

English Welsh & Scottish Railway Limited

Directors' report and financial statements

31 March 2007

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 2007

Principal activities

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

Principal Risks

From the perspective of the company, the principal risks and uncertainties are integrated with the principal risks of the group and are not managed separately. Accordingly, the principal risks of the English Welsh & Scottish Railway Holdings Limited, which include those of the company, are discussed in the group's annual report, which does not form part of this report

Key Performance Indicators (KPIs)

During the year the directors of English Welsh & Scottish Railway Holdings Limited have moved from a functional organisation structure for managing the group to a business unit basis. For this reason, the company's directors believe that analysis using key performance indicators for the company is not necessary or appropriate for an understanding of the development, performance or position of the business. The business of the company is now managed as part of 5 business units.

The development, performance and position of the English Welsh & Scottish Railway Holdings Limited, which includes the company, is discussed in the group's annual report, which does not form part of this report

Business review and results

The company's profit on ordinary activities before taxation for the year is £17.0 million (2006 Restated Profit £10.7 million)

Dividends

The directors recommend that no dividend be paid (2006: £Nil). Accordingly, the retained profit of £13.6 million (2006: Restated Profit £7.2 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
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.

English Welsh & Scottish Railway Limited

Directors' report (continued)

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

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

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

Future Prospects

The external commercial environment is expected to remain competitive in the year ahead, however, we remain confident that we will maintain and build on our current level of performance in the future

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

English Welsh & Scottish Railway Limited

Directors' report (continued)

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

A handwritten signature in black ink, appearing to read 'M K Davies', followed by a long horizontal flourish.

M K Davies
Company Secretary
McBeath House
310 Goswell Road
London
EC1V 7LW

23 May 2007

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 2007 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

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 4.

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 other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

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 2007 and of the profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1995, and
- the information given in the Directors' Report is consistent with the financial statements,



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

23 May 2007

English Welsh & Scottish Railway Limited

Profit and loss account

For the year ended 31 March 2007

<i>£ million</i>	<i>Note</i>	2007	2007	2006	2006
				As Restated (Note 1)	As Restated (Note 1)
Turnover	2		463 9		485 3
Operating costs excluding exceptional costs	3 & 5		(449 0)		(466 0)
Operating profit before exceptional costs			<u>14 9</u>		<u>19 3</u>
Exceptional costs	5		(16 3)		(14 7)
Total operating costs			<u>(465 3)</u>		<u>(480 7)</u>
Operating (loss) / profit			<u>(1 4)</u>		<u>4 6</u>
Profit on sale of fixed assets			13 6		8 3
EBIT			<u>12 2</u>		<u>12 9</u>
Other finance income	8	11 1		5 9	
Net interest payable and similar charges	9	<u>(6 3)</u>		<u>(8 1)</u>	
			4 8		(2 2)
Profit on ordinary activities before taxation	4		<u>17 0</u>		<u>10 7</u>
Tax on profit on ordinary activities	10		(3 4)		(3 5)
Retained profit on ordinary activities after taxation			<u>13 6</u>		<u>7 2</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 2007

£ million	Note	2007	2006 As Restated (Note 1)
Profit for the financial year		13 6	7 2
Actuarial gain on pension scheme	23	36 3	27 6
Movement on deferred tax relating to pension asset	23	(10 9)	(8 3)
Assets acquired as consideration	11	-	7 0
Total recognised gains and losses relating to the year		<u>39 0</u>	<u>33 5</u>
Prior year adjustment – adoption of FRS 20	1	(0 3)	
Total recognised gains and losses for the year		<u><u>38 7</u></u>	

English Welsh & Scottish Railway Limited

Balance sheet

At 31 March 2007

£ million	Note	2007	2006
			As Restated (Note 1)
Fixed assets			
Goodwill	12	0 5	0 5
Tangible assets	11	336 5	318 9
		<u>337 0</u>	<u>319 4</u>
Current assets			
Stocks	13	19 6	18 2
Debtors due within one year	14	95 0	78 1
Cash at bank and in hand		0 5	-
		<u>115 1</u>	<u>96 3</u>
Creditors: amounts falling due within one year	15	<u>(141 7)</u>	<u>(141 5)</u>
Net current liabilities		<u>(26 6)</u>	<u>(45 2)</u>
Total assets less current liabilities		310 4	274 2
Creditors: amounts falling due after more than one year	16	(66 8)	(39 0)
Deferred income due after more than one year	17	(4 5)	(3 8)
Provisions for liabilities and charges	18	(61 5)	(63 2)
Net assets excluding pension asset / (liability)		<u>177 6</u>	<u>168 2</u>
Pension asset / (liability)	23	34 1	4 5
Net assets including pension asset / (liability)		<u>211 7</u>	<u>172 7</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 8	6 9
Profit and loss account	20	105 5	66 4
Equity shareholders' funds		<u>211 7</u>	<u>172 7</u>

