# THE CHILTERN RAILWAY COMPANY LIMITED

**DIRECTORS' REPORT**
**AND**
**FINANCIAL STATEMENTS FOR THE 52 WEEKS**
**ENDED 5 JANUARY 2008**

**Registered Number 3007939**

**DIRECTORS' REPORT AND FINANCIAL STATEMENTS FOR THE 52 WEEKS ENDED 5 JANUARY 2008**

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## DIRECTORS AND ADVISORS

### Directors

| | |
|---|---|
| A D Allen | |
| P G Cross | (appointed 3 September 2007) |
| R MacLennan | |
| C E Proctor | (resigned 31 July 2007) |
| T M Sayer | |
| A Shooter | |

### Company secretary and registered office

| | | |
|---|---|---|
| W G R Davies | (appointed 31 March 2008) | |
| R K Miller | (appointed 23 March 2007) | (resigned 31 March 2008) |
| P G Shell | (resigned 23 March 2007) | |

Great Central House
Marylebone Station
Melcombe Place
London NW1 6JJ

### Auditors

Deloitte & Touche LLP
London

### Solicitors

Hollingworth Bissell
Albert Buildings
49 Queen Victoria Street
EC2N 4SA

## DIRECTORS' REPORT

The Directors have pleasure in submitting their report and statement of Accounts for the 52 weeks ended 5 January 2008

### BUSINESS REVIEWS AND PRINCIPAL ACTIVITIES

The Company is a wholly owned subsidiary of M40 Trains Limited

The principal activity of the Company is the operation of passenger railway services primarily between towns in the M40 corridor and London Marylebone and between Aylesbury and London Marylebone

The Company, as part of the DB Regio UK Limited (formerly Laing Rail Limited) Group, was purchased by DB (UK) Railway Holdings Limited on 31 March 2008 Until this date the Company was part of the Henderson Infrastructure HOLDCO (Jersey) Limited Group

There have not been any significant changes in the Company's principal activities in the year under review The Directors are not aware, at the date of this report, of any major changes in the Company's activities in the next year

During the year agreements were reached with Tesco Stores Limited to settle the outstanding claim for compensation in respect of the Gerrards Cross Tunnel collapse The amount credited to the Profit and Loss Accounts was £18 million

The Company incurred £4 6 million of costs refurbishing its Class 168 fleet

The Company has continued its investment programme in leasehold improvements, additional car park capacity and new retail ticket issuing systems There has been no expenditure incurred on research and development

As shown in the Company's profit and loss accounts on page 7, the Company's turnover has increased by 12% over the prior year The Company made a net profit before tax of £10 2 million (2007 - loss of £5 7 million)

The balance sheet on page 8 of the financial statement shows that the Company's financial position at the year end shows net assets of £2 8 million (2007 - net liability of £5 0 million) The cash position is a £0 1 million lower than previous year (2007 - improvement of £0 2 million)

### KEY PERFORMANCE INDICATORS

The key performance indicators of the Company are the growth in passenger income 13 4% (2007 - 16 6%), the Public Performance Measurement 94 3% (2007 - 94%), the latest Customer Satisfaction Rating 90% (2007 - 90%), Operating profit of £10 4 million (2007 - loss £4 2 million)

The Key Performance Indicators were considerably better than targets for the current period and all showed improvements on previous year

### PRINCIPAL RISKS AND UNCERTAINTIES

Competitive pressure is a continuing risk for the Company The Company manages this risk by providing added value services to its passengers It maintains strong relationships with its customers and has a programme of continuous improvement and innovation in its service provision This is supported by investment and marketing promotion

The Company faces cost pressures on pay and fuel With the exception of ASLEF, two year pay deals were agreed with all the Trades Union through till August 2009 Fuel cost increases are now fully hedged to December 2008, but not beyond this date

With the business being acquired by DB (UK) Railway Holdings Limited on the 31st March 2008, £34m of the amount of owed to group undertakings has been converted to debt held with entities in the Deutsche Bahn AG Group This will significantly improve the ratio of current assets to current liabilities

### PROFIT AND LOSS ACCOUNT

The results for the year are set out in the profit and loss account on page 7

### DIVIDENDS

The Directors have declared and paid an interim dividend on the issued share capital of the Company in respect of the 52 weeks ended 5 January 2008 of £3 5 million (2007 - Nil) No further dividends recommended

**DIRECTORS' REPORT (continued)**

**EMPLOYEES**

The Chiltern Railway Company Limited is committed to the principle of Equal Opportunities at work and will not discriminate on the grounds of sex, disability, race, gender reassignment, sexual orientation, marital status, ethnic or national origin, religion or belief, age or membership or non-membership of a trade union It is the policy of the Company that training, career development and promotional opportunities should be available to all employees

The Company has continued its practice of keeping employees informed of matters affecting them as employees and the financial and economic factors affecting the performance of the company

Details of the number of employees and related costs can be found in note 5 to the financial statements on page 13

**PAYMENT TO CREDITORS**

It is the Company's policy to settle the terms of payment with suppliers when agreeing the terms of the transaction, to ensure that suppliers are aware of these terms and to abide by them Trade creditors at the period end amount to 29 (2007 - 33) days of average supplies for the period

