

English Welsh & Scottish Railway Holdings Limited

Directors' report and financial statements

31 December 2007

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English Welsh & Scottish Railway Holdings Limited

Directors' report and financial statements

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English Welsh & Scottish Railway Holdings Limited

Directors' report

The directors present their report and the audited financial statements for the nine month period ended 31 December 2007

Principal activities

The company is a parent holding company for investments in subsidiaries whose principal activities of the company are the haulage of freight by rail and other related services within Great Britain and Europe

Acquisition by Deutsche Bahn

On the 13 November 2007 the EWS group of companies was acquired by Deutsche Bahn, following clearance from the European Commission. The companies are now working together as part of the Deutsche Bahn group to develop rail freight in Europe. The Deutsche Bahn group has a 31 December year end date and all EWS companies have changed their financial year end date to conform. As a result the current period results are for nine months.

Principal Risks

The most significant risks to the profitability of the Group are

- (i) Loss of significant customer contracts,
- (ii) Increased employee costs,
- (iii) Increased track access and diesel fuel costs,
- (iv) Loss of access to Network Rail infrastructure, and
- (v) Increased Government regulation

The Directors have strategies to manage and mitigate these risks and remain confident of the continued success of the Group

Key Performance Indicators (KPIs)

Management monitors the performance of the business against budget, forecast and prior year results. The key operating KPIs that our business units are measured against are Revenue, EBITDA and Profit before Tax and Exceptional Items.

Management receive weekly and monthly performance reports that include both financial and non-financial measures. The key non-financial KPIs are Headcount, GTM's and a variety of statistics on safety, and locomotive and wagon utilisation.

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

Business review and results

The company's loss on ordinary activities before taxation for the year is £1.1 million (year ended 31 March 2007: Profit £1.5 million).

Dividends

The directors recommend that no dividend be paid (year ended 31 March 2007: £nil). Accordingly, the retained loss of £0.8 million (year ended 31 March 2007: Profit £1.1 million) will be transferred to reserves.

English Welsh & Scottish Railway Holdings Limited

Directors' report (continued)

Directors and directors' interests

The directors who held office during the year were as follows

C Ferenbach (Chairman) – resigned 13 November 2007
K L Heller (Chief Executive)
S P Butcher – appointed 13 November 2007
H Conger – resigned 13 November 2007
S Finn – resigned 13 November 2007
Lord Griffiths of Fforestfach – resigned 13 November 2007
C Mongeau – resigned 13 November 2007
D M Richwhite – resigned 13 November 2007

Details of directors' remuneration, shareholdings and options are disclosed in note 4 to these financial statements

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 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 held for risk management purposes

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

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

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

English Welsh & Scottish Railway Holdings Limited

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

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



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

15 February 2008

English Welsh & Scottish Railway Holdings 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 period. Under that law the directors have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

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 Holdings 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 nine month period ended 31 December 2007 which comprises the Profit and Loss Account, the Balance Sheet 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 Holdings 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 December 2007 and of its loss for the nine month period 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

15 February 2008

English Welsh & Scottish Railway Holdings Limited

Profit and loss account

For the nine months ended 31 December 2007

<i>£ million</i>	<i>Note</i>	1 April 2007 to 31 December 2007	1 April 2006 to 31 March 2007
Operating costs	3	(0 3)	(0 4)
Operating loss		<u>(0 3)</u>	<u>(0 4)</u>
Net interest (payable) / receivable and similar charges	5	(0 8)	1 9
(Loss) / profit on ordinary activities before taxation		<u>(1 1)</u>	<u>1 5</u>
Tax credit / (charge) on (loss) / profit on ordinary activities	6	0 3	(0 4)
Retained (loss) / profit on ordinary activities after taxation		<u>(0 8)</u>	<u>1 1</u>

There are no recognised gains or losses in the current period or prior financial year other than the loss for the year

There are no differences between the profit and loss account shown above and that prepared on a historical cost basis