These financial statements were approved by the board of directors on 23 May 2007 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 2007

£ million	Note	2007	2006 As Restated (Note 1)
Profit for the year		13 6	7 2
Assets acquired as consideration	11	-	7 0
Actuarial gain on pension scheme	23	36 3	27 6
Movement on deferred tax relating to pension scheme	23	(10 9)	(8 3)
Net increase in shareholders' funds		<u>39 0</u>	<u>33 5</u>
Opening shareholders' funds as previously reported		173 0	139 4
Prior year adjustment – adoption of FRS 20	1	(0 3)	(0 2)
Opening shareholders' funds as restated		<u>172 7</u>	<u>139 2</u>
Closing shareholders' funds		<u>211 7</u>	<u>172 7</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 2007, the company had net current liabilities of £26.6 million. 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 20, 'Share Based Payments', 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 20 was to increase staff costs by £0.1 million (2006: £0.1 million). The overall impact, therefore, was to decrease the profit for the year by £0.1 million (2006: £0.1 million) and to reduce shareholders' funds by £0.4 million (2006: £0.3 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)

Share Based Payment Transactions

The group issues equity share-based instruments to certain employees that are akin to share appreciation rights. In accordance with FRS 20 'Share-based payment', the resulting cost of these cash settled instruments is charged to the profit and loss account over the vesting period with the liability recorded within creditors. The value of charge is adjusted to reflect expected and actual levels of vesting.

Fair value is measured at the grant date using the Black-Scholes model. The group has fair valued all grants of equity instruments after 7 November 2002, which were unvested as of 1 January 2005.

The implementation of FRS 20 has resulted in a reduction of the company's previously reported net assets of £0.3 million at 31 March 2006, and a decrease to the previously reported profits of £0.1 million.

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>	2007	2006 As Restated (Note 1)
Raw materials and consumables (raw materials and fuel)	77.8	76.4
Other external charges	104.6	130.0
Staff costs (Note 7)	206.2	197.9
Operating lease rentals	50.9	46.4
Depreciation and other amounts written off tangible fixed assets including amortisation of grants	25.8	30.0
	<u>465.3</u>	<u>480.7</u>

English Welsh & Scottish Railway Limited

Notes (continued)

4 Profit on ordinary activities before taxation

£ million	2007	2006
<i>Profit on ordinary activities before taxation is stated after charging</i>		
Auditors' remuneration		
- Audit	0.2	0.2
- Other services	-	0.1
Depreciation and other amounts written off tangible fixed assets		
- owned	23.5	22.8
- owned accelerated depreciation (Note 5)	2.5	6.9
- leased	0.3	1.1
Rentals payable under operating leases		
- plant and machinery	45.6	45.1
- other	1.6	1.3
Other exceptional items (Note 5)	13.8	7.8
<i>after crediting</i>		
Government Grants	0.2	0.3
Amortisation of other contributions to capital expenditure	0.3	0.5
Management charge to other group companies	7.9	3.5
Rents receivable from property	12.5	10.7

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

5 Exceptional Costs

£ million	2007	2006
Redundancy costs	9.0	7.8
ORR fine and legal expenses	4.8	-
Accelerated depreciation on certain tangible assets	2.5	6.9
	<u>16.3</u>	<u>14.7</u>

As part of the transformation of the UK business a number of headcount savings have been either realised or identified during the year and some assets have been found to be surplus to future requirements. As at 31 March 2007 this process is ongoing, but where redundant posts have been identified and communicated a provision has been raised.

On 17 November 2006, following an investigation that commenced in February 2001, the Office of Rail Regulator notified EWS of its decision that the company had infringed the prohibition contained in Chapter II of the Competition Act 1998 and Article 82 of the EC Treaty of anti-competitive behaviour. The exceptional charge reflects the fine imposed and the associated legal expenses.

The tax effect of the above transactions was to reduce the company's tax charge by £3.3 million (2006 £2.3 million).

