DB Schenker Rail (UK) Limited

(formerly English Welsh & Scottish Railway Limited)

Directors' report and financial statements

For the year ended 31 December 2008

Registered number 2938988

DB Schenker Rail (UK) Limited
(formerly English Welsh & Scottish Railway Limited)

Directors' report and financial statements

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Directors' report

The directors present their report and the audited financial statements of the company for the year ended 31 December 2008.

Principal activities

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

On 18 December 2008, the company changed its name from English Welsh and Scottish Railway Limited to DB Schenker Rail (UK) Limited.

Business review and future developments

The company's profit on ordinary activities before taxation for the year is £21 million (nine month period ended 31 December 2007: Loss of £3 million). The company's retained profit for the year is £19 million (nine month period ended 31 December 2007: Loss of £10 million). Both the level of business and the year end financial position were satisfactory. The external commercial environment is expected to remain competitive in the year ahead, however, the directors remain confident that the company will maintain and build on the current level of performance in the future.

Principal risks and uncertainties

The management of the business and the execution of the company's strategy are subject to a number of risks.

From the perspective of the company, the principal risks and uncertainties are integrated with the principal risks of English Welsh & Scottish Railway Holdings Limited and all its subsidiary undertakings (the "EWS group") and are not managed separately. The principal risks of the EWS group are disclosed in the separate financial statements of the intermediate parent company, English Welsh & Scottish Railway Holdings Limited.

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 directors review these risks and approve guidelines covering the use of financial instruments to manage these risks and define the overall risk limits. All the company's financial instruments are arranged through the Deutsche Bahn group treasury function and are held for risk management purposes.

Key Performance Indicators (KPIs)

The directors of the EWS group manage the group's operations on a divisional 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 of DB Schenker Rail UK Ltd.

The development, performance and position of all EWS group companies are reported within the consolidated results of Deutsche Bahn AG, the ultimate parent company. The financial statements of Deutsche Bahn AG can be viewed at www.db.de.

Directors' report (continued)

Results and dividends

The results for the company show a pre-tax profit of £21 million (nine month period ended 31 December 2007: Loss of £3 million) and revenue of £464 million for the year ended 31 December 2008 (nine month period ended 31 December 2007: £328 million).

The directors do not recommend the payment of a dividend (nine month period ended 31 December 2007: £nil).

Directors

The directors who held office during the year were as follows:

K.L. Heller	
S.P. Butcher	(Resigned 9 June 2008)
M. Lawrence	(Appointed 9 June 2008)

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 period, 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.

Political and Charitable Donations

EWS senior management attend dinners held by both of the main political parties. This expenditure of £31,500 (nine month period ended 31 December 2007: £41,020) is considered to constitute a political donation. No other political donations were, however, incurred (Nine month period ended 31 December 2007: £nil).

Charitable donations of £11,407 (Nine month period ended 31 December 2007: £19,586) were made, but in addition time and resources were also made available as part of our charitable endeavours.

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. No specific code is followed.

Directors' report (continued)

Post Balance Sheet Event
Subsequent to the year end, land and buildings with a total net book value of £5 million was disposed for a total sales consideration of £22 million.

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.

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 period. 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 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 confirm that they have complied with the above requirements in preparing the financial statements.

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 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.

Directors' report (continued)

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

The auditors, PricewaterhouseCoopers LLP, were appointed in accordance with Section 384 of the Companies Act 1985.

By order of the board

M. Lawrence
Director

15 January 2010

Independent auditors' report to the members of DB Schenker Rail (UK) Limited.

We have audited the financial statements of DB Schenker Rail (UK) Limited *(formerly English Welsh & Scottish Railway Limited)* for the year ended 31 December 2008 which comprises the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Reconciliation of Movements in Shareholders' Funds and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Directors' 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 3.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 Directors' 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.