**DIRECTORS' REPORT (continued)**

**STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS**

Each of the persons who is a Director at the date of approval of this report confirms that

- as far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- the Director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

This confirmation is given and should be interpreted in accordance with the provision of S234ZA of the Companies Act 1985

**DIRECTORS**

The Directors who served throughout the period, except as noted, are shown on page 1

**DIRECTORS' INTERESTS**

No Director held any interest in the shares of the Company, or had any personal interest in any significant or material contract with the Company, during the accounting period ended 5 January 2008

At 5 January 2008 no Director had any interest in the share capital of Henderson Infrastructure Holdco (Jersey) Limited, the Company's ultimate parent undertaking

No Director had any interest in the shares of any other group Company requiring disclosure

On behalf of the Board

Director
2 May 2008

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the Directors to prepare such financial statements for each financial year 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 year 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, 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 the 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

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THE CHILTERN RAILWAY COMPANY LIMITED

We have audited the financial statements of The Chiltern Railway Company Limited for the 52 weeks ended 5 January 2008 which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet and the related notes 1 to 23 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**

The Directors' responsibilities for preparing financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of Directors' responsibilities

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 Directors' report and consider the implications for our report if we become aware of any apparent misstatements within it

**Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis of evidence relevant to the amounts and disclosures in the financial statements It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements

**Opinion**

In our opinion

- the financial statements give a true and fair view in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 5 January 2008 and of its profit for the 52 weeks then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Director's Report is consistent with the financial statements

Deloitte & Touche LLP

**Deloitte & Touche LLP**
Chartered Accountants and Registered Auditors
London
United Kingdom
2 May 2008

## PROFIT AND LOSS ACCOUNT

### FOR THE 52 WEEKS ENDED 5 JANUARY 2008

| | Notes | 52 weeks ended 5 January 2008 | 52 weeks ended 6 January 2007 |
|---|---|---|---|
| | | £'000 | £'000 |
| Turnover | 1b,2 | 123,378 | 110,009 |
| Cost of sales | | (115,726) | (100,654) |
| **Gross profit** | | 7,652 | 9 355 |
| Administrative expenses | | (15,343) | (13,595) |
| Other operating income | 3 | 18,129 | - |
| **Operating profit/(loss)** | 3 | 10,438 | (4,240) |
| Net interest payable | 6 | (287) | (1,446) |
| **Profit/(Loss) on ordinary activities before taxation** | | 10,151 | (5,686) |
| Tax (charge)/credit on profit/(loss) on ordinary activities | 7 | (2,043) | 1,333 |
| **Profit/(Loss) on ordinary activities after taxation** | 17 | 8,108 | (4,353) |

A reconciliation of movement in shareholders' funds/(deficit) is given in note 18

All items in the profit and loss account relate to continuing operations

There is no material difference between the results stated in the profit and loss account and their historical cost equivalents

| STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES | | 52 weeks ended 5 January 2008 | 52 weeks ended 6 January 2007 |
|---|---|---|---|
| | | £'000 | £'000 |
| **Profit/(Loss) for the financial period** | | 8,108 | (4,353) |
| Actuarial gain on post retirement obligation | 21 | 3,000 | 2,300 |
| Movement on deferred tax relating to post retirement obligation | | - | (3,300) |
| **Total recognised gains and (losses) for the period** | | 11,108 | (5,353) |

## BALANCE SHEET AS AT 5 JANUARY 2008

| | Notes | 5 January 2008 | 6 January 2007 |
|---|---|---|---|
| | | £'000 | £'000 |
| **Fixed assets** | | | |
| Tangible assets | 8 | **42,489** | 39,037 |
| **Current assets** | | | |
| Stocks | 9 | **1,694** | 1,578 |
| Debtors | | **20,494** | 20,612 |
| - due within one year | 10 | **20,353** | 20,451 |
| - due after more than one year | 10 | **141** | 161 |
| Cash at bank and in hand | 11 | **6,603** | 6,716 |
| | | **28,791** | 28,906 |
| **Creditors** amounts falling due within one year | 12 | **(58,872)** | (53,162) |
| **Net current liabilities** | | **(30,081)** | (24,256) |
| **Total assets less current liabilities** | | **12,408** | 14,781 |
| **Creditors.** amounts falling due after more than one year | 13 | **(1,067)** | (10,396) |
| **Provisions for liabilities and charges** | 15 | **(2,326)** | (278) |
| **Net assets excluding post retirement obligations** | | **9,015** | 4,107 |
| Post retirement obligations (net) | 21 | **(6,200)** | (9,100) |
| **Net assets/(liabilities) including pension asset and post retirement liabilities** | | **2,815** | (4,993) |
| **Capital and reserves** | | | |
| Called up share capital | 16 | **2,150** | 2,150 |
| Profit and loss account | 17 | **665** | (7,143) |
| - Deficit relating to post retirement obligations | | **(6,200)** | (9,100) |
| - Others | | **6,865** | 1,957 |
| **Shareholders' funds/(deficit)** | 18 | **2,815** | (4,993) |

The financial statements were approved by the Board of Directors on 2 May 2008 and were signed on its behalf by