English Welsh & Scottish Railway Limited

Notes (continued)

6 Remuneration of directors

	2007	2006
Aggregate emoluments of directors	<u>£633,552</u>	<u>£594,652</u>

The highest paid director received emoluments of £571,552 in the year (2006 £544,332)

No directors had benefits accruing under a defined benefit pension scheme or exercised any options during the current year (2006 £nil)

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

7 Staff numbers and costs

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

	2007 No.	2006 No.
Management and operation of rail freight and associated services	<u>4,354</u>	<u>4,695</u>

The aggregate payroll costs of these persons were as follows

£ million	2007	2006 As Restated (Note 1)
Wages and salaries	160.2	153.9
Social security costs	13.6	12.9
Other pension costs (Note 23)	16.8	16.3
Other staff costs	15.6	14.8
	<u>206.2</u>	<u>197.9</u>

8 Other finance income

£ million	2007	2006
Expected return on pension scheme assets	34.2	27.8
Interest on pension scheme liabilities	(23.1)	(21.9)
	<u>11.1</u>	<u>5.9</u>

English Welsh & Scottish Railway Limited

Notes (continued)

9 Net interest payable and similar charges

<i>£ million</i>	2007	2006
Interest payable and similar charges		
On bank loans and overdrafts wholly repayable within five years	(4 4)	(4 2)
Interest payable to other group companies	(1 9)	(3 9)
	<u>(6 3)</u>	<u>(8 1)</u>

10 Taxation

Analysis of charge for the year

<i>£ million</i>	2007	2006
<i>Current tax</i>		
UK corporation tax	3 4	4 7
Adjustments in respect of previous periods	(1 5)	(0 8)
	<u>1 9</u>	<u>3 9</u>
<i>Deferred tax</i>		
Origination and reversal of timing differences – current year	1 1	(0 1)
Origination and reversal of timing differences – prior years	0 4	(0 3)
	<u>3 4</u>	<u>3 5</u>

Factors affecting the tax charge for the year

<i>£ million</i>	2007	2006
Profit on ordinary activities before tax	<u>17 0</u>	<u>10 7</u>
Profit on ordinary activities before tax multiplied by the standard rate of UK corporation tax of 30% (2006 30%)	5 1	3 2
<i>Effects of</i>		
Expenses not deductible for tax purposes	1 7	1 5
Capital allowances in excess of depreciation	(4 8)	(0 7)
Other timing differences	(2 3)	0 7
Chargeable gains	3 7	
Adjustments to tax charge in respect of previous periods	(1 5)	(0 8)
Current tax charge for the period	<u>1 9</u>	<u>3 9</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 2006	67.5	352.5	96.8	39.3	11.9	568.0
Additions	-	48.2	0.1	1.5	16.8	66.6
Disposals	(3.2)	(27.5)	(2.7)	(0.4)	-	(33.8)
Transfers	0.2	9.9	3.9	2.1	(16.1)	-
Intra Group Transfers	-	-	-	-	(0.1)	(0.1)
Reclassifications	(0.2)	(0.1)	0.4	(0.1)	-	-
At 31 March 2007	64.3	383.0	98.5	42.4	12.5	600.7
<i>Accumulated depreciation</i>						
At 1 April 2006	(14.7)	(164.0)	(57.6)	(12.8)	-	(249.1)
Charge for the year	(2.0)	(11.0)	(8.6)	(2.1)	-	(23.7)
Accelerated depreciation	(0.9)	(0.5)	(1.0)	(0.1)	-	(2.5)
On disposals	0.3	9.1	1.6	0.1	-	11.1
Reclassifications	-	0.3	(0.3)	-	-	-
At 31 March 2007	(17.3)	(166.1)	(65.9)	(14.9)	-	(264.2)
<i>Net book value</i>						
At 31 March 2007	47.0	216.9	32.6	27.5	12.5	336.5
At 31 March 2006	52.8	188.5	39.2	26.5	11.9	318.9

Analysis of land and buildings

<i>£ million</i>	2007	2006
At cost	40.1	45.8
At valuation	6.9	7.0
	<u>47.0</u>	<u>52.8</u>

The net book value of land and buildings comprises

<i>£ million</i>	2007	2006
Freehold	37.1	34.9
Long leasehold	9.7	17.5
Short leasehold	0.2	0.4
	<u>47.0</u>	<u>52.8</u>

English Welsh & Scottish Railway Limited

Notes (continued)

11 Tangible fixed assets (continued)

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

£ million	2007	2006
Cost	57.2	60.5
Aggregate depreciation	(17.1)	(14.6)
Net book amount	<u>40.1</u>	<u>45.9</u>