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 December 2008 and of its profit 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.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Sheffield

15 January 2010

DB Schenker Rail (UK) Limited

(formerly English Welsh & Scottish Railway Limited)

Profit and loss account

	Note	**Year ended 31 Dec 2008** *£ million*	**9 months to 31 Dec 2007** *£ million*
Turnover	2	464	328
Operating costs		(444)	(319)
Exceptional costs	4	(15)	(20)
Total operating costs		(459)	(339)
Operating profit/(loss)		5	(11)
Profit on sale of fixed assets		39	1
Other finance income	7	11	11
Net interest payable and similar charges	8	(34)	(4)
Profit/(loss) on ordinary activities before taxation	3	21	(3)
Tax on profit/(loss) on ordinary activities	9	(2)	(7)
Retained profit/(loss) for the financial period	19	19	(10)

All of the company's activities are continuing.

Statement of total recognised gains and losses

	Note	**Year ended 31 Dec 2008** *£ million*	**9 months to 31 Dec 2007** *£ million*
Profit/(loss) for the financial period		19	(10)
Actuarial loss on pension scheme	21	(128)	(16)
Movement on deferred tax relating to the actuarial loss on the pension asset	17	36	5
Total recognised gains and losses relating to the period		(73)	(21)

DB Schenker Rail (UK) Limited
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Balance sheet

	Note	**31 Dec 2008** *£ million*	**31 Dec 2007** *£ million*
Fixed assets			
Goodwill	11	-	-
Tangible assets	10	381	381
		381	381
Current assets			
Stocks	12	19	18
Debtors due within one year	13	182	136
Cash at bank and in hand		6	4
		207	158
Creditors: amounts falling due within one year	14	(195)	(162)
Net current assets/(liabilities)		12	(4)
Total assets less current liabilities		393	377
Creditors: amounts falling due after more than one year	15	(154)	(152)
Deferred income due after more than one year	16	(5)	(5)
Provisions for liabilities	17	(63)	(61)
Net assets excluding pension (liability)/asset		171	159
Pension (liability)/asset	21	(53)	32
Net assets including pension (liability)/asset		118	191
Capital and reserves			
Called up share capital	18	19	19
Share premium account	19	72	72
Capital reserve	19	9	9
Revaluation reserve	19	6	6
Profit and loss account	19	12	85
Equity shareholders' funds		118	191

These financial statements on pages 7 to 27 were approved by the board of directors on 15 January 2010 and were signed on its behalf by:

M. Lawrence
Director

Reconciliation of movements in shareholders' funds

	Note	**Year ended 31 Dec 2008** *£ million*	**9 months to 31 Dec 2007** *£ million*
Profit/(loss) for the period		19	(10)
Actuarial loss on pension scheme	21	(128)	(16)
Movement on deferred tax relating to the actuarial loss on the pension scheme	17	36	5
Net decrease in shareholders' funds		(73)	(21)
Opening shareholders' funds		191	212
Closing shareholders' funds		118	191

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 convention.

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 Deutsche Bahn AG, 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 Deutsche Bahn AG group as all of the company's voting rights are controlled within the group.

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

Fixed assets and depreciation
Tangible fixed assets are stated at original cost or valuation 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.

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.

1 Accounting Policies *(continued)*

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.

The company's defined benefit Scheme operates as a section within the Railways Pension Scheme (RPS) which provides pension benefits throughout the railway industry. Under the rules of RPS the cost of accruing benefits is split between the company and employees in a ratio of 60:40. Surpluses or Deficits on the Scheme attributed to the employer in line with this ratio are recorded in the accounts of the company.

The company recognises and discloses its pension obligations in accordance with the shared cost nature of the Scheme as set out above and the measurement and presentational requirements of FRS17 'Retirement Benefits'. The recognition includes a number of adjustments and estimates in respect the expected rate of return on assets, the discount rate, inflation assumptions, rate of increase in salaries and life expectancy, the future joint contribution rate, amongst others.

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.

As the company is the largest contributing employer of the 'EWS Group', and therefore the major sponsoring employer, the full surpluses or deficits of the scheme are disclosed in these financial statements.

