure	Assets in Course of Construction	Total
<i>Cost/Valuation</i>						
At 1 April 2005	58.5	362.5	88.2	34.1	15.0	558.3
Additions	7.2	4.1	1.0	1.3	16.9	30.5
Disposals	(0.2)	(10.6)	(1.3)	(0.8)	-	(12.9)
Transfers	3.3	3.9	8.8	3.7	(19.7)	-
Intra Group Transfers	-	(7.4)	(0.2)	-	(0.3)	(7.9)
Reclassifications	(1.3)	-	0.3	1.0	-	-
At 31 March 2006	67.5	352.5	96.8	39.3	11.9	568.0
<i>Accumulated depreciation</i>						
At 1 April 2005	(12.9)	(160.5)	(50.5)	(10.7)	-	(234.6)
Charge for the year	(1.8)	(11.7)	(8.2)	(2.2)	-	(23.9)
Accelerated depreciation	-	(6.7)	(0.2)	-	-	(6.9)
Intra-group transfers	-	6.4	0.2	-	-	6.6
On disposals	-	8.5	1.1	0.1	-	9.7
At 31 March 2006	(14.7)	(164.0)	(57.6)	(12.8)	-	(249.1)
<i>Net book value</i>						
At 31 March 2006	52.8	188.5	39.2	26.5	11.9	318.9
At 31 March 2005	45.6	202.0	37.7	23.4	15.0	323.7

English Welsh & Scottish Railway Limited

Notes (continued)

11 Tangible fixed assets (continued)

During the course of the year £7.0m of land and buildings were acquired as part of the consideration in two property transactions. Under the Companies Act 1985 the transaction does not meet the definition of a realised gain, therefore, a corresponding amount has been recognised as a capital gain in the revaluation reserve.

Analysis of land and buildings

£ million	2006	2005
At cost	45.8	45.7
At valuation	7.0	-
	<u>52.8</u>	<u>45.7</u>

The net book value of land and buildings comprises:

£ million	2006	2005
Freehold	34.9	35.9
Long leasehold	17.5	9.3
Short leasehold	0.4	0.4
	<u>52.8</u>	<u>45.6</u>

If land and buildings had not been revalued, they would have been included at the following amounts:

£ million	2006	2005
Cost	60.5	58.5
Aggregate depreciation	(14.6)	(12.9)
Net book amount	<u>45.9</u>	<u>45.6</u>

English Welsh & Scottish Railway Limited

Notes (continued)

11 Tangible fixed assets (continued)

Assets held under finance leases

£ million

Rolling
stock

Cost:

At 1 April 2005

20.9

Transferred to owned assets

(14.5)

At 31 March 2006

6.4

Depreciation

At 1 April 2005

(11.7)

Charge for the year

(1.1)

Transferred to owned assets

8.8

At 31 March 2006

(4.0)

Net book value

At 31 March 2006

2.4

At 1 April 2005

9.2

12 Goodwill

£ million

Gross Value

At 1 April 2005 and 31 March 2006

0.7

Accumulated Amortisation

At 1 April 2005

(0.1)

Amortisation of goodwill during the year

(0.1)

At 31 March 2006

(0.2)

Net Book Value

At 31 March 2006

0.5

At 31 March 2005

0.6

13 Stocks

Stocks comprise primarily spare parts held for the ongoing maintenance of assets.

English Welsh & Scottish Railway Limited

Notes (continued)

14 Debtors

<i>£ million</i>	2006	2005 As Restated
Amounts falling due within one year		
Trade debtors	54.7	47.5
Amounts owed by group undertakings	7.4	-
Other debtors	3.3	12.4
Prepayments and accrued income	12.7	16.4
	<u>78.1</u>	<u>76.3</u>

15 Creditors: amounts falling due within one year

<i>£ million</i>	2006	2005
Trade creditors	43.0	49.7
Amounts owed to group undertakings	45.1	102.8
Other creditors including taxation and social security:		
Corporation tax	-	3.0
Other taxes and social security	14.1	11.4
Other creditors	5.1	14.1
Deferred income	1.2	1.9
Accruals	31.8	34.7
Bank overdraft	1.1	-
Interest payable	0.1	0.1
	<u>141.5</u>	<u>217.7</u>

English Welsh & Scottish Railway Limited

Notes (continued)

16 Creditors: amounts falling due after more than one year

<i>£ million</i>	2006	2005
Bank loans	<u>39.0</u>	<u>-</u>

Interest Rates and Security on Loans

At 31 March 2006 the loan facilities consisted of

- A £67.0 million revolving credit facility
- A £25.0 million committed overdraft facility

The facilities are guaranteed by fellow subsidiaries English Welsh & Scottish Railway International Limited and Rail Express Systems Limited and are secured by a fixed and floating charge on the assets of the company, its fellow subsidiaries and holding companies. Interest accrues at LIBOR plus a margin. The margin is calculated quarterly and is dependent on the ratio of Net debt to EBITDA and ranges from 1.0% to 1.5%. Commitment fees are incurred on the undrawn element at 45% of the margin.

