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Angel Trains Limited

DIRECTORS' REPORT AND ACCOUNTS

YEAR ENDED 31 DECEMBER 2006

Angel Trains Limited
Registered in England and Wales No 2912655
Registered Office Portland House, Bressenden Place, Victoria, London SW1E 5BH

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Angel Trains Limited

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Angel Trains Limited

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS:	H T Abbott T R Dugher G Lynn L M Oddy J Vale
SECRETARY:	L M Oddy
REGISTERED OFFICE:	Portland House Bressenden Place Victoria London SW1E 5BH
AUDITORS:	Deloitte & Touche LLP London

Registered in England and Wales No 2912655

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Angel Trains Limited

DIRECTORS' REPORT

The directors present their report and the audited financial statements for the year ended 31 December 2006

ACTIVITY

The principal activity of the Company continues to be the provision of railway rolling stock to train operators under operating leases

The Company is a member of The Royal Bank of Scotland Group plc which provides the Company with direction and access to all central resources it needs and determines policies in all key areas such as finance, risk, human resources or environment For this reason, the directors believe that performance indicators specific to the Company are not necessary or appropriate for an understanding of the development, performance or position of the business The annual reports of The Royal Bank of Scotland Group plc review these matters on a group basis Copies can be obtained from the Company Secretary, RBS Gogarburn, Edinburgh EH12 1HQ, the Registrar of Companies or through the Group's website at rbs com

REVIEW OF THE YEAR

Business Review

The directors are satisfied with the Company's performance in the year The Company will be guided by its ultimate parent company in seeking further opportunities for growth

As detailed in note 9, an impairment review highlighted the need for an extra depreciation charge in the Income Statement of £23 0m (2005 £nil) The whole charge relates to the Class 442 fleet to South West Trains These vehicles came off lease in February 2007 and are currently still off lease although there are a number of opportunities currently being investigated

An interim dividend of £16m was paid during the year (2005 £60m) The directors do not propose the payment of a final dividend (2005 £nil)

Financial Performance

The Company's financial performance is presented in the Income Statement on page 7 The profit after tax for the year was £54 5m (2005 profit after tax £64 5m) and this was transferred to reserves

Revenue fell by £6 3m and Expenses rose by £0 2m As detailed above and in note 9, depreciation increased by £23 0m resulting in a decrease in profit compared to 2005 of 15 5%

At the end of the year, the financial position showed total assets of £2,660 1m (2005 £2,533 9m) representing an increase of 4 98% This includes the net book value of property, plant and equipment of £1,821 7m compared to £1,751 4m at the previous year end Other income-generating assets comprise of investments £66 4m and advances £759 6m

The directors do not anticipate any material change in either the type or level of activities of the Company

Other Matters

The Company is funded by facilities from other companies within The Royal Bank of Scotland plc group and external providers It seeks to minimise its exposure to external financial risks other than credit risk, further information on financial risk management policies and exposure is disclosed in Note 13

DIRECTORS' REPORT (Continued)

DIRECTORS AND SECRETARY

The present directors and secretary, who have served throughout the year and to the date of the report (except where noted below), are listed on page 1

From 1 January 2006 to date the following changes have taken place

Directors	**Resigned**
P J Rigby	30 March 2007

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are required by the Companies Act 1985 to prepare a directors' report and financial statements for each financial year and have elected to prepare them in accordance with International Financial Reporting Standards as adopted by the European Union They are responsible for preparing financial statements that present fairly the financial position, financial performance and cash flows of the Company In preparing those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,

- make judgements and estimates that are reasonable and prudent,

- state whether applicable accounting standards have been followed, 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 which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the directors' report and 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

USE OF FINANCIAL INSTRUMENTS

The Company's portfolios of financial instruments principally comprise loans, deposits, receivables and payables Applying International Financial Reporting Standards, all portfolios are considered to be held for non-trading purposes

The major risks associated with the Company's business are market risk, interest rate risk, currency risk, liquidity risk and operational risk The Company has established a comprehensive framework for managing these risks which are continually evolving as business activities change in response to market, credit, product and other developments

The directors are responsible for considering risk management issues that arise across the Company's financial instrument portfolios

DISCLOSURE OF INFORMATION TO AUDITORS

Each of the directors of the Company holding office at the date of approval of this report confirms that

(1) so far as each of the directors are aware, there is no relevant audit information of which the Company's Auditors are unaware, and
(2) so far as each of the directors are aware they have taken all the steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the Company's Auditors are aware, of that information

This confirmation is given and shall be interpreted in accordance with the provisions of S 234ZA of the Companies Act 1985

DIRECTORS' INDEMNITIES

In terms of Section 309c of The Companies Act 1985 (as amended), no directors have been granted Qualifying Third Party Indemnity Provisions by The Royal Bank of Scotland Group plc

POLICY AND PRACTICE ON PAYMENT OF CREDITORS

The Company follows the policy and practice on payment of creditors determined by The Royal Bank of Scotland Group plc ('RBSG'), as outlined below

In the year ending 31 December 2007, RBSG will adhere to the following payment policy in respect of all suppliers RBSG is committed to maintaining a sound commercial relationship with its suppliers Consequently, RBSG's policy is to negotiate and agree terms and conditions with its suppliers, which includes the giving of an undertaking to pay suppliers within 30 days of receipt of a correctly prepared invoice submitted in accordance with the terms of the contract or such other payment period as may be agreed

ELECTIVE RESOLUTIONS

The Company has elected to dispense with the requirement to hold annual general meetings, lay accounts before a general meeting and re-appoint auditors annually

AUDITORS

Deloitte & Touche LLP have expressed their willingness to continue in office as auditors

Approved by the Board of Directors
and signed on behalf of the Board

L. M. Oddy
Secretary

26 April 2007

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ANGEL TRAINS LIMITED

We have audited the financial statements of Angel Trains Limited ("the Company") for the year ended 31 December 2006 which comprise the income statement, the statement of recognised income and expense, the balance sheet, the cash flow statement and the related notes 1 to 28 These financial statements have been prepared under the accounting policies set out therein

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985 Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described in the directors' report, the Company's directors are responsible for the preparation of the directors' report and the financial statements in accordance with applicable law and International Financial Reporting Standards ("IFRS") as adopted by the European Union