Pension scheme surpluses, to the extent that they are considered recoverable, or deficits are recognised on the basis of the company's 60:40 split of contributions 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.

Notes *(continued)*

1 Accounting Policies *(continued)*

Deferred 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.

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.

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 period.

Turnover and operating profit is attributable to the haulage of freight by rail and other related services which wholly arises in the UK.

Notes *(continued)*

3 Profit/(loss) on ordinary activities before taxation

	Year ended 31 Dec 2008 *£ million*	9 months to 31 Dec 2007 *£ million*
Profit/(loss) on ordinary activities before taxation is stated after crediting/(charging):		
Depreciation of tangible fixed assets:		
- owned	(21)	(18)
- owned accelerated depreciation (Note 4)	-	(2)
- leased	(2)	-
Rentals payable under operating leases		
- plant and machinery	(47)	(32)
- other	(1)	(1)
Other exceptional items (Note 4)	(15)	(18)
Government Grants	-	-
Amortisation of other contributions to capital expenditure	1	-
Management charge to other group companies	5	4
Rents receivable from property	18	11

Profit/(loss) on ordinary activities before taxation is also stated after charging:

	Year ended 31 Dec 2008 *£'000*	9 months to 31 Dec 2007 *£'000*
Auditors' remuneration:		
- Audit	223	183
- Other services	26	14

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

4 Exceptional Costs

	Year ended 31 Dec 2008 *£ million*	9 months to 31 Dec 2007 *£ million*
Redundancy costs	9	4
FRS17 curtailment gain	(1)	-
Accrual for third party claim	7	-
Incentive plan/equity unit remuneration	-	10
Exchange loss on retranslation of borrowings	-	4
Accelerated depreciation on certain tangible assets	-	2
	15	20

4 Exceptional Costs *(continued)*

Redundancy costs
The current economic climate has resulted in a number of headcount savings either realised or identified during the year. As at 31 December 2008 this process is ongoing, but where redundant posts have been identified and communicated a provision has been raised.

FRS 17 curtailment gain
The curtailment of pensions due to redundancies and other circumstances has resulted in a curtailment gain under FRS 17.

Accrual for third party claim
A provision has been made for a material claim against the company

Incentive plan/equity unit remuneration
As a result of the acquisition of the EWS group by Deutsche Bahn group on 13 November 2007 all EWS share instruments vested and were settled in cash. Likewise the Long Term Incentive Plan for senior managers vested and was settled in cash. These expenses were charged to the profit and loss account in the nine month period ended 31 December 2007.

Exchange loss on retranslation of borrowings
During the nine month period ended 31 December 2007, exchange losses were incurred on bridging finance taken out to fund deposits paid for locomotives which DB Schenker Rail (UK) Limited had entered into a contract to purchase. When the loan was taken out it was intended that DB Schenker Rail (UK) Limited would sell the locomotives to a third party lessor and the subsequent lease would be denominated in Euros, to match with the Euro revenue that the locomotives would generate in the Group's growing French and international operations. Accordingly, due to the quantum and non-recurring nature of this expense these costs have been recorded as exceptional in the prior period.

Accelerated depreciation on certain tangible assets
As a result of the reorganisation in the nine month period ended 31 December 2007, a number of items within tangible fixed assets were identified as impaired and an accelerated depreciation charge was recorded in the nine month period ended 31 December 2007 to write off the remaining net book value.

The tax effect of the above transactions was to reduce the company's tax charge by £5.2 million (Nine month period ended 31 December 2007: £5.5 million).

5 Remuneration of directors

	Year ended 31 Dec 2008 £	9 months to 31 Dec 2007 £
Aggregate emoluments of directors	743,867	1,402,052

The highest paid director received emoluments of £564,094 in the year (Nine month period ended 31 December 2007: £872,930, including the Long Term Incentive plan and management equity unit payments), which have been recorded in DB Schenker Rail (UK) Limited. In addition, pension contributions totalling £nil (Nine month period ended 31 December 2007: £135,000) were made on behalf of this director.

