THE CHILTERN RAILWAY COMPANY LIMITED

DIRECTORS' REPORT
AND
FINANCIAL STATEMENTS FOR THE 52 WEEKS
ENDED 7 JANUARY 2006

Registered Number: 3007939

DIRECTORS' REPORT AND FINANCIAL STATEMENTS FOR THE 52 WEEKS ENDED 7 JANUARY 2006

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DIRECTORS AND ADVISORS

Directors

M C H O Alexander	
A D Allen	
M Bagshaw	(resigned 24 May 2005)
M A Beckett	
K L Franklin	(appointed 10 October 2005)
A I Hamilton	(resigned 6 January 2006)
R MacLennan	(appointed 7 March 2005)
C E Proctor	
A Shooter	
R Morris	(appointed March 2004; resigned 25 April 2006)

Company secretary and registered office
P G Shell
Allington House
150 Victoria Street
London SW1E 5LB

Auditors
Deloitte & Touche LLP
London

Solicitors
Hollingworth Bissell
Albert Buildings
49 Queen Victoria Street
EC2N 4SA

Principal bankers
The Royal Bank of Scotland Plc
London

DIRECTORS' REPORT

The Directors submit their annual report and the audited financial statements for the 52 weeks ended 7 January 2006.

PRINCIPAL ACTIVITIES

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.

FUTURE DEVELOPMENTS

Work will continue, during 2006, on the next stage of the Evergreen Project. This project will result in the commissioning of two additional platforms at Marylebone with the potential for increased track capacity and reduced headways between trains.

REVIEW OF THE YEAR

The year has been dominated by the tunnel collapse at Gerrards Cross and the incidents of terrorism in central London. As a direct consequence of this, passenger revenues were some 10% below budget,.

The company has a comprehensive indemnity to protect it from consequential losses directly attributable to the tunnel collapse. In the six months immediately preceding the tunnel collapse, the company experienced double - digit growth in income. The tunnel collapse resulted in a period of 7 weeks of unprecedented disruption to Chiltern Rail services. Passenger numbers are gradually returning but have still to recover to pre tunnel collapse levels. This will undoubtedly have an adverse impact when measured against 2006 income targets and beyond.

Performance and reliability continue to improve with Public Performance Measure at 91.9% (2005 - 91.8%). Charter punctuality is at 92% (2005 - 92%) and charter reliability 99.2% (2005 - 99.3%).

RESULTS AND DIVIDENDS

The profit for the period before taxation amounted to £6,181,000 (2005 - £8,929,000). After taxation and group relief of £971,000 (2005 - £1,655,000), profit for the period was £5,210,000 (2005 - £7,274,000).

In the current year a dividend of £7,574,000 (2005- £6,200,000) was paid.

DIRECTORS

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

DIRECTORS' INTERESTS

No Director held any interests in the shares of the Company, or had any personal interest in any significant or material contract with the Company, during the 52 weeks ended 7 January 2006.

The interests of M C Alexander, M A Beckett, C E Proctor and A Shooter in the shares of John Laing plc, the Company's ultimate parent undertaking, are disclosed in the accounts of Laing Rail Limited.

Other than as stated above, no Director had any interest in the shares of any other group Company requiring disclosure under the Companies Act 1985.

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 disability, race, gender, sexual orientation, marital status, ethnic or national origin, religion, 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.

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 34 (2005 - 32) days of average supplies for the period.

AUDITORS

Pursuant to a shareholders' resolution, the Company is not obliged to reappoint its auditors annually and Deloitte & Touche LLP will therefore continue in office.

FINANCIAL RISK MANAGEMENT

The Company's exposure to interest rate risk is managed through the use of interest rate swaps, details of which are set out in note 19 to the financial statements.

On behalf of the Board

M C H O Alexander
Director
5 May 2006

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report and the financial statements. The Directors have chosen to prepare accounts for the Company in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP). Company law requires the directors to prepare such financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period and comply with UK GAAP and the Companies Act 1985.

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.
- 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, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a Directors' report which comply with the requirements of the Companies Act 1985.