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 whether the financial statements have been 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 for the above year 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 further information outside the directors' report

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 of the state of the Company's affairs as at 31 December 2006 and its profit for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union,
- 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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ANGEL TRAINS LIMITED (Continued)

SEPARATE OPINION IN RELATION TO IFRS

As explained in Note 1, the Company, in addition to complying with its legal obligation to comply with IFRSs as adopted by the European Union, has also complied with the IFRSs as issued by the International Accounting Standards Board Accordingly, in our opinion the financial statements give a true and fair view, in accordance with IFRSs, of the state of the Company's affairs as at 31 December 2006 and of its profit for the year then ended

Deloitte + Touche LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London, United Kingdom
26 April 2007

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Angel Trains Limited

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2006

	Notes	Year ended 31 December 2006 £'m	Year ended 31 December 2005 £'m
Revenue	2	327 3	333 6
Cost of sales		(184 8)	(170 2)
Gross profit		142 5	163 4
Administrative expenses		(27 9)	(27 7)
Operating profit		114 6	135 7
Investment income	3	17 9	13 6
Other gains/(losses)	4	5 7	(0 2)
Finance costs	5	(62 1)	(57 9)
Profit before tax		76 1	91 2
Tax expense	6	(21 6)	(26 7)
Profit attributable to equity holders of the parent	7, 15	**54 5**	**64.5**

All profit and loss items relate to continuing operations of the Company

The notes on pages 10 to 34 form an integral part of these financial statements

STATEMENT OF RECOGNISED INCOME AND EXPENSE FOR THE YEAR ENDED 31 DECEMBER 2006

	Note	Year ended 31 December 2006 £'m	Year ended 31 December 2005 £'m
Actuarial gains/(losses) on defined benefit pension scheme		3 4	(1 8)
Tax on items taken directly to equity		(1 0)	0 5
Net income/(expense) recognised directly in equity		2 4	(1 3)
Profit for the year		54 5	64 5
Total recognised income and expense	15	**56.9**	**63.2**

The notes on pages 10 to 34 form an integral part of these financial statements

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Angel Trains Limited

BALANCE SHEET AS AT 31 DECEMBER 2006

	Notes	31 December 2006 £'m	31 December 2005 £'m
Assets			
Non-current assets			
Property, plant and equipment	9	1,821 7	1,751 4
Investments	11	66 4	59 7
Loans receivable	13	759 6	712 0
Deferred tax assets	18	3 3	5 0
		2,651 0	2,528 1
Current assets			
Inventories	12	2 4	2 5
Derivative financial instruments	17	1 6	0 1
Trade and other receivables	13	4 2	2 4
Cash and cash equivalents		0 9	0 8
		9 1	5 8
Current liabilities			
Trade and other payables	19	(86 7)	(64 9)
Current tax liabilities		(16 3)	(8 6)
Derivative financial instruments	17	(0 4)	(2 7)
Loans payable	16	(972 5)	(779 0)
		(1,075 9)	(855 2)
Net current liabilities		**(1,066.8)**	**(849.4)**
Total assets less current liabilities		**1,584.2**	**1,678 7**
Non-current liabilities			
Loans payable	16	430 7	577 8
Retirement benefit obligation	24	1 5	4 6
Deferred tax liabilities	18	366 3	352 0
Provisions	20	1 2	0 7
		799 7	935 1
Capital and reserves			
Called up share capital	14	172 3	172 3
Revaluation reserves	15	23 1	37 5
Retained earnings	15	589 1	533 8
Total equity		**784.5**	**743.6**
Total equity and non-current liabilities		**1,584 2**	**1,678.7**

Approved by the Board of Directors on 26 April 2007 and signed on their behalf by

H T Abbott
Managing Director

All equity is attributable to equity holders of the parent

The notes on pages 10 to 34 form an integral part of these financial statements

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Angel Trains Limited

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2006

	Year ended 31 December 2006	Year ended 31 December 2005
	£'m	£'m
Operating activities		
Cash receipts from customers	335 7	330 6
Cash paid to suppliers and employees	(88 2)	(103 0)
Cash generated from operations	247 5	227 6
Income taxes received	1 0	8 8
Interest paid	(38 9)	(49 3)
Net cash from operating activities	209 6	187 1
Investing activities		
Interest received	0 8	1 2
Purchase of tangible fixed assets	(182 1)	(215 6)
Disposal of tangible fixed assets	0 1	2 4
Net cash used in investing activities	(181 2)	(212 0)
Financing activities		
Equity dividends paid	(16 0)	(60 0)
Repayment of loans	(2,111 1)	(3,284 7)
Receipt of new loans	2,141 0	3,392 4
Issue of new loans to group Companies	(64 7)	(30 9)
Repayment of loan by group Companies	23 0	8 5
Net cash to/from financing activities	(27 8)	25 3
Net increase in cash and cash equivalents	0 6	0 4
Cash and cash equivalents at the beginning of the year	0 8	0 5
Effect of foreign exchange rate changes	(0 5)	(0 1)
Cash and cash equivalents at the end of the year		
Bank balances and cash	0 9	0 8

The notes on pages 10 to 34 form an integral part of these financial statements

1 Significant accounting policies

General
Angel Trains Limited is a Company incorporated in Great Britain under the Companies Act 1985 The address of the registered office is on page 1 The nature of the Company's operations and its principal activities are set out in the Directors' report

The accounts are prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB (together "IFRS") as adopted by the European Union ("EU") The EU has not adopted the complete text of IAS 39 'Financial Instruments Recognition and Measurement', it has relaxed some of the standard's hedging requirements The Company has not taken advantage of this relaxation and has adopted IAS 39 as issued by the IASB

The financial statements are prepared on the historical cost convention, in compliance with the Companies Act 1985, except for the revaluation of certain properties and financial instruments The principal accounting policies adopted are set out below

Revenue recognition
Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales-related taxes Sales of goods are recognised when goods are delivered and title has passed

Maintenance income
A proportion of turnover is identified as relating to the current estimates of costs for the maintenance of trains, 'maintenance income' To the extent that maintenance income exceeds the related costs in any year, then it is deferred in order to match it with expected future costs To the extent that it is less than the related costs in any period, then the difference will be recognised as income for the period