R J Allen

Director
2 May 2008

**Notes to the financial statements for the 52 weeks ended 5 January 2008**

**1 ACCOUNTING POLICIES**

a) Basis of preparation of accounts
The financial statements have been prepared under the historical cost convention, and in accordance with applicable United Kingdom laws and accounting standards A summary of the principal accounting policies adopted by the Directors, which have been applied consistently in the current and prior periods, is shown below

b) Turnover
Turnover is the total amount receivable by the company for goods supplied and services provided, excluding VAT and trade discounts

Turnover reflects the following

(i) Passenger income represents agreed amounts attributed to the company by the income allocation systems of the Railway Settlement Plan Limited principally in respect of passenger receipts, based on detailed surveys of passenger flows The attributed share of season ticket income is deferred within creditors and released to the profit and loss account over the life of the relevant season ticket

(ii) Revenue grant relates to the company's allocation from the Department for Transport in respect of passenger services operated by the company and is recognised in the period to which the grant relates

(iii) Other income is derived from car park income, catering, commissions and other services and is recognised in the profit and loss account upon completion of the service

(iv) Income from third party project work is recognised in the profit and loss account upon completion of the project

**Notes to the financial statements for the 52 weeks ended 5 January 2008**

**1 ACCOUNTING POLICIES (continued)**

c) Taxation

Current tax, including United Kingdom Corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date

In accordance with FRS 19 'Deferred Tax', deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date Timing differences are differences between the group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted Deferred tax is measured at the average tax rates that are expected to apply in the period in which the timing differences are expected to reverse, based on the tax rates and laws that have been enacted or substantially enacted by the balance sheet date Deferred tax assets are not discounted

d) Tangible fixed assets

Tangible fixed assets are stated at cost including directly attributable finance costs, net of depreciation and provision for impairment Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its expected useful economic life, as follows

Short leasehold buildings, plant and equipment and infrastructure improvements - over the remaining lease term or remaining asset life in line with the Franchise Agreement as appropriate

Assets in the course of construction are not depreciated until commissioned Once commissioned, assets are depreciated in line with the Franchise Agreement Assets which are listed in the Franchise Agreement are depreciated over their economic useful life whilst other assets are depreciated over the shorter of the lease term or their economic useful life

e) Capitalised interest

Interest costs on borrowings used to fund the construction of infrastructure assets are capitalised during the construction period Capitalisation ceases on commissioning

**Notes to the financial statements for the 52 weeks ended 5 January 2008 (continued)**

**1 ACCOUNTING POLICIES (continued)**

f) Operating costs

Operating costs are capitalised during the construction period Following commissioning, regular operating and maintenance costs and Chiltern Railway Company Limited central costs will be expensed to the profit and loss account as incurred

g) Stocks

Stocks are stated at the lower of cost and net realisable value on a FIFO basis In determining the cost of raw materials, consumables and goods purchased for resale, the historical cost is used

h) Contributions to Pension Funds

*Defined Benefit Schemes*

The company operates a defined benefit scheme providing benefits based on final pensionable pay The assets of the scheme are held separately from those of the company Contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives within the company

For the Company's defined benefit schemes, in accordance with FRS 17 'Retirement Benefits' the service cost of the pension provision relating to the period, together with the cost of any benefits relating to past service, is charged to the profit and loss account A charge equal to the increase in present value of the scheme liabilities and a credit equivalent to the Company's long term expected returns on the assets are included in the profit and loss account under interest

The difference between the market value of the assets of the scheme and the present value of the accrued pension liabilities is shown as an asset or liability on the balance sheet net of deferred tax Any difference between the expected return on assets and that actually achieved is recognised in the statement of total recognised gains and losses along with differences arising from experience or assumption changes

Further information on pension arrangements is set out in note 21 to the accounts

*Defined Contribution Scheme*

The company commenced operating a defined contribution scheme in 2003 The cost of a defined contribution scheme is equal to the contributions payable to the scheme for the accounting period The cost is recognised within operating profit in the profit and loss account

i) Government grants

Capital based government grants are included within accruals and deferred income in the balance sheet and credited to the profit and loss account over the estimated useful economic lives of the assets to which they relate

j) Leased assets

Assets held under finance leases and other similar contracts, which confer rights and obligations similar to those attached to owned assets, are capitalised as tangible fixed assets and are depreciated over the shorter of the lease terms and their useful lives The capital elements of future lease obligations are recorded as liabilities, while the interest elements are charged to the profit and loss account over the period of the leases to produce a constant rate of charge on the balance of capital repayments outstanding All other leases are regarded as operating leases and the payments made under them are charged to the profit and loss account over the lease term

k) Heavy Maintenance

The cost of rolling stock heavy maintenance items such as engines, gearboxes, air conditioning units and wheelsets is written off over their useful lives dictated by their frequency of replacement, typically between 3 to 7 years This applies to trains leased by Chiltern where this element for heavy maintenance is not included in the lease Where leases do include an element for heavy maintenance, the cost of this maintenance is spread evenly over the lease term

**Notes to the financial statements for the 52 weeks ended 5 January 2008 (continued)**

## 2 TURNOVER

Turnover originates in the United Kingdom and derives from the operation of passenger railway services and associated activities

| Turnover in the year can be analysed as follows | **52 weeks ended 5 January 2008 £'000** | 52 weeks ended 6 January 2007 £'000 |
|---|---|---|
| Passenger income | **90,893** | 80,130 |
| Revenue grant | **22,918** | 9,823 |
| Other | **9,567** | 20,056 |
| | **123,378** | 110,009 |