All of the company's activities are continuing

English Welsh & Scottish Railway Holdings Limited

Balance sheet

At 31 December 2007

£ million

	Note	31 December 2007	31 March 2007
Fixed assets			
Investments	7	107 8	152 6
Current assets			
Debtors	8	145 2	134 1
Creditors: amounts falling due within one year	9	(59 1)	(60 4)
Net current assets		<u>86 1</u>	<u>73 7</u>
Net assets		<u>193 9</u>	<u>226 3</u>
Capital and reserves			
Called up share capital	10	43 8	43 2
Share premium account	11	1 3	-
Revaluation reserve	11	62 9	107 7
Profit and loss account	11	<u>85 9</u>	<u>86 7</u>
		193 9	237 6
EW&S Employee Share Trust	12	<u>-</u>	<u>(11 3)</u>
Equity shareholders' funds		<u>193 9</u>	<u>226 3</u>

These financial statements were approved by the board of directors on 15 February 2008 and were signed on its behalf by



K L Heller
Chief Executive

English Welsh & Scottish Railway Holdings Limited

Reconciliation of movements in shareholders' funds

For the nine month period ended 31 December 2007

<i>£ million</i>	<i>Note</i>	1 April 2007 to 31 December 2007	1 April 2006 to 31 March 2007
(Loss) / profit for the year		(0 8)	1 1
Movement in investment in own shares held by EW&S Employee Share Trust	12	11 3	(0 1)
Net proceeds of issue of ordinary share capital	10,11	1 9	-
Revaluation of investment in subsidiaries	7	(44 8)	32 9
Net (decrease) / increase in shareholders' funds		(32 4)	33 9
Opening shareholders' funds as previously reported		226 3	192 4
Closing shareholders' funds		193 9	226 3

English Welsh & Scottish Railway Holdings 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

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 group as all of the company's voting rights are controlled within the group

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

Investments

Investments are carried at valuation less provision for impairment

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

3 Operating costs

£ million

1 April 2007 to
31 December 2007

1 April 2006 to
31 March 2007

Other external charges

0.3

0.4

The audit fee for the company is borne by English Welsh & Scottish Railway Limited

English Welsh & Scottish Railway Holdings Limited

Notes (continued)

4 Remuneration of directors

	1 April 2007 to 31 December 2007	1 April 2006 to 31 March 2007
Aggregate emoluments of directors	<u>£560,552</u>	<u>£538,552</u>

In addition, 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, (Year Ended 31 March 2007 £Nil) This amount has been included within Exceptional Costs in the books of English Welsh & Scottish Railway Limited

In addition 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 in the books of English Welsh & Scottish Railway Limited. There are no prior period charges related to these items and no other options were exercised (Year Ended 31 March 2007 £Nil)

The highest paid director received emoluments, including the Long Term Incentive plan and management equity unit payments of £872,930 in the year (Year Ended 31 March 2007 £476,552), which have been recorded in the books of English Welsh & Scottish Railway Limited. In addition, pension contributions totalling £135,000 (Year Ended 31 March 2007 £90,000) were made on behalf of this director.

None of the directors' hold share options of the company (31 March 2007 nil)

Transactions involving directors and officers

£62,000 (Year Ended 31 March 2007 £100,000) was paid to Berkshire Partners, a shareholder in the company, for the services of C Ferenbach and a further £14,358 (Year Ended 31 March 2007 £61,198) was paid in respect of reimbursement of expenses and professional services.

£19,847 (Year Ended 31 March 2007 £32,000) was paid to Fay Richwhite Holdings Ltd, a shareholder in the company, for the services of D M Richwhite and a further £8,698 (Year Ended 31 March 2007 £44,979) was paid in respect of reimbursement of expenses and professional services.

£38,454 (Year Ended 31 March 2007 £62,000) was paid to Canadian National Railway Company, the ultimate parent of Wisconsin Central Transportation Incorporated, for the services of S Finn and C Mongeau. A further £8,540 (Year Ended 31 March 2007 £15,826) was paid in respect of reimbursement of expenses and professional services.