Interest income
Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount

Leasing
The Company has no leases where the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee Accordingly, all leases are classified as operating leases

The Company as lessor
Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term

The Company as lessee
Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term

Foreign currencies
The financial statements of the Company are presented in Sterling, which is the currency of the primary economic environment in which the Company operates (its functional currency)

In preparing the financial statements, transactions in currencies other than the Company's functional currency (foreign currencies) are recorded using month end exchange rates At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date

Angel Trains Limited
NOTES TO FINANCIAL STATEMENTS – YEAR ENDED 31 DECEMBER 2006 (Continued)

1 Significant accounting policies (continued)

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the income statement for the period

In order to hedge its exposure to certain foreign exchange risks, the Company enters into forward contracts and options (see below for details of the Company's accounting policies in respect of such derivative financial instruments)

Borrowing costs
Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation All other borrowing costs are recognised in the income statement in the period in which they are incurred

Retirement benefit costs
Benefits for the Company's employees are provided by Angel Trains Shared Cost Section of the Railways Pension Scheme (the 'Main Scheme') and The Royal Bank of Scotland Group Pension Fund (the 'RBS Scheme'), both of which are defined benefit schemes

Main Scheme
For defined benefit schemes, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each balance date Actuarial gains and losses are recognised in full in the period in which they occur They are recognised outside the income statement and presented in the statement of recognised income and expense

Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost, and as reduced by the fair value of scheme assets Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the scheme

RBS Scheme
The RBS scheme is unable to identify the share of assets and liabilities attributable to the employees of any particular Group company and consequently the Company accounts for its contributions as if it were a defined contribution scheme

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due

Taxation
Tax expense represents the sum of the tax currently payable and deferred tax

The tax currently payable is based on taxable profit for the year Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit

1. Significant accounting policies (continued)

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis

Derivative financial instruments
The Company uses derivative financial instruments to reduce exposure to foreign exchange risk and interest rate movements The Company does not hold or issue derivative financial instruments for speculative purposes

For an interest rate swap to be treated as a hedge, the instrument must be related to actual assets or liabilities or a probable commitment and must change the nature of the interest rate by converting a fixed rate to a variable rate or vice versa Interest differentials under these swaps are recognised by adjusting net interest payable over the periods of the contracts

Property, plant and equipment
Property, plant and equipment are shown at cost or valuation less any subsequent accumulated depreciation and subsequent accumulated impairment losses The valuation was performed by independent valuers The last valuation of the Company's rolling stock assets was performed at the time of acquisition by The Royal Bank of Scotland Group plc on the basis of fair value at the time of revaluation and was reflected in these accounts at 1 October 1998

Depreciation of these assets is charged to income On the subsequent sale or retirement of revalued rolling stock, the attributable revaluation surplus remaining in the revaluation reserve is transferred directly to accumulated profits

Depreciation is charged so as to write off the cost or valuation of these assets over their estimated useful lives, using the straight-line method

The following rates are used for the depreciation of property, plant and equipment

	Years
Rolling stock	25 to 35
Office fixtures and fittings	5
Computer equipment	3

Rolling stock in the course of construction for rental purposes are carried at cost, less any recognised impairment loss Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Company's accounting policy Depreciation of these assets, on the same basis as other rolling stock, commences when the assets are ready for their intended use

The useful economical lives and residual values are reviewed on a periodic basis The residual value exposure is the net book value of leased assets at the end of the lease term This exposure is monitored periodically with any corrections required being made through depreciation

Impairment of tangible fixed assets
At each balance sheet date, the Company reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any) Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs

1 Significant accounting policies (continued)

Recoverable amount is the higher of fair value less costs to sell and value in use In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount An impairment loss is recognised immediately in the income statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years A reversal of an impairment loss is recognised immediately in the income statement, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase

Government grants
This grant has been accounted for under IAS 20 Accounting for Government Grants Government grants towards property, plant and equipment are treated as deferred income in the balance sheet and are credited to the income statement systematically over the expected useful life of the lease to which it relates.

The grant of £1 504m has been received from the Strathclyde Passenger Transport Executive and is expected to be recognised in the income statement between April 2006 and March 2011 During the year £0 226m was written off to the income statement leaving a deferred income balance of £1 278m

Investments
Investments are stated at cost less provision for any impairment in value

Inventories
Inventories represent spares used in rolling stock maintenance and are stated at the lower of cost and net realisable value Cost represents the purchase price of the spares Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution

Financial instruments
Financial assets and financial liabilities are recognised on the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument

Trade and other receivables
Trade and other receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method Appropriate allowances for estimated irrecoverable amounts are recognised in the income statement when there is objective evidence that the asset is impaired The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition

Loan receivables
Loan receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method Appropriate allowances for estimated irrecoverable amounts are recognised in the income statement when there is objective evidence that the asset is impaired The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition

Investments
Investments are initially measured at fair value, plus directly attributable transaction costs At subsequent reporting dates, debt securities that the Company has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts

1. Significant accounting policies (continued)

An impairment loss is recognised in the income statement when there is objective evidence that the asset is impaired, and is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition

Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised

Cash and cash equivalents
Cash and cash equivalents comprise cash in hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value

Financial liabilities
Financial liabilities issued by the Company are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability The accounting policies adopted for specific financial liabilities are set out below

Loan borrowings
Interest-bearing loans are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the Company's accounting policy for borrowing costs (see above)

Trade payables
Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method

Derivative financial instruments and hedge accounting
The Company's activities expose it primarily to the financial risks of changes in foreign exchange rates and interest rates The Company uses derivative financial instruments (primarily foreign currency forward contracts) to hedge its risks associated with foreign currency fluctuations relating to certain firm commitments and forecasted transactions
The significant interest rate risk arises from loans The Company's policy is to convert a proportion of its floating rate debt to fixed rates The Company designates these as cash flow hedges of interest rate risk The use of financial derivatives is governed by the Company's policies approved by the board of directors, which provide written principles on the use of financial derivatives consistent with the Company's risk management strategy The Company does not use derivative financial instruments for speculative purposes

Derivative financial instruments are initially measured at fair value on the contract date, and are remeasured to fair value at subsequent reporting dates Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise

Provisions
Provisions are recognised when the Company has a present obligation as a result of a past event, and it is probable that the Company will be required to settle that obligation Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material

Share-based payments
The Group grants options over shares in The Royal Bank of Scotland Group plc to its employees under various share option schemes IFRS 2 'Share-based Payment' is applied to grants under these schemes after 7 November 2002 that had not vested on 1 January 2005 The Royal Bank of Scotland recognises an expense for these transactions with its employees based on the fair value on the date the options are granted It includes the cost of these awards in determining any recharge of employee costs it makes to UK subsidiaries in the Group

Angel Trains Limited
NOTES TO FINANCIAL STATEMENTS – YEAR ENDED 31 DECEMBER 2006 (Continued)

1. Significant accounting policies (continued)

Operating profit
Operating profit is stated before investment income and finance costs

Consolidation
The Company is exempt from the requirement to prepare consolidated accounts as the Company is a wholly-owned subsidiary of The Royal Bank of Scotland Group plc and the Company's results are consolidated within the financial statements of the parent company These accounts therefore present information about the Company as an individual entity and not about the group

2. Revenue

	Year ended 31 December 2006	Year Ended 31 December 2005
	£'m	£'m
Operating lease rentals	224 7	213 0
Maintenance lease rentals	94 8	112 7
Management fees	6 1	5 7
Other revenue	1 7	2 2
	327.3	**333.6**

All revenue relates to United Kingdom operations

3. Investment income

	Year ended 31 December 2006	Year Ended 31 December 2005
	£'m	£'m
Interest receivable from group undertakings	17 8	13 6
Other interest receivable	0 1	-
	17.9	**13.6**

The income from investment in group undertakings represents interest receivable on funding loans granted to Locomotive Operating Leasing Partnership, Angel Leasing Company Limited and Angel Trains International Limited

Angel Trains Limited
NOTES TO FINANCIAL STATEMENTS – YEAR ENDED 31 DECEMBER 2006 (Continued)

4 Other gains/(losses)

	Year ended 31 December 2006	Year ended 31 December 2005
	£'m	£'m
Currency translation gains	1 9	1 2
Fair value gains/(losses) on derivative instruments	3 8	(1 4)
	5.7	**(0 2)**

5 Finance costs

	Year ended 31 December 2006	Year ended 31 December 2005
	£'m	£'m
Interest payable to group undertakings	59 7	53 7
Other interest payable	5 5	8 7
Interest capitalised	(3 1)	(4 5)
	62.1	**57 9**

6. Tax expense

The charge for taxation based on the profit for the year is based on United Kingdom corporation tax at 30 0 per cent (2005 30 0 per cent) and comprises

	Year ended 31 December 2006	Year ended 31 December 2005
	£'m	£'m
Current tax	6 6	-
Deferred tax (note 18)	15 0	26 7
	21.6	**26.7**

Angel Trains Limited
NOTES TO FINANCIAL STATEMENTS – YEAR ENDED 31 DECEMBER 2006 (Continued)

6. Tax expense (continued)

The total charge for the year can be reconciled to the accounting profit as follows

	Year ended 31 December 2006	Year ended 31 December 2005
	£'m	£'m
Profit before taxation	76 1	91 2
Expected tax charge at 30%	22 8	27 4
Share of partnership	(1 3)	(1 2)
Deferred income	-	-
Liquidated damages capitalised	-	-
Interest capitalised	(0 9)	(1 3)
Capital allowances in excess of depreciation	(12 6)	(22 7)
Derivatives fair valuation	(1 1)	0 4
Pension scheme valuation movements	0 1	0 1
Current taxation adjustments relating to prior periods	(0 4)	(2 7)
Current taxation charge for the year	**6.6**	**-**
Deferred taxation:		
Origination and reversal of timing differences	14 6	23 5
Adjustments relating to prior periods	0 4	3 2
Deferred tax	**15 0**	**26 7**

In addition to the above, a decrease in deferred tax assets of (£1 0m) (2005 increase of £0 5m) was recognised relating to retirement benefit obligations that were charged through equity

7. Profit for the year

Profit for the year has been arrived at after charging

	Year Ended 31 December 2006	Year ended 31 December 2005
	£'m	£'m
Depreciation – rolling stock	111 6	90 6
Depreciation – other	0 2	0 3
Total depreciation expense	111 8	90 9
Loss on disposal of rolling stock	0 1	0 2
Property lease costs	1 0	1 0

Auditors' remuneration for audit services during the year was £47,000 (2005 £29,000)
In addition to the auditors' remuneration stated above, fees charged by the auditors for non-audit services during the year were £18,200 (2005 £nil)

8. Employees' emoluments

The average number of persons employed by the Company (including directors) during the year, analysed by category, was as follows

	Year Ended 31 December 2006	Year ended 31 December 2005
	No	No
Engineering	56	59
Clerical	63	61
Management	70	66
	189	186

Employee costs during the year amounted to

	Year Ended 31 December 2006	Year ended 31 December 2005
	£'m	£'m
Wages and salaries	13 0	12 5
Social security costs	1 4	1 4
Other pension costs	1 7	1 3
	16 1	15 2

9 Property, plant and equipment

	Rolling Stock	Other	Total
	£'m	£'m	£'m
Cost or valuation			
At 1 January 2006	2,136 7	3 5	2,140 2
Additions	182 1	0 1	182 2
Disposals	(9 2)	-	(9 2)
At 31 December 2006	**2,309.6**	**3.6**	**2,313 2**
Comprising			
At cost	2,130 9	3 6	2,134 5
At valuation	178 7	-	178 7
	2,309 6	3 6	2,313 2
Depreciation			
At 1 January 2006	385 6	3 2	388 8
Charge for the year	111 6	0 2	111 8
Disposals	(9 1)		(9 1)
At 31 December 2006	**488.1**	**3.4**	**491 5**
Net book value			
At 31 December 2006	**1,821 5**	**0.2**	**1,821.7**
At 31 December 2005	**1,751 1**	**0 3**	**1,751.4**

The Company's rolling stock assets at 1 October 1998 were revalued to reflect the fair value of these assets determined at the time of the Company's acquisition by The Royal Bank of Scotland Group plc This valuation was performed by independent valuers on the basis of depreciated estimated replacement values