## 3 OPERATING PROFIT/(LOSS)

| | **52 weeks ended 5 January 2008 £'000** | 52 weeks ended 6 January 2007 £'000 |
|---|---|---|
| Profit/(Loss) for the year is stated after charging/(crediting) | | |
| Auditors' remuneration | | |
| - Fees payable to the Company's auditors for the audit of the Company's annual accounts | **51** | 35 |
| - Other services | **-** | 2 |
| Access charges payable to Network Rail | **38,003** | 30,250 |
| Depreciation and amortisation | | |
| - Tangible fixed assets, owned | **3,594** | 2,745 |
| Operating lease rentals | | |
| - Rolling stock charge | **14,865** | 14,210 |
| - Other plant and equipment | **(17)** | 171 |
| Operating Income - Exceptional income in respect of revenue loss | **(18,129)** | - |
| Gross rent receivable | **(1,658)** | (1,749) |

The operating profit for 2008 included £18,129,000 in respect of income received from Tesco PLC as full settlement of the compensation owed regarding the Gerrards Cross tunnel collapse in 2005

**Notes to the financial statements for the 52 weeks ended 5 January 2008 (continued)**

## 4 DIRECTORS' REMUNERATION

The Directors of the Company are remunerated for their services to the John Laing plc Group as a whole and it is not practicable to allocate their remuneration between John Laing plc Group Companies The remuneration of A Allen, A Shooter and C Proctor are disclosed in the financial statements of DB Regio UK Limited (formerly Laing Rail Limited) The remuneration of the remaining Directors is as follows

| | 52 weeks ended 5 January 2008 | 52 weeks ended 6 January 2007 |
|---|---|---|
| All Directors | £'000 | £'000 |
| Directors' emoluments | 274 | 217 |
| Highest paid director | | |
| Director's emoluments | 133 | 119 |

The highest paid Director is a member of a defined benefit scheme, under which the accrued pension to which he would be entitled from a normal retirement date if he were to retire at the financial year end is £31,438 (2007 - £30,236)

Retirement benefits are accruing to 5 (2007 - 5) directors under defined benefit schemes

## 5 STAFF NUMBERS

The average number of persons employed by the Company during the period, including directors, was as follows

| | 52 weeks ended 5 January 2008 | 52 weeks ended 6 January 2007 |
|---|---|---|
| | No | No |
| Operations | 296 | 287 |
| Maintenance | 140 | 146 |
| Retail | 236 | 241 |
| General | 53 | 38 |
| | 725 | 712 |

The aggregate payroll costs of these persons were as follows

| | 52 weeks ended 5 January 2008 | 52 weeks ended 6 January 2007 |
|---|---|---|
| | £'000 | £'000 |
| Wages and salaries | 25,916 | 24,420 |
| Social security costs | 2,183 | 2,079 |
| Other pension costs | 3,172 | 3,241 |
| | 31,271 | 29,740 |

## 6 NET INTEREST PAYABLE

| | 52 weeks ended 5 January 2008 | 52 weeks ended 6 January 2007 |
|---|---|---|
| | £'000 | £'000 |
| **Interest receivable and similar income** | | |
| Interest receivable on bank deposits | 397 | 277 |
| Interest receivable on pension assets | 600 | 300 |
| Inter-company interest receivable | 204 | - |
| | 1,201 | 577 |
| **Interest payable and similar charges** | | |
| Inter-company interest payable | (1,363) | (1,293) |
| External interest payable | (125) | (730) |
| | (1,488) | (2,023) |
| Net interest payable | (287) | (1,446) |

**Notes to the financial statements for the 52 weeks ended 5 January 2008 (continued)**

## 7 TAX ON PROFIT/(LOSS) ON ORDINARY ACTIVITIES

| <u>Analysis of tax (charge)/credit for the year</u> | **52 weeks ended 5 January 2008 £'000** | 52 weeks ended 6 January 2007 £'000 |
|---|---|---|
| **UK corporation tax** | - | - |
| Group relief receivable | - | 405 |
| | - | 405 |
| **Adjustments in respect of previous periods** | | |
| UK corporation tax benefit | 5 | - |
| **Total current tax** | 5 | 405 |
| **Deferred tax** | | |
| Origination and reversal of timing differences | (2,327) | 931 |
| Adjustment in respect of prior periods | 279 | (3) |
| **Total deferred tax (note 15)** | (2,048) | 928 |
| **Total tax (charge)/credit on profit/(loss) on ordinary activities** | (2,043) | 1,333 |

*Factors affecting the tax charge for the current period*

The differences between the total current tax charge shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit/(loss) before tax are as follows

| | **52 weeks ended 5 January 2008 £'000** | 52 weeks ended 6 January 2007 £'000 |
|---|---|---|
| Profit/(Loss) on ordinary activities before tax | 10,151 | (5,686) |
| Profit/(Loss) on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2007 - 30%) | (3,045) | 1,706 |
| **Effects of:** | | |
| Expenses not deductible for tax purposes | (106) | (126) |
| Capital allowances in excess of depreciation | 302 | 659 |
| FRS 17 Adjustment | (30) | (209) |
| Group relief obtainable from parent for no charge | 995 | - |
| Tax losses not utilised | - | (1,611) |
| Utilisation of tax losses | 2,177 | - |
| Transfer pricing adjustment | - | (13) |
| Other timing differences | (293) | (1) |
| Adjustment to tax charge in respect of previous periods | 5 | - |
| **Total current tax credit for the period** | 5 | 405 |