Assets held under finance leases

£ million	Rolling stock
Cost:	
At 1 April 2006 and 31 March 2007	<u>6.4</u>
Depreciation	
At 1 April 2006	(4.0)
Charge for the year	(0.3)
At 31 March 2007	<u>(4.3)</u>
Net book value	
At 31 March 2007	<u>2.1</u>
At 1 April 2006	<u>2.4</u>

12 Goodwill

£ million	
Gross Value	
At 1 April 2006 and 31 March 2007	<u>0.7</u>
Accumulated Amortisation	
At 1 April 2006	(0.2)
Amortisation of goodwill during the year	-
At 31 March 2007	<u>(0.2)</u>
Net Book Value	
At 31 March 2007	<u>0.5</u>
At 31 March 2006	<u>0.5</u>

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>	2007	2006
Amounts falling due within one year		
Trade debtors	51.6	54.7
Amounts owed by group undertakings	25.1	7.4
Other debtors	1.6	3.3
Prepayments and accrued income	16.7	12.7
	<u>95.0</u>	<u>78.1</u>

15 Creditors amounts falling due within one year

<i>£ million</i>	2007	2006
Trade creditors	46.6	43.0
Amounts owed to group undertakings	42.3	45.1
Other creditors including taxation and social security		
Other taxes and social security	11.8	14.1
Other creditors	6.1	5.1
Deferred income	0.5	1.2
Accruals	33.9	31.8
Bank overdraft	-	1.1
Interest payable	0.5	0.1
	<u>141.7</u>	<u>141.5</u>

16 Creditors: amounts falling due after more than one year

<i>£ million</i>	2007	2006
Bank loans	<u>66.8</u>	<u>39.0</u>

Interest Rates and Security on Loans

At 31 March 2007 the loan facilities consisted of a debt purchase agreement, a plant and machinery loan agreement and a property loan agreement, with an aggregated total availability of £150 million

The facilities are guaranteed by the ultimate parent company English Welsh & Scottish Railway Holdings Limited and its wholly owned subsidiaries English Welsh & Scottish Railways Limited, 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. Interest accrues at LIBOR plus a margin. The margin is calculated monthly and is dependent on the total amount borrowed in that month, starting at 100 basis points. Commitment fees are incurred on the non-utilised amounts at 0.4%

The facilities reduce to £135 million on 17 July 2008, £114m on 17 July 2009, £93m on 17 July 2010 and cease to be available on 17 July 2011

English Welsh & Scottish Railway Limited

Notes (continued)

17 Deferred income due after more than one year

<i>£ million</i>	2007	2006
Government capital grants	2 0	1 5
Other contributions to capital expenditure	2 4	2 3
Other deferred income	0 1	-
	<u>4 5</u>	<u>3 8</u>

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

At 1 April 2006	2 4
Credited to profit and loss account	(0 2)
At 31 March 2007	<u>2 2</u>

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

At 1 April 2006	2 6
Received during the year	0 4
Credited to profit and loss account	(0 3)
At 31 March 2007	<u>2 7</u>

18 Provisions for liabilities and charges

<i>£ million</i>	At 1 April 2006 As Restated (Note 1)	Utilised during the year	Unutilised amounts released in the year	Provisions created in the year	At 31 March 2007
Deferred tax provision	43 3	(0 3)	-	-	43 0
Redundancy provision	5 1	(4 4)	(0 7)	5 8	5 8
Claims provision	8 1	(3 3)	(2 3)	2 9	5 4
Onerous lease provision	2 5	(0 3)	-	-	2 2
Environmental provision	2 1	(0 3)	(0 8)	0 1	1 1
Other provisions	2 1	-	(1 7)	3 6	4 0
Total provisions	<u>63 2</u>	<u>(8 6)</u>	<u>(5 5)</u>	<u>12 4</u>	<u>61 5</u>

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>	2007	2006 As Restated
Accelerated capital allowances	42 2	43 9
Other timing differences	0 8	(0 6)
	<u>43 0</u>	<u>43 3</u>

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.