The historical gross book value of rolling stock assets had the revaluation not taken place would be £2,130 9m and the accumulated depreciation would be £324 4m

Following the revisions to IAS 16 Property, Plant and Equipment in 2003, that are effective for the current accounting period, the Company has reviewed the residual values used for the purposes of depreciation calculations in the light of the amended definition of residual value in the revised Standard The review highlighted a requirement for an adjustment to the residual values used in the current periods This resulted in an extra depreciation charge in the Income Statement of £23 0m (£nil 2005) The whole charge relates to the Class 442 fleet to South West Trains These vehicles came off lease in February 2007 and are currently still off lease although there are a number of opportunities currently being investigated The remaining residual value is recoverable having measured the value in use as per IAS 36 and applying a discount rate of 5 0% These residual values will be reviewed and updated annually in the future

Cumulative finance costs capitalised included in the cost of tangible fixed assets amounts to £100 5m (2005 £98 3m)

Included in rolling stock are assets under the course of construction of £117 6m (2005 £47 8m) No depreciation has been charged on these assets

All rolling stock is acquired and held for use in operating leases

Other assets include office fixtures and fittings and computer equipment

Angel Trains Limited
NOTES TO FINANCIAL STATEMENTS – YEAR ENDED 31 DECEMBER 2006 (Continued)

10. Residual value exposures

The residual value exposure is the net book value of leased assets at the end of each expected lease term Residual value exposure is monitored by lease on a periodic basis with any corrections being made through depreciation

Year in which residual value will be recovered	Rail Assets 2006	Rail Assets 2005
	£'m	£'m
Within one year	933 1	354 1
Between one and two years	72 1	634 9
Between two and five years	195 0	38 2
More than five years	245 2	340 4
Total	**1,445 4**	**1,367 6**

11. Investments

Cost and net book value	Shares in group undertaking	Investment in group undertaking	Total
	£'m	£'m	£'m
At 1 January 2006	0 1	59 6	59 7
Additions	-	6 7	6 7
At 31 December 2006	**0.1**	**66 3**	**66 4**

Details of the Company's subsidiaries at 31 December 2006 are as follows

Entity	Year End	Business	Country of registration/ place of business	Holding/ Investment	Percentage Interest %
Angel Trains Consulting Ltd	31 December	Consultancy to the railway industry	England & Wales	Direct holding of 1 ordinary share of £1	100
Angel Trains Contracts Ltd	31 December	No current trading activities	England & Wales	Direct holding of 10,001 ordinary shares of £1	100
Angel Locomotive Leasing Ltd	31 December	Provision of locomotives for leasing contracts	England & Wales	Direct holding of 1 ordinary share of £1	100
Locomotive Operating Leasing Partnership	31 December	Provision of locomotives for leasing contracts	England & Wales	£66 3m	95
Angel Finance Holding Ltd	31 December	See notes below	England & Wales	Direct holding of 50,002 ordinary shares of £1	100

Angel Trains Limited
NOTES TO FINANCIAL STATEMENTS – YEAR ENDED 31 DECEMBER 2006 (Continued)

11 Investments (continued)

Note Locomotive Operating Leasing Partnership is a Limited Partnership formed under the Limited Partnerships Act 1907 The results of Locomotive Operating Leasing Partnership are dealt with on a consolidated basis in the accounts of The Royal Bank of Scotland Group plc which is incorporated in Great Britain and registered in Scotland

Note Angel Finance Holding Limited acts as a holding company for two wholly-owned subsidiaries, Angel Leasing Company Limited and West Coast Train Finance plc

Entity	Year End	Business	Country of registration/ place of business	Percentage Interest %
Angel Leasing Company Ltd	31 March	Provision of passenger trains for leasing contracts	England & Wales	100
West Coast Train Finance Plc	31 December	Provision of finance for Angel Leasing Company Ltd	England & Wales	100

Angel Finance Holding Limited have a direct holding of 2 ordinary shares of £1 in Angel Leasing Company Limited representing 100% of the issued share capital

Angel Finance Holding Limited also have a direct holding of 50,000 ordinary shares of £1 in West Coast Train Finance Plc representing 99 99% of the issued share capital Angel Trains Limited have a direct holding of 1 ordinary share of £1 in West Coast Train Finance Plc representing the remaining 0 01% of the issued share capital

12. Inventory

	31 December 2006 £'m	31 December 2005 £'m
Spares for rolling stock	**2.4**	**2.5**

During the year £0 1m (2005 £0 3m) of inventories were recognised as expenses

13. Other financial assets

Loans receivable

	31 December 2006 £'m	31 December 2005 £'m
Amounts falling due after one year		
Amounts owed by immediate parent company	434 7	434 7
Amounts owed by the other group companies	324 9	277 3
	759.6	**712.0**

13. Other financial assets continued

As at 31 December 2006 the Company had loans issued to Angel Trains Group Limited of £434 7m (2005 £434 7m) This loan is unsecured, interest free and has no fixed maturity date

The Company has loaned Angel Locomotive Leasing Limited £3 1m (2005 £2 8m) Included in the loan is interest of £1 4m (2005 £1 2m) The loan is unsecured and repayable upon the repayment of the Company's investment in the Partnership

The Company issued a £300 0m unsecured loan facility with Angel Trains International Limited, with a balance outstanding of £171 4m (2005 £144 2m) This is a multi-currency facility and bears interest at EURIBOR plus a margin, repayable on demand

Angel Leasing Company Limited has a loan facility with the Company comprising an advance of £77 1m (2005 £77 1m) which bears no interest and is repayable between 30 September 2003 and 31 March 2015 Additional advances under this loan of £45 1m (2005 £53 3m) bears interest at 11 66% and are repayable between 31 March 2003 and 31 March 2015 An amount of £10 0m has been repaid during the year A new loan facility started in February 2006 comprising an advance of £28 2m which bears interest at 5 54% and is repayable between 28 February 2006 and 31 March 2015 An amount of £3 2m has been repaid during the year

Trade and other receivables

	31 December 2006	31 December 2005
	£'m	£'m
Amounts falling due within one year		
Trade debtors and other receivables	3 1	0 7
Amounts owed by group undertakings	1 0	1 3
Prepayments	0 1	0 4
	4.2	**2.4**