**Notes to the financial statements for the 52 weeks ended 5 January 2008 (continued)**

## 8 TANGIBLE FIXED ASSETS

| | Short leasehold £'000 | Plant and machinery £'000 | Infrastructure improvements under construction £'000 | Total £'000 |
|---|---|---|---|---|
| **Cost at 7 January 2007** | 17,898 | 24,398 | 3,921 | 46,217 |
| Additions | - | 3,653 | 3,437 | 7,090 |
| Transfers within Company | 26 | 1,533 | (1,603) | (44) |
| At 5 January 2008 | 17,924 | 29,584 | 5,755 | 53,263 |
| **Accumulated depreciation** | | | | |
| At 7 January 2007 | 1,847 | 5,333 | - | 7,180 |
| Charge for the period | 606 | 2,988 | - | 3,594 |
| At 5 January 2008 | 2,453 | 8,321 | - | 10,774 |
| **Net book value at 5 January 2008** | **15,471** | **21,263** | **5,755** | **42,489** |
| Net book value at 6 January 2007 | 16,051 | 19,065 | 3,921 | 39,037 |

During the year the economic useful life of assets were reviewed and some were adjusted downwards, the main assets being CCTV and DOO equipment The effect has been to increase the depreciation charged in the year by £271,000

## 9 STOCKS

| | 5 January 2008 £'000 | 6 January 2007 £'000 |
|---|---|---|
| Raw materials and consumables | **1,694** | 1,578 |

## 10 DEBTORS

| Due within one year | 5 January 2008 £'000 | 6 January 2007 £'000 |
|---|---|---|
| Trade debtors | **782** | 1,389 |
| Rail Settlement Plan debtors | **3,794** | 3,656 |
| Amounts owed by group undertakings | **8,472** | 1,154 |
| Other debtors | **976** | 2,278 |
| Vat debtors | **3,080** | 2,373 |
| Prepayments and accrued income | **3,249** | 9,601 |
| | **20,353** | 20,451 |
| Due after more than one year: | | |
| Other debtors | **141** | 161 |

A reciprocal loan arrangement is in place between The Chiltern Railway Company Limited and M40 Trains Limited The maximum sum is £50 million and the interest rate is 6 8% per annum The arrangement is in place whilst Chiltern remains a wholly subsidiary of M40 and M40 continues to hold the Franchise for the rail service on the Chiltern line The loan is only repayable in the event of a change of ownership of Chiltern or the end of the Franchise

## 11 CASH AT BANK AND IN HAND

Cash on deposit, at bank and in hand is £6 6 million (2007 - £6 7 million) During the year, the Company put in place a performance bond to cover the majority of its Liquidity Maintenance obligations under the Franchise Agreement A cash balance of £3 1 million is also held to meet this obligation The Company is not required to retain this in a separate bank account

**Notes to the financial statements for the 52 weeks ended 5 January 2008 (continued)**

## 12 CREDITORS AMOUNTS FALLING DUE WITHIN ONE YEAR

| | **5 January 2008** | 6 January 2007 |
|---|---|---|
| | **£'000** | £'000 |
| Trade creditors | **8,675** | 8,724 |
| Rail Settlement Plan creditors | **3,971** | 2,948 |
| Amounts owed to group undertaking | **31,307** | 26,937 |
| Corporation tax payable | **343** | 348 |
| Other taxation and social security | **1,908** | 1,876 |
| Other creditors | **1,531** | 1,162 |
| Accruals and deferred income | **5,307** | 5,604 |
| Deferred season ticket income | **5,830** | 5,563 |
| | **58,872** | 53,162 |

## 13 CREDITORS AMOUNTS FALLING DUE AFTER ONE YEAR

| | **5 January 2008 £'000** | 6 January 2007 £'000 |
|---|---|---|
| Amounts owed to group undertaking | **-** | 9,100 |
| Accruals and deferred income | **1,067** | 1,296 |
| | **1,067** | 10,396 |
| **Analysis of debt** | | |
| Debt can be analysed as falling due | | |
| Between one and two years | **203** | 202 |
| Between two and five years | **304** | 234 |
| In five years or more | **560** | 9,960 |
| | **1,067** | 10,396 |

## 14 LOANS

During the year the loan facility with the Royal Bank of Scotland was paid at 5 January 2008 The Company together with the immediate parent M40 Trains Limited, now has a joint loan facility agreement with John Laing Plc The amount owed to John Laing plc at January 5th was £31 5m This was repaid on 31 March 2008, from which date a facility for £40m has been agreed with Deutsche Bahn AG