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 Period from 9 January 2005 to 7 January 2006 which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet, and the related notes 1 to 22. 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 the annual report and the 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 Director' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant United Kingdom 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 in accordance with the relevant financial reporting framework and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, if 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 other information contained in the annual report for the above year as described in the contents section and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

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 affairs of the Company as at 7 January 2006 and of its profit for the period 9 January 2005 to 7 January 2006;

- the financial statements have been properly prepared in accordance with the Companies Act 1985.

Deloitte + Touche LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London
United Kingdom

9 May 2006

PROFIT AND LOSS ACCOUNT

FOR THE 52 WEEKS ENDED 7 JANUARY 2006

	Notes	52 weeks ended 7 January 2006 £'000	53 weeks ended 8 January 2005 Restated* £'000
Turnover	1,2	**93,231**	97,809
Cost of sales		**(76,204)**	(75,403)
Gross profit		**17,027**	22,406
Administrative expenses		**(13,800)**	(13,770)
Other operating income	3	**4,014**	-
Operating profit	3	**7,241**	**8,636**
Profit on ordinary activities before interest		**7,241**	**8,636**
Net interest (payable)/receivable	6	(1,060)	293
Profit on ordinary activities before taxation		**6,181**	**8,929**
Tax on profit on ordinary activities	7	**(971)**	(1,655)
Profit on ordinary activities after taxation		**5,210**	**7,274**
Dividends paid and proposed	1c	(7,574)	(6,200)
Retained profit for the period transferred to reserves	17	**(2,364)**	**1,074**

* restated for the change in accounting policy see note 1(c)

A reconciliation of movement in shareholders' funds 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 7 January 2006 £'000	53 weeks ended 8 January 2005 Restated* £'000
Profit for the financial year	**5,210**	7,274
Actuarial loss on post retirement obligation	(1,800)	(1,500)
Movement on deferred tax relating to post retirement obligation	660	540
Total recognised gains and losses for the year	**4,070**	6,314

* restated for the change in accounting policy see note 1(c)

Note on prior year adjustment	£'000
Total recognised gains and losses related to the year as above	4,070
Prior year adjustment (as explained in note 1c)	(6,160)
Total gains and losses recognised since the last annual report	(2,090)

BALANCE SHEET AS AT 7 JANUARY 2006

	Notes	7 January 2006 £'000	8 January 2005 Restated* £'000
Fixed assets			
Tangible assets	8	**33,918**	25,321
Current assets			
Stocks	9	**2,011**	1,532
Debtors		**15,678**	10,782
- due within one year	10	**14,271**	10,744
- due after more than one year	10	**1,407**	38
Cash at bank and in hand	11	**6,473**	9,524
		24,162	21,838
Creditors: amounts falling due within one year	12	**(38,831)**	(27,247)
Net current liabilities		**(14,669)**	(5,409)
Total assets less current liabilities		**19,249**	19,912
Creditors: amounts falling due after more than one year	13	**(10,283)**	(9,923)
Provisions for liabilities and charges	15	**(1,206)**	(265)
Net assets excluding post retirement obligations		**7,760**	9,724
Post retirement obligations (net)	21	**(7,700)**	(6,160)
Net assets including pension asset and post retirement liabilities		**60**	3,564
Capital and reserves			
Called up share capital	16	**2,150**	2,150
Profit and loss account	17	**(2,090)**	1,414
- Deficit relating to post retirement obligations		**(7,700)**	(6,160)
- Others		**5,610**	7,574
Equity shareholders' funds	18	**60**	3,564

* restated for the change in accounting policy see note 1(c)

The financial statements were approved by the Board of Directors on 3 April 2006 and were signed on its behalf by:

M C H O Alexander
Director
5 May 2006

Notes to the financial statements for the 52 weeks ended 7 January 2006

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, except as stated in note 1 c), is shown below.

The Company has adopted the capitalisation of interest in line with group policy.

The Company is a wholly owned subsidiary undertaking of John Laing plc and as such is exempt under FRS 1 (revised 1996) from the requirement to prepare its own cash flow statement.

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 Strategic Rail Authority 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.