The directors consider that the carrying amount of trade and other receivables approximates their fair value

Bank balances and cash
Bank balances and cash comprise cash held by the Company and short-term bank deposits with an original maturity of three months or less The carrying amount of these assets approximates their fair value

Credit risk
The Company's principal financial assets are bank balances and cash, trade and other receivables and amounts owed by other members of the group

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies
The credit risk on group undertakings is limited because the undertakings are solvent, under common control and the directors are confident of them continuing as going concerns
The Company's credit risk is primarily attributable to its trade and operating lease receivables, although this is also considered limited as rentals are payable in advance

The Company has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers

Angel Trains Limited
NOTES TO FINANCIAL STATEMENTS – YEAR ENDED 31 DECEMBER 2006 (Continued)

14. Share capital

	31 December 2006	31 December 2005
	£	£
Authorised		
200,000,000 Ordinary shares of £1	200,000,000	200,000,000
Issued, called up and fully paid		
172,342,966 Ordinary shares of £1	172,342,966	172,342,966

There were no movements in the share capital of the Company in either the 2006 or 2005 reporting period

The Company has one class of ordinary shares which carry no right to fixed income

15. Reserves

	Revaluation reserve	Retained earnings	Total
	£'m	£'m	£'m
At 1 January 2005 as restated	43 3	524 8	568 1
Total recognised income and expense for the year	-	63 2	63 2
Dividends paid	-	(60 0)	(60 0)
Transfer of excess depreciation on revalued assets	(5 8)	5 8	-
At 1 January 2006	37 5	533 8	571 3
Total recognised income and expense for the year	-	56 9	56 9
Dividends paid	-	(16 0)	(16 0)
Transfer of excess depreciation on revalued assets	(14 4)	14 4	-
At 31 December 2006	**23.1**	**589 1**	**612 2**

The revaluation reserves are not available for distribution to the Company's shareholders

16. Loans payable

	31 December 2006	31 December 2005
	£'m	£'m
Amounts falling due after one year		
External loans	32 9	109 9
Loans from group undertakings	397 8	467 9
	430.7	**577.8**

16 Loans payable (continued)

	31 December 2006	31 December 2005
	£'m	£'m
Amounts falling due within one year		
External loans	2 9	41 1
Loans from group undertakings	969 6	737 9
	972 5	**779.0**

The external loans included above are repayable as follows

	31 December 2006	31 December 2005
	£'m	£'m
Within one year	2 9	41 1
Between one and two years	3 1	5 7
Between two and five years	11 0	19 7
Over five years	18 8	84 5
	35.8	**151 0**
Less Amount due for settlement within 12 months (shown under current liabilities)	**(2.9)**	**(41.1)**
Amount due for settlement after 12 months	**32.9**	**109 9**

The carrying amounts of the Company's borrowings are denominated in the following currencies

31 December 2006	Sterling	Euros	Danish Kronor	Total
	£'m	£'m	£'m	£'m
External loans	35 8	-	-	35 8
Loans from group undertakings	1,056 3	311 1		1,367 4
	1,092 1	**311.1**	**-**	**1,403 2**

31 December 2005	Sterling	Euros	Danish Kronor	Total
	£'m	£'m	£'m	£'m
External loans	151 0	-	-	151 0
Loans from group undertakings	974 7	213 4	17 7	1,205 8
	1,125.7	**213.4**	**17.7**	**1,356.8**

16. Loans payable (continued)

The effective interest rates paid were as follows

	Year ended 31 December 2006	Year ended 31 December 2005
External loans	5 49%	5 58%
Loans from group undertakings	4 80%	4 82%

Bank loans of £554 9m (2005 £389 1m) and a bond from Angel Trains Finance Plc of £247 8m (2005 £247 8m) are arranged at fixed interest rates and expose the Company to fair value interest rate risk Other borrowings are arranged at floating rates, thus exposing the Company to cash flow interest rate risk

The directors consider that the carrying amount of the Company borrowings approximates their fair value

On 6 August 1999, the Company entered into a secured £50 0m Term Loan Facility Agreement on a floating interest rate of LIBOR plus a margin The amount drawn down up to 31 December 2006 is £49 4m (2005 £49 4m) The loan is repayable in instalments between November 2000 and April 2013 and the amount outstanding as at 31 December 2006 is £35 8m (2005 £38 4m) This loan is to finance the purchase of new trains and is secured by a mortgage on the assets

On 27 November 2001, the Company entered into a secured £85 0m Term Loan Facility Agreement on a floating interest rate of LIBOR plus a margin The amount drawn down up to 31 December 2006 is £nil (2005 £84 7m) The loan was repaid in full during October 2006

On 4 October 2000, the Company entered into a secured £79 0m Master Lease Purchase Agreement on a floating interest rate of LIBOR plus a margin The amount drawn down up to 31 December 2006 is £nil (2005 £55 5m) The loan was repaid in full during January 2006

17. Derivative financial instruments

	31 December 2006		31 December 2005	
	Assets	Liabilities	Assets	Liabilities
	£'m	£'m	£'m	£'m
Forward foreign exchange contracts	-	(0 1)	0 1	-
Interest rate swaps	1 6	(0 3)	-	(2 7)
	1 6	**(0.4)**	**0.1**	**(2 7)**
Analysed as				
Current	1 6	(0 4)	0 1	(2 7)
	1.6	**(0.4)**	**0.1**	**(2.7)**

17. Derivative financial instruments (continued)

Currency derivatives
The Company utilises currency derivatives to hedge significant future transactions and cash flows The Company is party to a variety of foreign currency forward contracts and options in the management of its exchange rate exposures
The instruments purchased are primarily denominated in the currencies of the Company's principal markets Forward foreign exchange contracts have not been designated as hedging instruments under IAS 39

At the balance sheet date, the total notional amount of outstanding forward foreign exchange contracts to which the Company is committed are as follows

	31 December 2006	31 December 2005
	£'m	£'m
Forward foreign exchange contracts	22.5	17 8

At 31 December 2006, the fair value of the Company's currency derivatives is estimated to be approximately (£0 1m) (2005 £0 1m) These amounts are based on quoted market prices for equivalent instruments at the balance sheet date, comprising (£0 1m) liabilities (2005 £nil) and £nil assets (2005 £0 1m)