The overall facilities decline in two £15.0 million instalments on 22 January 2007 and 22 January 2008 and cease to be available on 21 January 2009.

17 Deferred income due after more than one year

<i>£ million</i>	2006	2005
Government capital grants	1.5	1.6
Other contributions to capital expenditure	2.3	2.5
Other deferred income	-	0.1
	<u>3.8</u>	<u>4.2</u>

Government capital grants due in more than and less than one year

At 1 April 2005	2.1
Reclassified from other contributions	0.6
Credited to profit and loss account	(0.3)
At 31 March 2006	<u>2.4</u>

Other contributions to capital expenditure due in more than and less than one year

At 1 April 2005	3.7
Reclassified from government grants	(0.6)
Credited to profit and loss account	(0.5)
At 31 March 2006	<u>2.6</u>

English Welsh & Scottish Railway Limited

Notes (continued)

18 Provisions for liabilities and charges

<i>£ million</i>	At 1 April 2005 As Restated	Utilised during the year	Unutilised amounts released in the year	Provisions created in the year	At 31 March 2006
Deferred tax provision	42.5	-	-	0.8	43.3
Claims provision	7.5	(1.7)	(2.5)	4.8	8.1
Onerous lease provision	3.9	(0.5)	(1.3)	0.4	2.5
Redundancy provision	1.5	(4.3)	(0.3)	8.2	5.1
Environmental provision	2.2	(0.2)	(1.3)	1.4	2.1
Other provisions	0.8	-	(0.6)	1.6	1.8
Total provisions	58.4	(6.7)	(6.0)	17.2	62.9

The deferred tax provision arises as a consequence of timing differences between the recognition of certain items for tax compared to their recognition under generally accepted accounting practice. An analysis of the impact of these items on the deferred tax provision is provided below.

<i>£ million</i>	2006	2005 As Restated
Accelerated capital allowances	43.9	43.2
Other timing differences	(0.6)	(0.7)
	43.3	42.5

It is anticipated that all existing provisions will be utilised or the circumstances currently requiring provision to be made will no longer exist within the next five years.

The claims provision represents the anticipated costs of claims made by third parties to the extent they are not recoverable from the company's insurers.

The onerous lease provision reflects the difference between future lease payments arising on certain assets and the value of those assets to the business discounted at the company's marginal cost of capital.

The redundancy provision reflects committed costs of future redundancies at 31 March 2006.

The environmental provision represents the anticipated future costs of rectifying pollution at sites occupied by the company.

English Welsh & Scottish Railway Limited

Notes (continued)

19 Called up share capital

£ million

Authorised

26,947,932 Ordinary shares of £1 each
At 1 April 2005 and 31 March 2006

26.9

Allotted, called up and fully paid

18,947,932 Ordinary shares of £1 each
At 1 April 2005 and 31 March 2006

18.9

20 Reserves

£ million

	Revaluation Reserve	Share Premium Account	Capital Reserve (As Restated)	Profit and loss account (As Restated)
At 1 April 2005 (as previously reported)	-	71.8	33.8	58.2
Prior year adjustment – FRS 17 Adoption	-	-	(25.1)	(18.2)
At 1 April 2005 as restated	-	71.8	8.7	40.0
Retained profit for the year	-	-	-	7.3
Actuarial gain on pension scheme	-	-	-	27.6
Movement on deferred tax relating to pension scheme	-	-	-	(8.3)
Assets acquired as consideration (see note 11)	7.0	-	-	-
Transfer of realised amount	(0.1)	-	-	0.1
At 31 March 2006	<u>6.9</u>	<u>71.8</u>	<u>8.7</u>	<u>66.7</u>

21 Commitments and Contingent Liabilities

- (i) Capital commitments at the end of the financial year for which no provision has been made.

£ million

2006

2005

Contracted

2.6

0.8

- (ii) There were no commitments at the year end to enter into finance leases starting after the year end.

English Welsh & Scottish Railway Limited

Notes (continued)

21 Commitments and Contingent Liabilities (continued)

- (iii) Annual commitments under non-cancellable operating leases for land and buildings and equipment delivered by the year end are as follows:

<i>£ million</i>	2006			2005		
	Land and buildings	Plant and machinery	Other	Land and buildings	Plant and machinery	Other
Operating leases which expire:						
Within one year	0.6	-	0.2	0.1	-	0.6
In the second to fifth years inclusive	-	-	1.0	0.1	-	0.6
Over five years	0.7	43.4	-	0.9	43.2	-
	<u>1.3</u>	<u>43.4</u>	<u>1.2</u>	<u>1.1</u>	<u>43.2</u>	<u>1.2</u>

- (iv) Currency Contracts

At the year end the company has a number of forward contracts all of which mature on or before 30 September 2006 to sell €1.5 million.

- (v) Interest Rate Contracts

The company has a three year GBP LIBOR interest rate cap with a strike rate of 5.5%. The principle amount hedged is £60 million until 31 May 2006, £40 million until 31 May 2007 and £20 million until 31 May 2008.