Notes *(continued)*

5 Remuneration of directors *(continued)*

None of the directors' held share options of the company during the year ended 31 December 2008 (nine month period ended 31 December 2007: nil).

In the nine month period ended 31 December 2007, as a result of the acquisition of the EWS group by Deutsche Bahn AG all outstanding management equity units vested and were settled in cash resulting in payments of £251,500 to the directors. This amount has been included within Exceptional Costs for that period.

In addition in the nine month period ended 31 December 2007, the Long Term Incentive Plan vested and was settled in cash resulting in payments of £590,000 to the directors. Again these amounts have been included in Exceptional Costs for that period.

6 Staff numbers and costs

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

	Year ended 31 Dec 2008 ***No.***	**9 months to 31 Dec 2007** ***No.***
Management and operation of rail freight and associated services	3,744	3,988

The aggregate payroll costs of these persons were as follows:

	Year ended 31 Dec 2008 ***£ million***	**9 months to 31 Dec 2007** ***£ million***
Wages and salaries	142	109
Social security costs	11	9
Other pension costs *(Note 21)*	15	11
Other staff costs	27	20
	195	149

7 Other finance income

	Year ended 31 Dec 2008 ***£ million***	**9 months to 31 Dec 2007** ***£ million***
Expected return on pension scheme assets (Note 21)	39	29
Interest on pension scheme liabilities (Note 21)	(28)	(18)
	11	11

Notes *(continued)*

8 Net interest payable and similar charges

	Year ended 31 Dec 2008 *£ million*	9 months to 31 Dec 2007 *£ million*
Interest receivable/(payable) and similar charges		
On bank deposits, loans and overdrafts	1	(6)
Exchange difference on retranslation of financing	(19)	(1)
Interest (payable)/receivable to other group companies	(16)	3
	(34)	(4)

9 Taxation

Analysis of charge for the period

	Year ended 31 Dec 2008 *£ million*	9 months to 31 Dec 2007 *£ million*
Current tax		
UK corporation tax - current period	1	1
UK corporation tax – prior period	1	-
	2	1
Deferred tax		
Origination and reversal of timing differences – current period	1	6
Origination and reversal of timing differences – prior period	(1)	-
	2	7

Factors affecting the current tax charge for the period

	Year ended 31 Dec 2008 *£ million*	9 months to 31 Dec 2007 *£ million*
Profit/(loss) on ordinary activities before tax	21	(3)
Profit/(loss) on ordinary activities before tax multiplied by the effective rate of UK corporation tax of 28.5% (2007: 30%)	6	(1)
Effects of:		
Expenses not deductible for tax purposes	-	-
Capital allowances in excess of depreciation	3	5
Other timing differences	-	(3)
Chargeable gains	(5)	-
FRS17	(3)	-
Adjustments to tax charge in respect of previous periods	1	-
Current tax charge for the period	2	1

10 Tangible fixed assets

	Land & buildings *£ million*	Rolling stock *£ million*	Other plant, machinery and equipment *£ million*	Infra-structure *£ million*	Assets in course of construction *£ million*	Total *£ million*
Cost/Valuation						
At 1 January 2008	65	439	101	43	11	659
Additions	-	50	1	-	10	61
Disposals	(8)	(40)	-	-	-	(48)
Transfers	-	4	2	1	(7)	-
At 31 December 2008	57	453	104	44	14	672
Accumulated depreciation						
At 1 January 2008	20	170	72	16	-	278
Charge for the period	1	13	7	2	-	23
On disposals	(3)	(7)	-	-	-	(10)
At 31 December 2008	18	176	79	18	-	291
Net book value						
At 31 December 2008	39	277	25	26	14	381
At 31 December 2007	45	269	29	27	11	381

Analysis of land and buildings

	31 Dec 2008 *£ million*	31 Dec 2007 *£ million*
At cost	32	38
At valuation	7	7
	39	45

The net book value of land and buildings comprises:

	31 Dec 2008 *£ million*	31 Dec 2007 *£ million*
Freehold	30	36
Long leasehold	9	9
Short leasehold	-	-
	39	45

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

	31 Dec 2008 *£ million*	31 Dec 2007 *£ million*
Cost	50	57
Aggregate depreciation	(18)	(19)
Net book amount	32	38

10 Tangible fixed assets *(continued)*

Assets held under finance leases

	Rolling stock *£ million*
Cost	
At 1 January 2008 and 31 December 2008	6
Depreciation	
At 1 January 2008	4
Charge for the year	2
At 31 December 2008	6
Net book value	
At 31 December 2008	-
At 31 December 2007	2

11 Goodwill

	Goodwill *£ million*
Gross Value	
At 1 January 2008 to 31 December 2008	1
Accumulated Amortisation	
At 1 January 2008	1
Amortisation of goodwill during the period	-
At 31 December 2008	1
Net Book Value	
At 31 December 2008	-
At 31 December 2007	-

12 Stocks

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

13 Debtors

	31 Dec 2008 *£ million*	31 Dec 2007 *£ million*
Trade debtors	63	58
Amounts owed by group undertakings	76	57
Other debtors	23	3
Prepayments and accrued income	20	18
	182	136

Amounts owed by group undertakings are unsecured, attract interest at LIBOR+2% and are repayable on demand.

Notes *(continued)*

14 Creditors: amounts falling due within one year

	31 Dec 2008 *£ million*	31 Dec 2007 *£ million*
Trade creditors	53	54
Amounts owed to group undertakings	74	56
Other taxes and social security	15	14
Other creditors	16	14
Deferred income	4	-
Accruals	32	24
Foreseeable losses on long term contract	1	-
	195	162

Amounts owed to group undertakings are unsecured, attract interest at LIBOR+2% and are repayable on demand.

15 Creditors: amounts falling due after more than one year

	31 Dec 2008 *£ million*	31 Dec 2007 *£ million*
Loan from Deutsche Bahn AG	154	152

All debt at 31 December 2008 and 31 December 2007 was provided by a parent company loan.

16 Deferred income due after more than one year

	31 Dec 2008 *£ million*	31 Dec 2007 *£ million*
Government capital grants	2	2
Other contributions to capital expenditure	3	3
Other deferred income	-	-
	5	5
Government capital grants		
At 1 January 2008	2	2
Credited to profit and loss account	-	-
At 31 December 2008	2	2
Other contributions to capital expenditure		
At 1 January 2008	3	3
Received during the period	-	-
Credited to profit and loss account	-	-
At 31 December 2008	3	3

Notes *(continued)*

17 Provisions for liabilities and charges

	At 1 January 2008 *£ million*	Utilised during the period *£ million*	Unutilised amounts released in the period *£ million*	Provisions created in the period *£ million*	At 31 December 2008 *£ million*
Deferred tax provision	46	(4)	-	-	42
Redundancy provision	4	-	(3)	9	10
Claims provision	6	(3)	(3)	4	4
Onerous lease provision	2	-	-	1	3
Environmental provision	1	-	-	-	1
Other provisions	2	(1)	-	2	3
Total provisions	61	(8)	(6)	16	63

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.

	31 Dec 2008 *£ million*	31 Dec 2007 *£ million*
Accelerated capital allowances	42	46

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.

Deferred tax relating to pension deficit

	31 Dec 2008 *£ million*	31 Dec 2007 *£ million*
At 1 January 2008/1 April 2007	(12)	(15)
Deferred tax charge in the profit and loss account (note 9)	(4)	(2)
Deferred tax credit in statement of total recognised gains and losses	36	5
	20	(12)

The deferred tax asset of £20 million (2007: liability of £12 million) has been recognised in arriving at the pension deficit on the balance sheet

17 Provisions for liabilities and charges *(continued)*

The redundancy provision reflects committed costs of future redundancies at 31 December 2008.

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.