Notes to the financial statements for the 52 weeks ended 7 January 2006 (continued)

1 **ACCOUNTING POLICIES (continued)**

c) Change in accounting policy

The Company has adopted FRS25 Financial Instruments 'Disclosure and Presentation' and FRS21 'Events after Balance *Sheet date' and FRS 17 'Retirement Benefits' and has restated prior years accordingly. The effect of the change on the* period ended 8th January 2005 comparatives is as follows:

	As at 8 January 2005			
		Restatement		
		FRS17	FRS21	
	As Reported	Retirement benefits	Events after the Balance Sheet date	As Restated
	£'000	£'000	£'000	£'000
BALANCE SHEET				
Fixed assets				
Tangible assets	25,321	-	-	25,321
	25,321	-	-	25,321
Current assets				
Stocks	1,532	-	-	1,532
Debtors	10,782	-	-	10,782
Cash at bank and in hand	9,524	-	-	9,524
	21,838	-	-	21,838
Creditors: amounts falling due within one year	(34,821)	-	7,574	(27,247)
Creditors: amounts falling due after more than one year	(9,923)	-	-	(9,923)
Provisions for liabilities and charges	(265)	-	-	(265)
Net assets excluding post retirement obligations	2,150	-	7,574	9,724
Pension and other post retirement funding after deferred tax	-	(6,160)	-	(6,160)
Net assets including post retirement obligations	2,150	(6,160)	7,574	3,564
Capital and reserves				
Called up share capital	2,150	-	-	2,150
Profit and loss account				
- Deficit relating to post retirement obligations	-	(6,160)	-	(6,160)
- Dividends proposed	-	-	7,574	7,574
Shareholders' funds (equity and non-equity)	2,150	(6,160)	7,574	3,564

		53 weeks ended 8 January 2005			
			Restatement		
			FRS17	FRS21	
		As Reported	Retirement benefits	Sheet date	As Restated
		£'000	£'000	£'000	£'000
Turnover		97,809	-	-	97,809
Cost of sales	FRS17	(75,103)	(300)	-	(75,403)
Administrative expenses		(13,770)	-	-	(13,770)
Other operating income		-	-	-	-
Net interest receivable		293	-	-	293
Tax on profit on ordinary activities		(1,655)	-	-	(1,655)
Dividends proposed		(7,574)	-	1,374	(6,200)
Retained profit for the period transferred to reserves		-	(300)	1,374	1,074

Notes to the financial statements for the 52 weeks ended 7 January 2006

1 ACCOUNTING POLICIES (continued)

d) 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.

e) 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.

f) 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 7 January 2006 (continued)

1 ACCOUNTING POLICIES (continued)

g) 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.

h) 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.

i) 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 & loss account.

j) 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.

k) 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.

l) 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.

m) Derivatives

The fair values of derivatives as at the balance sheet date are obtained from the banks or financial institutions with which the derivatives have been transacted. Where these are not available the fair value of the derivative is calculated as the present value of the estimated future flows. In these calculations the market forward six month LIBOR curve for an interest rate swap or the forward RPI inflation curve for an RPI swap as at the balance sheet date are used. All amounts are discounted using the zero coupon yield curve as at the balance sheet date.

Notes to the financial statements for the 52 weeks ended 7 January 2006 (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 7 January 2006 £'000**	53 weeks ended 8 January 2005 £'000
Passenger income	**68,745**	68,994
Revenue grant	**13,923**	17,903
Other	**10,563**	10,912
	93,231	97,809

3 OPERATING PROFIT

	52 weeks ended 7 January 2006 £'000	53 weeks ended 8 January 2005 £'000
Operating profit is stated after (crediting)/charging:		
Auditors' remuneration		
- Lead auditor's remuneration in respect of statutory audit services	**29**	28
- Other fees paid to auditors and their associates	**2**	2
Access charges payable to Network Rail	**17,176**	19,743
Depreciation	**1,289**	1,009
Rolling stock charge	**12,772**	13,476
Other plant and equipment	**178**	151
Operating income - accrued income in respect of revenue loss	**(4,014)**	-
Gross rent receivable	**(1,662)**	(1,625)

Operating profit includes £4.014m in respect of accrued income due from Tesco Plc to be recovered under the full indemnity agreement between the company and Tesco Plc.