- (vi) Regulatory Matters

In the ordinary course of business the company is required to respond to queries and periodic investigations from regulatory bodies, which could potentially result in penalties or fines if the regulatory bodies finds against the Company. As at 31 March 2006 the matters outstanding, in the opinion of the Directors, are not expected to have a materially adverse effect.

22 Pension Scheme

The group's main pension scheme for employees is a final salary defined benefits scheme.

The latest full actuarial valuation for this scheme was carried out at 31 December 2004 and showed that the market value of the scheme's assets was £612.7 million and that the actuarial value of those assets represented at least 99% of the liabilities for benefits that have accrued to members after allowing for expected future increases in pensionable earnings.

This actuarial valuation has provided the starting point for the calculation of the current position under FRS 17. The roll forward to the 31 March 2006 (and prior year comparative) has been performed by a qualified independent actuary.

English Welsh & Scottish Railway Limited

Notes (continued)

22 Pension scheme (continued)

The most significant financial assumptions behind the FRS 17 calculations are as follows:

	2006	2005	2004
• Inflation rate	2.75%	2.75%	2.75%
• Salary inflation	3.85%	3.85%	3.85%
• Promotional salary increases	0.40%	0.40%	0.40%
• Pension growth	2.75%	2.75%	2.75%
• Discount rate	5.00%	5.50%	5.50%

The fair value of assets in the scheme and the expected rate of return were as follows:

£ million	Value at 31 March 2006	Expected rate of return as at 31 March 2006	Value at 31 March 2005	Expected rate of return as at 31 March 2005	Value at 31 March 2004	Expected rate of return as at 31 March 2004
Equities	659.1	7.8%	519.0	8.0%	486.7	8.5%
Bonds	50.6	4.7%	42.8	5.0%	39.5	5.0%
Property	37.9	6.3%	31.5	6.5%	42.3	6.5%
Other	37.4	4.0%	30.3	4.0%	-	4.0%
Total	<u>785.0</u>		<u>623.6</u>		<u>568.5</u>	

The following amounts at 31 March 2006 were measured in accordance with the requirements of FRS17

£ million	2006	2005	2004
Total market value of assets	785.0	623.6	568.5
Present value of scheme liabilities, including members' agreed contribution reductions	(774.3)	(662.7)	(639.2)
Members' share of (surplus) / deficit	(4.2)	21.9	39.0
Surplus / (deficit) in scheme	6.5	(17.2)	(31.7)
Related deferred tax (liability) / asset	(2.0)	5.1	9.5
Net pension asset / (liability)	<u>4.5</u>	<u>(12.1)</u>	<u>(22.2)</u>

English Welsh & Scottish Railway Limited

Notes (continued)

22 Pension scheme (continued)

Analysis of movement in pension position during the during the year

£ million	2006	2005	2004
Deficit in the scheme at 1 April 2005	(17.2)	(31.7)	(55.7)
Current service cost	(16.9)	(16.9)	(16.6)
Contributions	7.1	7.1	1.9
Past service cost	-	-	(0.2)
Other finance income	5.9	3.5	2.1
Actuarial gains	27.6	20.8	36.8
Surplus / (Deficit) in the scheme at 31 March 2006	6.5	(17.2)	(31.7)

Analysis of other pension costs charged in arriving at operating profit:

£ million	2006	2005	2004
Amounts included within operating profit			
Current service cost	16.9	16.9	16.6
Past service cost	-	-	0.2
Total charge to operating profit	16.9	16.9	16.8

£ million	2006	2005	2004
Amounts included as other finance costs			
Expected return on pension scheme assets	27.8	25.9	21.2
Interest cost on pension scheme liabilities	(21.9)	(22.4)	(19.1)
Net finance return	5.9	3.5	2.1

£ million	2006	2005	2004
Amounts included within Statement of Total Recognised Gains and Losses			
Difference between actual and expected return on scheme assets	78.1	16.6	62.5
Percentage of closing fund assets	16.6%	4.4	18.3%
Experience gains and losses arising on scheme liabilities	19.6	4.2	(9.1)
Percentage of closing scheme liabilities	4.2%	1.1	(2.4%)
Effect of changes in assumptions underlying the present value of scheme liabilities	(70.1)	-	(16.6)
Percentage of closing scheme liabilities	(15.1%)	-%	(4.3%)
Total actuarial losses recognised in the Statement of Total Recognised Gains and Losses	27.6	20.8	36.8
Percentage of closing scheme liabilities	5.9%	5.3	9.6%
Deferred tax movement	(8.3)	(6.2)	(11.0)
Net impact on Statement of Total Recognised Gains and Losses	19.3	14.6	25.8

English Welsh & Scottish Railway Limited

Notes *(continued)*

22 Pension scheme *(continued)*

In addition, the group operates a defined contribution pension scheme under which employee contributions as at 10 December 1996 are matched on a pound for pound basis. Subsequent increases in employee contributions are not matched.

The plan holds some additional funds for members that will be used to purchase additional benefits at retirement on a money purchase basis.

23 Ultimate parent company

The company is a subsidiary undertaking of Boreal & Austral Limited which is incorporated and registered in England and Wales. The largest group in which the results of the company are consolidated is that headed by English Welsh & Scottish Railway Holdings Limited.