**Notes to the financial statements for the 52 weeks ended 5 January 2008 (continued)**

## 15 PROVISIONS FOR LIABILITIES AND CHARGES

| Deferred taxation | Deferred taxation £'000 |
|---|---|
| At 7 January 2007 | (278) |
| Adjustment in respect of prior years | 279 |
| Movement on tax rate change | 166 |
| Charge to profit and loss account | (2,493) |
| At 5 January 2008 | (2,326) |

| Deferred taxation | 5 January 2008 £'000 | 6 January 2007 £'000 |
|---|---|---|
| Difference between accumulated depreciation, amortisation and capital allowances | (2,409) | (1,970) |
| Other timing differences | 83 | 103 |
| Losses | - | 1,589 |
| Deferred tax liability | (2,326) | (278) |

## 16 CALLED UP SHARE CAPITAL

| | 5 January 2008 No | 6 January 2007 No |
|---|---|---|
| **Authorised** | | |
| Ordinary Shares of £1 each | 2,150,000 | 2,150,000 |

| | 5 January 2008 £'000 | 6 January 2007 £'000 |
|---|---|---|
| **Allotted, called up and fully paid** | | |
| 2,150,000 Ordinary Shares of £1 each | 2,150 | 2,150 |

## 17 MOVEMENT IN RESERVES

| | Pension reserve £'000 | Profit and loss account £'000 | Total £'000 |
|---|---|---|---|
| At 7 January 2007 | (9,100) | 1,957 | (7,143) |
| Profit for the period | - | 8,108 | 8,108 |
| Dividends paid | - | (3,500) | (3,500) |
| Other finance income | 600 | (600) | - |
| Actuarial gain on post retirement obligations | 3,000 | - | 3,000 |
| Current pension service costs in excess of current contribution | (700) | 700 | - |
| Adjustment for Laing Rail Pension Costs | - | 200 | 200 |
| **At 5 January 2008** | (6,200) | 6,865 | 665 |

**Notes to the financial statements for the 52 weeks ended 5 January 2008 (continued)**

## 18 RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS/(DEFICIT)

| | 52 weeks ended 5 January 2008 | 52 weeks ended 6 January 2007 |
|---|---|---|
| | £'000 | £'000 |
| Profit/(Loss) for the financial period | 8,108 | (4,353) |
| Dividends paid on equity shares | (3,500) | - |
| Actuarial gain on post retirement obligation | 3,000 | 2,300 |
| Movement on deferred tax relating to post retirement obligation | - | (3,300) |
| Other finance income | - | 300 |
| Adjustment for Laing Rail Pension Costs | 200 | - |
| Net reduction to shareholders' funds | 7,808 | (5,053) |
| Opening shareholders (deficit)/funds | (4,993) | 60 |
| Closing shareholders' funds/(deficit) | 2,815 | (4 993) |

## 19 CAPITAL COMMITMENTS AND FINANCIAL COMMITMENTS

As at 5 January 2008 future commitments for which no provision had been made are as follows

| | 5 January 2008 £'000 | 6 January 2007 £'000 |
|---|---|---|
| Contracted | 4,069 | 2,403 |

**Financial commitments**

The Company has the following annual commitments, amounting to £14,688,000 (2007 - £15,024,000) due under non-cancellable operating leases, which expire as follows

| | 2008 | | 2007 | |
|---|---|---|---|---|
| | Rolling stock | Other | Rolling stock | Other |
| | £'000 | £'000 | £'000 | £'000 |
| **Operating leases which expire** | | | | |
| Within 1 year | - | - | - | - |
| Between 1 and 5 years | | 39 | - | 17 |
| In five years or more | 14,649 | - | 15,007 | - |
| | 14,649 | 39 | 15,007 | 17 |

**Notes to the financial statements for the 52 weeks ended 5 January 2008 (continued)**

**Financial commitments (continued)**

The Company has contracts with Network Rail Infrastructure Limited and London Underground for access to the railway infrastructure (track, station and depots) These contracts are for a remaining period of 4 and 3 years respectively The contracts may be terminated by joint agreement between the companies

The Company is committed to pay a fixed charge of £43 5 million in the next financial year including £4 6 million for station and depot leases Thereafter Network Rail and London Underground contracts will rise by RPI In addition a variable charge is levied on the basis of train miles actually run

The Company has entered into a fuel swap agreement to buy 1 2 million litres of gas oil per month between 1 April 2006 and 31 March 2008 at 29 01 pence per litre and a further fuel swap agreement to buy 1 3 million litres of gas oil per month from the 1 April 2008 until the 31 December 2008 at 24 28 pence per litre The fair value of both swaps at 5 January 2008 was £1,415,000 (2007 - £770,000 liability)

## 20 TRANSACTIONS WITH RELATED PARTIES

As a greater than 90% subsidiary of Henderson Infrastructure Holdco Limited, the Company has taken advantage of the exemption under Financial Reporting Standard 8 not to provide information on related party transactions with other undertakings within the Henderson Infrastructure Holdco Limited Group Note 22 gives details of how to obtain a copy of the published financial statements of Henderson Infrastructure Holdco Limited

## 21 POST RETIREMENT OBLIGATIONS

| | 5 January 2008 | 6 January 2007 |
|---|---|---|
| | £'000 | £'000 |
| The Chiltern Railway Company Limited Section | (5,600) | (8,300) |
| The Chiltern Railway Company Limited (Maintenance) Section | (600) | (800) |
| | (6,200) | (9,100) |
| Deferred tax asset | - | - |
| Net pension deficit | (6,200) | (9 100) |