English Welsh & Scottish Railway Limited

Notes (continued)

18 Provisions for liabilities and charges (continued)

The redundancy provision reflects committed costs of future redundancies at 31 March 2007

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

19 Called up share capital

£ million

Authorised

26,947,932 Ordinary shares of £1 each
At 1 April 2006 and 31 March 2007

26.9

Allotted, called up and fully paid

18,947,932 Ordinary shares of £1 each
At 1 April 2006 and 31 March 2007

18.9

20 Reserves

£ million

	Revaluation Reserve	Share Premium Account	Capital Reserve	Profit and loss account
At 1 April 2006 as previously reported	6.9	71.8	8.7	66.7
Prior year adjustment – adoption of FRS 20	-	-	-	(0.3)
At 1 April 2006 as restated	6.9	71.8	8.7	66.4
Retained profit for the year	-	-	-	13.6
Actuarial gain on pension scheme	-	-	-	36.3
Movement on deferred tax relating to pension scheme	-	-	-	(10.9)
Transfer of realised amount	(0.1)	-	-	0.1
At 31 March 2007	6.8	71.8	8.7	105.5

English Welsh & Scottish Railway Limited

Notes (continued)

21 Share based payments

The group operates two share-based payment schemes, a Savings for Shares Share Option Plan and a Senior Management Equity Unit Plan. As discussed in Note 1 the group has now adopted FRS 20 *Share-based payment*, and accordingly has fair valued all grants of equity instruments and shadow equity instruments made after 7 November 2002, which were unvested as of 1 January 2005. No options have been granted in the relevant period in respect of the Savings for Shares Share Option Plan.

Employee Equity Unit Plan

In January 2005 the Senior Management Equity Unit Plan was introduced and under the plan the Board may grant equity units (shadow equity instruments), at any time, to selected employees of the group.

The equity unit value and the vesting date are determined by the Board at the date of grant. The employee is entitled to the cash value of the increase in the value of these instruments on the occurrence of an exiting event. The scheme is cash settled.

Options are valued using the Black-Scholes option pricing model. The following table sets out the key assumptions applied.

	1 Jan 2007	1 Jan 2006	1 Jul 2005	1 Jan 2005
Risk-free interest rate	5.13%	4.21%	4.09%	4.48%
Expected volatility				
Expected forfeitures	3.00%	3.00%	3.00%	3.00%
Exercise price	£3.15	£3.57	£3.57	£2.72
Fair value per option	£0.10	£0.11	£0.13	£0.30
Number of options granted	495,000	630,000	120,000	995,000

The expected volatility is based on historical volatility of similar listed entities. The risk-free rate of return is the yield on zero-coupon UK government bonds of a term consistent with the expected option life.

For the purposes of these calculations the 'price' of an EWS share, at the respective dates, has been calculated in accordance with the rules of FRS 20 by a third party expert. It should be noted that this share price, therefore, does not necessarily represent the market value of an EWS share that may be realised in an open market transaction.

The following tables reconcile the number of share options outstanding and the weighted average exercise price (WAEP).

	2007		2006	
	Number	WAEP £	Number	WAEP £
Outstanding at start of period	1,860,000	3.08	1,090,000	2.72
Granted	495,000	3.15	835,000	3.53
Forfeited	(140,000)	3.02	(65,000)	2.85
Outstanding at end of period	2,215,000	3.10	1,860,000	3.08

The total charge for the period was £0.1m (2006: £0.1m).

English Welsh & Scottish Railway Limited

Notes (continued)

22 Commitments and Contingent Liabilities

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

£ million	2007	2006
Contracted	<u>104.2</u>	<u>2.6</u>

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

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

£ million	2007			2006		
	Land and buildings	Plant and machinery	Other	Land and buildings	Plant and machinery	Other
Operating leases which expire						
Within one year	-	-	0.3	0.6	-	0.2
In the second to fifth years inclusive	0.3	0.1	1.1	-	-	1.0
Over five years	0.7	43.6	-	0.7	43.4	-
	<u>1.0</u>	<u>43.7</u>	<u>1.4</u>	<u>1.3</u>	<u>43.4</u>	<u>1.2</u>

- (iv) Currency Contracts

At the year end the company had two forward contracts in place to purchase \$147.4 million Canadian Dollars in order to hedge currency exposure on future transactions (2006 \$nil) No contracts have been entered into to sell currency (2006 €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.

In addition, on 15 November 2006 the company entered into a three year GBP LIBOR interest rate collar commencing from 2 January 2007 until 4 January 2010. The notional amount hedged is £40 million at a cap rate of 6.00% with a floating rate down to 4.49% and a floor rate of 5.35% should the floating rate fall below 4.49%.

- (vi) Legal & Regulatory Matters

In the ordinary course of business the company is required to address contractual issues and queries from customers and periodic queries and investigations from government regulatory bodies, which could potentially result in adverse financial consequences for the Company. As at 31 March 2007 the matters outstanding, in the opinion of the Directors, are not expected to have a materially adverse effect.