Amounts of £1 9m (2005 £0 1m) respectively have been transferred to the income statement in respect of contracts matured during the period

Changes in the fair value of non-hedging currency derivatives amounting to £4 7m have been charged to income in the year (2005 £6 7m)

The Company does not currently designate its foreign currency denominated debt as a hedging instrument for the purpose of hedging the translation of its foreign operations

Interest rate swaps
The Company uses interest rate swaps to manage its exposure to interest rate movements on its bank borrowings by swapping a proportion of those borrowings from floating rates to fixed rates Contracts with nominal values of £125 1m have fixed interest payments at an average rate of 5 2102% per cent for periods up until 2014 and have floating interest receipts at 2 per cent plus LIBOR

The fair value of swaps entered into at 31 December 2006 is estimated at £1 3m (2005 (£2 7m)) These amounts are based on quoted market prices for equivalent instruments at the balance sheet date Interest rate swaps have not been designated as hedging instruments under IAS 39

18. Deferred taxation

	31 December 2006	31 December 2005
	£'m	£'m
Deferred tax assets	3 3	5 0
Deferred tax liabilities	(366 3)	(352 0)
	(363 0)	**(347.0)**

The following are the major deferred tax liabilities and assets recognised by the Company, and the movements thereon, during the current and prior reporting periods

Deferred tax assets

	Retirement benefit scheme	Deferred income	Total
	£'m	£'m	£'m
At 1 January 2005	0 8	5 2	6 0
Adjustment relating to prior periods	-	(2 4)	(2 4)
Charge to the income statement for the year	0 1	-	0 1
Credit to equity for the year	0 5	-	0 5
At 1 January 2006	**1.4**	**2.8**	**4 2**
Charge to the income statement for the year	0 1	-	0 1
Credit to equity for the year	(1 0)	-	(1 0)
At 31 December 2006	**0.5**	**2.8**	**3.3**

18. Deferred taxation (continued)

Deferred tax liabilities

	Accelerated capital allowances	Revaluation of fixed assets	Fair value of derivative instruments	Total
	£'m	£'m	£'m	£'m
At 1 January 2005	308 6	18 6	(0 4)	326 8
Adjustment relating to prior periods	0 8	-	-	0 8
Charge /(credit) to the income statement for the year	26 5	(2 5)	(0 4)	23 6
At 1 January 2006	**335.9**	**16 1**	**(0 8)**	**351.2**
Adjustment relating to prior periods	0 4	-	-	0 4
Charge /(credit) to the income statement for the year	19 7	(6 2)	1 2	14 7
At 31 December 2006	**356 0**	**9.9**	**0.4**	**366 3**

19. Trade and other payables

	31 December 2006	31 December 2005
	£'m	£'m
Trade creditors and other payables	13 7	13 6
Other taxation and social security	1 9	9 7
Other creditors	5 3	4 7
Accruals and deferred income	65 8	36 9
	86.7	**64.9**

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs

The directors consider that the carrying amount of trade payables approximates their fair value

20 Provisions

	Maintenance provision	Total
	£'m	£'m
At 1 January 2006	0 7	0 7
Additional provision in the year	0 5	0 5
At 31 December 2006	**1.2**	**1.2**

The maintenance provision represents payments received for heavy overhauls on Coradia Lint 41 diesel multiple units

21 Contingent liabilities

The Company is guarantor in respect of the following group undertakings

Angel Trains Finance plc
€1,000,000,000 Euro Commercial Paper programme with no defined maturity
£250,000,000 five year Sterling Bond maturing December 2008

Angel Trains Cargo (Locomotives) GmbH
€160,000,000 third party debt facility maturing December 2007

Angel Trains Europa GmbH
€175,000,000 third party debt facility maturing December 2007

22. Capital commitments

	31 December 2006	31 December 2005
	£'m	£'m
Commitments for the acquisition of property, plant and equipment	89 4	102 9

At 31 December 2006, the Company had capital commitments of £89 4m (2005 £102 9m), being capital expenditure authorised and contracted for but not provided for in the financial statements This commitment is for the purchase of new rolling stock currently in production, for delivery between 2007 and 2008, and a number of capital modification projects to the existing fleets

23. Operating lease arrangements

The Company as lessee

	31 December 2006	31 December 2005
	£'m	£'m
Minimum lease payments under operating leases recognised as an expense in the year	1 2	1 0

At the balance sheet date, the Company has outstanding commitments under non-cancellable operating leases, which fall due as follows

	31 December 2006	31 December 2005
	£'m	£'m
Buildings		
Within one year	1 2	1 0
In the second to fifth years inclusive	0 2	0 2
After five years	-	0 1
	1.4	**1.3**

Operating lease payments represent rentals payable by the Company for certain of its office properties Leases are negotiated for an average term of 9 7 years

The Company as lessor

At the balance sheet date, the Company has contracted with train operating companies for the following future minimum lease payments

	31 December 2006	31 December 2005
	£'m	£'m
Within one year	174 7	178 1
In the second to fifth years inclusive	537 9	400 5
After five years	271 5	318 2
	984 1	**896.8**

24. Retirement benefit scheme

Defined benefit plan

The Company operates a defined benefit scheme of its own for qualifying employees in the UK, the Angel Trains Shared Cost Section of the Railways Pension Scheme (the 'Main Scheme')

Provision for the costs of these benefits is charged to the profit and loss account over the average remaining future service lives of the eligible employees

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 31 December 2006 by independent actuaries The results of these calculations have been based on an approximate update of the last formal valuation of the scheme as at 31 December 2004 The contribution rate for the Company's scheme is 17% of pensionable salaries

24. Retirement benefit scheme (continued)

	Valuation at 31 December 2006	Valuation at 31 December 2005
Discount rate	5 3%	4 8%
Expected return on plan assets	7 6%	7 2%
Expected rate of salary increases	4 15%	3 95%
Future pension increases	2 9%	2 7%

The amount recognised in the balance sheet in respect of the Company's defined benefit retirement benefit plan is as follows