***Defined benefit pension schemes***

The Company operates two defined benefit schemes, "The Chiltern Railway Company Limited Section" and "The Chiltern Railway Company Limited (Maintenance) Section" the "Chiltern Schemes" for the benefit of the employees and executive directors The assets of the Chiltern Schemes are administered by trustees in a fund independent from the assets of the Company

There were no outstanding or prepaid contributions at either the beginning o the end of the financial period

Contributions to the company's defined benefit pension schemes are charged to the profit and loss account so as to spread the cost of pensions over employees working lives within the company The contributions are determined by a qualified actuary on the basis of triennial valuations using the projected unit method The notes below are in accordance with the FRS 17 'Retirement benefits' disclosures The latest full actuarial valuation was carried out at 31 December 2004 and updated to 31 December 2007 by a qualified independent actuary

**Notes to the financial statements for the 52 weeks ended 5 January 2008 (continued)**

The most recent actuarial valuation showed the market value of The Chiltern Railway Company Limited Section's assets was £57 500 000 at 31 December 2007 (31 December 2006 - £51,200 000) and that the actuarial value of those assets represented 86% (2006 - 86%) of the benefits that had accrued to members after allowing for expected future increases in earnings Employer contributions for the period ending 31 December 2007 are 15 72% of Section Pay until 30 June 2021 when the employer contribution rate will revert to 60% of the long-term joint contribution rate of 23 4% of Section Pay Employees contributed 10 48% of Section Pay

The most recent actuarial valuation showed the market value of The Chiltern Railway Company Limited (Maintenance) Scheme assets was £9 100 000 at 31 December 2007 (31 December 2006 - £7 900 000) and that the actuarial value of those assets represented 90% (2006 - 90 8%) of the benefits that had accrued to members after allowing for expected future increases in earnings Employer contributions for the period ending 31 December 2007 are 15 6% of Section Pay until 30 June 2021 when the employer contribution rate will revert to 60% of the long-term joint contribution rate of 23 9% of Section Pay Employees contributed 10 4% of Section Pay

The pension charge for the period was £3 100 000 (2007 - £3 200,000) for the two schemes

The main assumptions used by the actuary for both schemes were

| | 5 January 2008 | 6 January 2007 | 7 January 2006 | 8 January 2005 |
|---|---|---|---|---|
| | % | % | % | % |
| Rate of increase in salaries | 4 5 | 4 35 | 4 25 | 4 25 |
| Rate of increase for pensions in payment | 3 0 | 2 85 | 2 75 | 2 75 |
| Discount rate | 5 6 | 5 0 | 4 8 | 5 3 |
| Inflation | 3 0 | 2 85 | 2 75 | 2 75 |
| Rates of increase for deferred pensioners | 3 0 | 2 85 | 2 75 | 2 75 |

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions that due to the timescale covered may not necessarily be borne out in practice

*Defined contribution pension schemes*

The Chiltern Railway Company Limited has a defined contribution scheme which is open to new entrants and existing employees alike

The cost of the scheme is equal to the contributions payable to the scheme for the period which was £40 550 (2007 - £40 993)

There were no outstanding or prepaid contributions at either the beginning or the end of the financial period

*Schemes assets*
The fair value of the Chiltern Schemes assets which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the scheme s liabilities which are derived from cash flow projections over long periods and are thus inherently uncertain, were

| | Expected rate of return | 5 January 2008 | Expected rate of return | 6 January 2007 | Expected rate of return | 7 January 2006 |
|---|---|---|---|---|---|---|
| | % | £'000 | % | £ 000 | % | £'000 |
| Equities | 8 0 | 56,100 | 8 5 | 47 200 | 8 25 | 39 200 |
| Bonds | 5 8 | 4,100 | 5 1 | 6 000 | 4 60 | 5 200 |
| Property | 8 6 | 6,300 | 8 5 | 5 800 | 8 25 | 3,800 |
| Other | 5 5 | 100 | 5 0 | 100 | 4 50 | 400 |
| | 8 30 | 66,600 | 8 15 | 59 100 | 7 85 | 48 600 |
| Total market value of assets | | | | | | |
| Present value of scheme liabilities | | (76,900) | | (74 200) | | (66 800) |
| Deficit in the scheme | | (10,300) | | (15 100) | | (18 200) |
| Members share of deficit | | 4 100 | | 6 000 | | 7,200 |
| Net pension liability | | (6,200) | | (9 100) | | (11 000) |
| Related deferred tax asset | | - | | - | | 3,300 |
| Net pension liability | | (6,200) | | (9 100) | | (7 700) |

The amount of this net pension liability would have a consequential effect on reserves

**Notes to the financial statements for the 52 weeks ended 5 January 2008 (continued)**

**Analysis of amounts charged to profit from operations**

| | 52 weeks ended 5 January 2008 | 52 weeks ended 6 January 2007 |
|---|---|---|
| | £'000 | £'000 |
| Current service cost | (3 100) | (3,200) |

**Analysis of amounts credited to investment income**

| | 52 weeks ended 5 January 2008 | 52 weeks ended 6 January 2007 |
|---|---|---|
| | £'000 | £'000 |
| Expected return on scheme assets | 3,000 | 2 300 |
| Interest on scheme liabilities | (2,400) | (2 000) |
| **Net credit to investment income** | 600 | 300 |