5 Net interest (payable) / receivable and similar charges

£ million	1 April 2007 to 31 December 2007	1 April 2006 to 31 March 2007
Interest (payable) / receivable to other group companies	(0.8)	1.9

English Welsh & Scottish Railway Holdings Limited

Notes (continued)

6 Taxation

Analysis of charge for the period

£ million

Current tax

Tax credit for losses incurred during the period and surrendered to fellow subsidiaries

UK corporation tax

Total Current Tax Credit / (Charge)

**1 April 2007 to
31 December
2007**

**1 April 2006
to 31 March
2007**

0.3

-

-

(0.4)

0.3

(0.4)

Factors affecting the tax credit / charge for the period

£ million

**1 April 2007 to
31 December
2007**

**1 April 2006
to 31 March
2007**

(Loss) / profit on ordinary activities before tax

(1.1)

1.5

(Loss) / profit on ordinary activities before tax multiplied by the standard rate of UK corporation tax of 30% (2007 30%)

0.3

(0.4)

Total Current Tax Credit / (Charge)

0.3

(0.4)

7 Fixed asset investments

£ million

**Value of shares in
subsidiaries**

Valuation

At 1 April 2007

152.6

Revaluation

(44.8)

At 31 December 2007

107.8

Provisions

At 1 April 2007 and 31 December 2007

-

Net Book Value

At 31 December 2007

107.8

At 31 March 2007

152.6

English Welsh & Scottish Railway Holdings Limited

Notes (continued)

8 Debtors

<i>£ million</i>	31 December 2007	31 March 2007
Amounts owed by group undertakings	145.2	134.1

9 Creditors: amounts falling due within one year

<i>£ million</i>	31 December 2007	31 March 2007
Amounts owed to group undertakings	59.1	60.3
Accruals	-	0.1
	59.1	60.4

10 Called up share capital

	<i>£ million</i>
Authorised	
58,296,543 Ordinary shares of £1 each At 1 April 2007 and 31 December 2007	58.3
Allotted, called up and fully paid	
Ordinary shares of £1 each At 1 April 2007 – 43,176,475	43.2
Allotted under share option scheme – 638,802 At 31 December 2007 – 43,815,277	0.6 43.8

11 Reserves

<i>£ million</i>	Revaluation Reserve	Share Premium Account	Profit and loss account
At 1 April 2007	107.7	-	86.7
Retained loss for the period	-	-	(0.8)
Premium on shares issued	-	1.3	-
Revaluation in year	(44.8)	-	-
At 31 December 2007	62.9	1.3	85.9

English Welsh & Scottish Railway Holdings Limited

Notes (continued)

12 Own shares held by EW&S Employee Share Trust

EW&S Employee Share Trust, was created on 14 November 1996. The trustee, EW&S Trustees Limited, at its absolute discretion determines, which directors and employees are to participate in a bonus share plan in any fiscal year. All costs incurred in the administration of the trust are charged to the profit and loss account as incurred.

On 13 November 2007 the shares held by the trust were acquired by Deutsche Bahn AG. At 31 March 2007, the trust held 3,674,093 shares in the company of which none were under option to employees.

13 Commitments and Contingent Liabilities

The company had no capital commitments or contingent liabilities at the period end.

A charge attaches to the assets of the company in respect of revolving credit and overdraft facilities available to its fellow subsidiary English Welsh & Scottish Railway Limited. The company has also provided a guarantee for these facilities. Further detail is provided in the financial statements of English Welsh & Scottish Railway Limited.

Following the acquisition by Deutsche Bahn AG notice has been given to terminate these facilities with third parties and replace our funding with Deutsche Bahn facilities. This process is expected to be completed shortly.

14 Ultimate parent company

Following the acquisition of the EWS group of companies by Deutsche Bahn on 13 November 2007 the company is now a subsidiary undertaking within the Deutsche Bahn group. 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 company is exempt from preparing group accounts under Section 228 of the Companies Act 1985. The financial statements of Deutsche Bahn AG can be viewed at www.db.de.