18 Called up share capital

	31 Dec 2008 *£ million*	31 Dec 2007 *£ million*
Authorised		
26,947,932 Ordinary shares of £1 each	27	27
Allotted, called up and fully paid		
18,947,932 Ordinary shares of £1 each	19	19

19 Reserves

	Revaluation Reserve *£ million*	Share Premium Account *£ million*	Capital Reserve *£ million*	Profit and loss account *£ million*
At 1 January 2008	6	72	9	85
Retained profit for the year	-	-	-	19
Actuarial loss on pension scheme	-	-	-	(128)
Movement on deferred tax relating to actuarial loss on pension scheme	-	-	-	36
At 31 December 2008	6	72	9	12

20 Commitments and Contingent Liabilities

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

£ million	31 Dec 2008 *£ million*	31 Dec 2007 *£ million*
Contracted	156	123

(ii) There were no commitments at the period end to enter into finance leases starting after the period end (2007: £nil).

Notes *(continued)*

20 Commitments and Contingent Liabilities *(continued)*

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

	31 December 2008			31 December 2007		
	Land and buildings *£million*	Plant and machinery *£million*	Other *£million*	Land and buildings *£million*	Plant and machinery *£million*	Other *£million*
Operating leases which expire:						
Within one year	-	-	-	-	-	-
In the second to fifth years inclusive	-	10	1	-	-	1
Over five years	1	42	-	1	42	-
	1	52	1	1	42	1

(iv) Currency Contracts

At 31 December 2008 the company had no forward contracts in place in order to hedge currency exposure on future transactions (31 December 2007: to purchase Canadian Dollars $110.5 million).

(v) Fuel Contracts

The fair value of financial instruments hedging future diesel fuel transactions at 31 December 2008 was £nil against a cost of £nil (Year Ended 31 December 2007: fair value £15.3 million against a cost of £12.3 million).

(vi) Legal & Regulatory Matters

In the ordinary course of business the company is required to address contractual issues and queries from customers and employees, and periodic queries and investigations from government regulatory bodies, which could potentially result in adverse financial consequences for the company. As at 31 December 2008 the matters outstanding, in the opinion of the Directors, are not expected to have a materially adverse effect.

21 Pension Scheme

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

As the company is the largest contributing employer, and therefore the major sponsoring employer, the full surpluses or deficits of the scheme are disclosed in these financial statements.

The total contribution rate payable under the Railways Pension Scheme (RPS) is normally split in the proportion 60:40 between the company and the members. The company reflects its share of the contribution in the financial statements.

If a surplus or deficit arises, the provisions in the rules mean that the company and the members benefit from or pay for this respectively in the proportion 60:40.

This actuarial valuation has provided the starting point for the calculation of the current position under FRS 17. The roll forward to 31 December 2008 has been performed by a qualified independent actuary. The most significant financial assumptions behind the FRS 17 calculations are as follows:

	31 Dec 2008	31 Dec 2007
• Inflation rate	3.00%	3.20%
• Salary inflation	3.60%	4.30%
• Promotional salary increases	0.40%	0.40%
• Pension growth	3.00%	3.20%
• Discount rate	6.40%	5.80%

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 9.2% and for non-pensioners of 14%, to allow for future improvements in life expectancy.

	31 Dec 2008	31 Dec 2007
	Years	Years
Longevity at age 60 for current pensioners:		
- Men	25.0	25.0
- Women	27.5	27.0
Longevity at age 60 for future pensioners:		
- Men	27.5	26.5
- Women	29.5	28.5

Notes *(continued)*

21 Pension Scheme *(continued)*

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

	Value at 31 December 2008 £ million	Expected rate of return as at 31 December 2008	Value at 31 December 2007 £ million	Expected rate of return as at 31 December 2007	Value at 31 March 2007 £ million	Expected rate of return as at 31 March 2007
Equities	435.4	7.50%	613.4	8.00%	619.4	8.25%
Bonds	77.1	6.00%	115.7	5.40%	106.7	5.20%
Property	50.4	7.00%	64.3	7.00%	63.6	7.00%
Cash	(0.7)	2.50%	-	-%	0.9	5.25%
Other	84.1	7.00%	96.7	7.00%	64.6	-%
Total	646.3		890.1		855.2	