English Welsh & Scottish Railway Limited

Notes (continued)

23 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 2007 has been performed by a qualified independent actuary

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

	2007	2006	2005
• Inflation rate	2.90%	2.75%	2.75%
• Salary inflation	4.00%	3.85%	3.85%
• Promotional salary increases	0.40%	0.40%	0.40%
• Pension growth	2.90%	2.75%	2.75%
• Discount rate	5.35%	5.00%	5.50%

The mortality assumptions adopted in the actuarial valuations have been amended to assume that pensioners have a longer life expectancy. The mortality assumptions used in the valuation of the defined benefit pension liabilities of the group's scheme are summarised in the table below and have been selected to reflect the characteristics and experiences of the Railways Pension Scheme as a whole. It is assumed that mortality in retirement will follow a table based on PXA92 (c=2003) mortality tables, including an addition to the liability value for pensioners of 3% and for non-pensioners of 7.5%, to allow for future improvements in life expectancy.

	2007 Years	2006 Years
Longevity at age 60 for current pensioners:		
- Men	24.0	24.0
- Women	27.0	27.0
Longevity at age 60 for future pensioners:		
- Men	25.5	25.5
- Women	28.5	28.5

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

£ million	Value at 31 March 2007	Expected rate of return as at 31 March 2007	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
Equities	619.4	8.25%	659.1	7.80%	519.0	8.00%
Bonds	106.7	5.20%	50.6	4.70%	42.8	5.00%
Property	63.6	7.00%	37.9	6.30%	31.5	6.50%
Cash	0.9	5.25%	37.4	4.00%	30.3	4.00%
Other	64.6	6.50%	-	-	-	-
Total	<u>855.2</u>		<u>785.0</u>		<u>623.6</u>	

English Welsh & Scottish Railway Limited

Notes (continued)

23 Pension scheme (continued)

The following amounts at 31 March 2007 were measured in accordance with the requirements of FRS17

£ million	2007	2006	2005
Total market value of assets	855 2	785 0	623 6
Present value of scheme liabilities, including members' agreed contribution reductions	(773 9)	(774 3)	(662 7)
Members' share of (surplus) / deficit	(32 6)	(4 2)	21 9
Surplus / (deficit) in scheme	48 7	6 5	(17 2)
Related deferred tax (liability) / asset	(14 6)	(2 0)	5 1
Net pension asset / (liability)	34 1	4 5	(12 1)

Analysis of movement in pension position during the year

£ million	2007	2006	2005
Surplus / (deficit) in the scheme at 1 April	6 5	(17 2)	(31 7)
Current service cost	(17 6)	(16 9)	(16 9)
Settlements and curtailments	1 9	-	-
Contributions	10 5	7 1	7 1
Other finance income	11 1	5 9	3 5
Actuarial gains	36 3	27 6	20 8
Surplus / (Deficit) in the scheme at 31 March	48 7	6 5	(17 2)

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

£ million	2007	2006	2005
Amounts included within operating profit			
Current service cost	17 6	16 9	16 9
Settlements and curtailments	(1 9)	-	-
Total charge to operating profit	15 7	16 9	16 9

£ million	2007	2006	2005
Amounts included as other finance costs			
Expected return on pension scheme assets	34 2	27 8	25 9
Interest cost on pension scheme liabilities	(23 1)	(21 9)	(22 4)
Net finance return	11 1	5 9	3 5

English Welsh & Scottish Railway Limited

Notes (continued)

23 Pension scheme (continued)

<i>£ million</i>	2007	2006	2005
Amounts included within Statement of Total Recognised Gains and Losses			
Difference between actual and expected return on scheme assets	19.9	78.1	16.6
Percentage of closing fund assets	3.9%	16.6%	4.4%
Experience gains and losses arising on scheme liabilities	1.1	19.6	4.2
Percentage of closing scheme liabilities	0.2%	4.2%	1.1%
Effect of changes in assumptions underlying the present value of scheme liabilities	15.3	(70.1)	-
Percentage of closing scheme liabilities	3.3%	(15.1%)	-%
Total actuarial gains and losses recognised in the Statement of Total Recognised Gains and Losses	<u>36.3</u>	<u>27.6</u>	<u>20.8</u>
<i>Percentage of closing scheme liabilities</i>	7.8%	5.9%	5.3%
Deferred tax movement	(10.9)	(8.3)	(6.2)
Net impact on Statement of Total Recognised Gains and Losses	<u>25.4</u>	<u>19.3</u>	<u>14.6</u>

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.

24 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.