**Analysis of the amount recognised in the Statement of Total Recognised Gains and Losses (STRGL)**

| | 52 weeks ended 5 January 2008 £'000 | 52 weeks ended 6 January 2007 £'000 | 53 weeks ended 7 January 2006 £'000 |
|---|---|---|---|
| Actual return less expected return on pension scheme assets | 300 | 2 000 | 3 000 |
| Experience (losses)/gains arising on the scheme liabilities | 3,300 | (600) | 1 000 |
| | (600) | 900 | (5 800) |
| Changes in assumptions underlying the present value of the scheme liabilities | | | |
| **Actuarial gain/(loss)** | 3,000 | 2 300 | (1 800) |
| Deferred tax asset | - | (3,300) | 660 |
| **Actuarial gain/(losses) recognised in STRGL** | 3,000 | (1 000) | (1 140) |

**Changes in the present value of the defined benefit obligation**

| | 52 weeks ended 5 January 2008 | 52 weeks ended 6 January 2007 |
|---|---|---|
| | £'000 | £'000 |
| Opening defined benefit obligation | (74,200) | (66 800) |
| Service cost | (5,000) | (5 300) |
| Interest cost | (3 900) | (3 400) |
| Experience losses on the scheme liabilities | 1,300 | (1 000) |
| Changes in assumptions underlying the present value of the scheme liabilities | 4,000 | 1 400 |
| Benefits paid | 900 | 900 |
| **Total defined benefit obligation** | (76,900) | (74,200) |
| Members share of deficit | 4,100 | 6 000 |
| **Closing defined benefit obligation** | (72 800) | (68 200) |

**Changes in the fair value of plan assets**

| | 52 weeks ended 5 January 2008 | 52 weeks ended 6 January 2007 |
|---|---|---|
| | £'000 | £'000 |
| Opening fair value of plan assets | 59,100 | 48 600 |
| Expected return | 5,000 | 3 900 |
| Actual return less expected return on pension scheme assets | (500) | 3,500 |
| Contributions by employer | 2,400 | 2 500 |
| Contributions by members | 1,500 | 1 500 |
| Benefits paid | (900) | (900) |
| **Closing fair value of plan assets** | 66 600 | 59 100 |

**Notes to the financial statements for the 52 weeks ended 5 January 2008 (continued)**

Costs and income that were reflected on the shared cost basis in the profit and loss account and STRGL for the Chiltern Schemes have been grossed up to 100% Chiltern members contributions are excluded from net analysis of the movement in the deficit of the year below

**Analysis of the movement in the deficit during the year**

| | 52 weeks ended 5 January 2008 | 52 weeks ended 6 January 2007 |
|---|---|---|
| | £'000 | £'000 |
| Deficit at beginning of period | (9,100) | (11 000) |
| Current service cost | (3,100) | (3,200) |
| Other finance income | 600 | 300 |
| Contributions | 2,400 | 2,500 |
| Actuarial gain | 3,000 | 2 300 |
| **Pension deficit at end of period** | (6,200) | (9,100) |

The estimated amount of contributions expected to be paid to the schemes during the next financial year is £2 569 700

**Amounts for the current and previous five periods are as follows**

| | 52 weeks ended 5 January 2008 | 52 weeks ended 6 January 2007 | 52 weeks ended 7 January 2006 | 53 weeks ended 8 January 2005 | 52 weeks ended 3 January 2004 |
|---|---|---|---|---|---|
| Present value of scheme liabilities | 76,900 | 74 200 | 66,800 | 51,200 | 41,400 |
| Market value of assets | 66,600 | 59,100 | 48,600 | 36 500 | 29,700 |
| Deficit (including member share) | (10,300) | (15 100) | (18,200) | (14,700) | (11 700) |
| Experience loss/(gain) on Chiltern Scheme liabilities | 1,300 | 600 | (1 000) | 700 | 1,300 |
| Experience loss/(gain) on Chiltern Scheme assets | 300 | (2 000) | (3,000) | (800) | (1,900) |

## 22 SUBSEQUENT EVENTS

The Company, as part of the DB Regio UK Limited (formerly Laing Rail Limited) Group, was purchased by DB (UK) Railway Holdings Limited on 31 March 2008 Until this date the Company was part of the Henderson Infrastructure HOLDCO (Jersey) Limited Group On the same date, refinancing as described in Note 14 occurred

## 23 ULTIMATE PARENT UNDERTAKING

On 31 March 2008, the DB Regio UK Limited (formerly Laing Rail Limited) Group, of which this Company is a member was purchased by DB (UK) Railway Limited From this date, the Company is controlled by Deutsche Bahn AG a Company incorporated in Germany, all the shares of which are held by the Federal Republic of Germany

Before this date the Group was controlled by Henderson Infrastructure HOLDCO (Jersey) Limited, incorporated in Jersey Channel Islands

The Company's immediate parent entity and the smallest Group in which its results are consolidated is M40 Trains Limited a Company incorporated in Great Britain

The largest Group in which its results are incorporated is Hendersons Infrastructure HOLDCO (UK) Limited, a Company incorporated in Great Britain and registered in England and Wales Copies of the consolidated accounts are available from Companies House, Crown Way, Cardiff CF14 3U2