The following amounts at 31 December 2008 were measured in accordance with the requirements of FRS17

	31 Dec 2008 £ million		31 Dec 2007 £ million	
Total market value of assets	646		890	
Less members share of assets	(258)		(356)	
company's share of assets		388		534
Total present value of scheme				
Liabilities, including member' agreed contribution reductions	(768)		(817)	
Less members' share of scheme liabilities	307		327	
company's share of scheme liabilities		(461)		(490)
(Deficit)/surplus in scheme		(73)		44
Related deferred tax liability/(asset)		20		(12)
New pensions (liability)/asset		(53)		32

Reconciliation of present value of scheme liabilities

	31 Dec 2008 £ million	31 Dec 2007 £ million
At 1 January	490	464
Current service cost	17	12
Settlements and curtailments	(1)	(1)
Interest cost	28	18
Benefits paid	(36)	(6)
Actuarial (gain)/loss	(37)	3
At 31 December	461	490

Notes *(continued)*

21 Pension Scheme *(continued)*

Reconciliation of present value of scheme assets

	31 Dec 2008 *£ million*	31 Dec 2007 *£ million*
At 1 January	534	513
Contributions	16	11
Expected return on scheme assets	39	29
Benefits paid	(36)	(6)
Actuarial loss	(165)	(13)
At 31 December	388	534

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

	31 Dec 2008 *£ million*	31 Dec 2007 *£ million*	31 Mar 2007 *£ million*
Amounts included within operating profit			
Current service cost	17	12	18
Settlements and curtailments	(1)	(1)	(2)
Total charge to operating profit	16	11	16

	31 Dec 2008 *£ million*	31 Dec 2007 *£ million*	31 Mar 2007 *£ million*
Amounts included as other finance costs			
Expected return on pension scheme assets	39	29	34
Interest cost on pension scheme liabilities	(28)	(18)	(23)
Net finance return	11	11	11

21 Pension Scheme *(continued)*

History of Experience gains and losses

	31 Dec 2008	31 Dec 2007	31 Mar 2007	31 Mar 2006	31 Mar 2005
	£m	*£m*	*£m*	*£m*	*£m*
company's share of present value of defined benefit	(461)	(490)	(464)	(465)	(398)
company's share of value of assets	388	534	513	471	374
(Deficit)/Surplus	(73)	44	49	6	(24)
Difference between the expected and actual return on scheme assets:					
Percentage of company's share of fair value scheme assets	(45.9%)	(0.2%)	3.9%	16.6%	4.4%
Experience gain/(loss) on scheme plan Liabilities:					
Percentage of company's share of fair value of scheme assets	(3.6%)	(0.2%)	0.2%	4.2%	1.1%

In addition, as part of the Railway Pension Scheme, the EWS group operates an additional voluntary contribution scheme, (known as "Brass"), under which all eligible employees can make additional pension contributions. Employee contributions up to specific individual limits (as at 10 December 1996) are matched on a pound for pound basis by the company. Subsequent increases in employee contributions are not matched.

Employer contributions in respect of the year ended 31 December 2008 totalled £1,050,693 (year ended 31 December 2007: £890,300) and contributions of £11,242 were to be paid over as at 31 December 2008 (31 December 2007: £80,842). Brass holds funds for members that will be used to purchase additional benefits at retirement on a money purchase basis.

22 Post balance sheet event

Subsequent to the year end, land and buildings with a total net book value of £5 million was disposed for a total sales consideration of £22 million.

23 Ultimate parent company

The immediate parent company is Boreal & Austral Railfreight Limited.

The directors consider that the ultimate controlling party and the largest group in which the results of the company are consolidated is that headed by Deutsche Bahn AG, which is incorporated in the Federal Republic of Germany. The financial statements of Deutsche Bahn AG can be viewed at www.db.de.