	31 December 2006 £'m	31 December 2005 £'m
Present value of funded obligations	(27 6)	(26 1)
Fair value of plan assets	26 1	21 5
Net liability recognised in the balance sheet	**(1.5)**	**(4 6)**

Amounts recognised in the income statement in respect of the defined benefit plan are as follows

	Year to 31 December 2006 £'m	Year to 31 December 2005 £'m
Current service cost	1 6	1 3
Interest on obligation	1 3	1 1
Expected return on plan assets	(1 6)	(1 3)
	1.3	**1 1**

The charge for the year is included in administrative expenses in the income statement

Changes in the present value of the defined benefit obligation are as follows

	Year to 31 December 2006 £'m	Year to 31 December 2005 £'m
Opening defined benefit obligation	26 1	19 2
Service cost	1 9	1 6
Interest cost	1 4	1 1
Actuarial (gains)/losses	(1 9)	4 2
Benefits paid	0 1	-
Closing defined benefit obligation	**27.6**	**26 1**

24. Retirement benefit scheme (continued)

Changes in the fair value of plan assets are as follows

	Year to 31 December 2006	Year to 31 December 2005
	£'m	£'m
Opening fair value of plan assets	21 5	16 6
Expected return	1 6	1 3
Actuarial gains	1 6	2 4
Contributions by employer	0 9	0 9
Contributions by employees	0 3	0 3
Benefits paid	0 2	-
Closing fair value of plan assets	**26.1**	**21 5**

The fair value of plan assets at the balance sheet date is analysed as follows

	31 December 2006	31 December 2005
	£'m	£'m
Equity instruments	20 9	17 6
Debt instruments	2 5	2 2
Property	2 5	1 6
Other assets	0 2	0 1
	26.1	**21.5**

The plan assets do not include any of the Company's own financial instruments, nor any property occupied by, or other assets used by, the Company

The expected rates of return on individual categories of plan assets are determined by reference to relevant indices published by the London Stock Exchange The overall expected rate of return is calculated by weighting the individual rates in accordance with the anticipated balance in the plan's investment portfolio

The history of the plan for the current and prior period is as follows

	31 December 2006	31 December 2005
	£'m	£'m
Present value of defined benefit obligation	(27 6)	(26 1)
Fair value of plan assets	26 1	21 5
Deficit	(1 5)	(4 6)
Experience adjustments on plan liabilities	1 9	(4 2)
Experience adjustments on plan assets	1 6	2 4

24. Retirement benefit scheme (continued)

In accordance with the transitional provisions for the amendments to IAS 19 Employee Benefits in December 2004, the disclosures above are determined prospectively from the 2004 reporting period The Company expects to contribute approximately £1 1m to its defined benefit plan in 2007

Defined contribution plans

The Company also is a member of the Royal Bank of Scotland Group Pension Fund, "the RBS scheme" IAS 19 requires accounting on the basis that the Company participates in a defined contribution scheme because it is not possible to identify the assets and liabilities of the scheme attributable to the Company

The total expense recognised in the income statement of £0 4m (2005 £0 3m) represents contributions payable to these plans by the Company at rates specified in the rules of the plans As at 31 December 2006, contributions of £nil (2005 £0 2m) due in respect of the 2006 reporting period had not been paid over to the plans

25. Dividends

	Year to 31 December 2006	Year to 31 December 2005	Year to 31 December 2006	Year to 31 December 2005
	Pence per share	Pence per share	Total £'m	Total £'m
Dividends	9 28	34 81	16 0	60 0

26. Parent companies

The Company's immediate parent company is Angel Trains Group Limited

The Company's ultimate holding company, ultimate controlling party, and the parent of the smallest and largest group into which the Company is consolidated is The Royal Bank of Scotland Group plc which is incorporated in Great Britain and registered in Scotland Financial statements for The Royal Bank of Scotland Group plc can be obtained from The Royal Bank of Scotland Group plc, Gogarburn, Edinburgh EH12 1HQ

27. Related party transactions

In addition to the subsidiaries listed in note 11, the Company has related party relationships the following fellow subsidiaries of the Group

Roboscot (31) Limited
Angel Trains International Limited
Angel Trains Cargo (Locomotives) Limited
Angel Trains Europa GmbH
Angel Trains Sverige AB
Angel Trains Switzerland GmbH
Angel Trains Cargo (Locomotives) NV
Angel Trains Cargo (Locomotives) GmbH
Locomotion Capital (UK) Limited
Angel Trains Cargo Limited
Locomotion Capital Limited
The Great Rolling Stock Company Limited
Train Finance 1 Plc
Angel Trains Finance Plc

27 Related party transactions (continued)

Trading transactions

During the year, the Company had the following transactions with related parties

	Opening balance	Receipts	Payments	Interest receivable /(payable)	Foreign exchange and other	Closing balance
Accounts with	**£'m**	**£'m**	**£'m**	**£'m**	**£'m**	**£'m**
Banking members of the group	(389 6)	(2,014 6)	1,871 9	(24 0)	1 4	(554 9)
Other, non-banking members of the group						
Parent	434 7	-	-	-	-	434 7
Subsidiaries	192 7	(14 7)	30 7	11 1	-	219 8
Other related parties	(672 4)	(173 0)	233 7	(30 3)	0 9	(641 1)
Total	**(434.6)**	**(2,202 3)**	**2,136.3**	**(43 2)**	**2.3**	**(541.5)**

The amounts outstanding are unsecured and will be settled in cash No guarantees have been given or received

Other related party transactions

In addition to the above, the Company performed certain administrative services for other members of the group, for which a management fee of £6 0m (2005 £5 7m) was charged and paid, being an appropriate allocation of costs incurred by relevant administrative departments As at 31 December 2006 £0 6m (2005 £0 2m) was outstanding

Expenses of £14 0m (2005 £0 9m) were paid by other members of the group and then recharged to the Company As at 31 December 2006 £nil (2005 £0 8m) was outstanding

Compensation of key management personnel

	Year to 31 December 2006
	£'m
Short term benefits	2 2
Post-employment benefits	0 2
	2.4

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends

28. Events after the balance sheet date

There have been no significant events between the year end and the date of approval of the financial statements which would require a change or additional disclosure in the financial statements