Notes to the financial statements for the 52 weeks ended 7 January 2006 (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 M C Alexander, M A Beckett, C E Proctor and A Shooter is disclosed in the financial statements of Laing Rail Limited. The remuneration of A D Allen is disclosed in the financial statements of M40 Trains Limited. The remuneration of the remaining Directors is as follows:

	52 weeks ended 7 January 2006 £'000	53 weeks ended 8 January 2005 £'000
All Directors		
Directors' emoluments	**156**	335
Highest paid director		
Director's emoluments	**86**	129

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 £27,388 (2005 - £0).

Retirement benefits are accruing to 7 (2005 - 4) 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 7 January 2006 No.	53 weeks ended 8 January 2005 No.
Operations	**303**	283
Maintenance	**142**	127
Retail	**268**	223
General	**38**	65
	751	698

The aggregate payroll costs of these persons were as follows:

	52 weeks ended 7 January 2006 £'000	53 weeks ended 8 January 2005 £'000
Wages and salaries	**24,081**	22,793
Social security costs	**2,075**	1,800
Other pension costs	**2,564**	2,002
	28,720	26,595

6 *NET INTEREST (PAYABLE)/RECEIVABLE*

	52 weeks ended 7 January 2006 £'000	53 weeks ended 8 January 2005 £'000
Interest receivable and similar income		
Interest receivable on bank deposits	**397**	486
	397	486
Interest payable and similar charges		
Other interest payable	**(1,457)**	(193)
	(1,457)	(193)
Net interest (payable)/receivable	**(1,060)**	293

Notes to the financial statements for the 52 weeks ended 7 January 2006 (continued)

7 TAX ON PROFIT ON ORDINARY ACTIVITIES

Analysis of charge for the year	52 weeks ended 7 January 2006 £'000	53 weeks ended 8 January 2005 £'000
Current tax		
Group Relief Payable	**(30)**	(1,536)
	(30)	(1,536)
Adjustments in respect of previous periods		
- UK corporation tax benefit/(expense)	**1,420**	(228)
- Group relief benefit/(payable)	**(1,420)**	87
Total current tax	**(30)**	(1,677)
Deferred tax		
Origination and reversal of timing differences	**(942)**	(186)
Adjustment In respect of prior year	**1**	208
Total deferred tax (note 15)	**(941)**	22
Total tax on profit on ordinary activities	**(971)**	(1,655)

The tax charge represents amounts payable for group relief. Other group relief receivable will not be paid for.

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 before tax are as follows:

	52 weeks ended 7 January 2006 £'000	53 weeks ended 8 January 2005 £'000
Profit on ordinary activities before tax	**6,181**	8,929
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2005 - 30%)	**(1,854)**	(2,679)
Effects of:		
Expenses not deductible for tax purposes	**(100)**	(59)
Capital allowances in excess of depreciation	**942**	160
FRS 17 Adjustment	**(98)**	(90)
Group relief obtainable from parent for no charge	**1,080**	1,106
Other timing differences	**-**	26
Adjustments to tax charge in respect of previous periods	**-**	(141)
Total current tax charge for the period	**(30)**	(1,677)

Notes to the financial statements for the 52 weeks ended 7 January 2006 (continued)

8 TANGIBLE FIXED ASSETS

	Short leasehold £'000	Plant and machinery £'000	Infrastructure improvements under construction £'000	Total £'000
Cost				
At 9 January 2005	7,704	9,036	11,727	28,467
Additions	-	228	9,974	10,202
Transfers within Company	8,164	9,646	(17,810)	-
Disposals	-	-	(316)	(316)
At 7 January 2006	15,868	18,910	3,575	38,353
Accumulated depreciation				
At 9 January 2005	927	2,219	-	3,146
Charge for the period	359	930	-	1,289
Disposals	-	-	-	-
At 7 January 2006	1,286	3,149	-	4,435
Net book value at 7 January 2006	**14,582**	**15,761**	**3,575**	**33,918**
Net book value at 8 January 2005	6,777	6,817	11,727	25,321

9 STOCKS

	7 January 2006 £'000	8 January 2005 £'000
Raw materials and consumables	**2,011**	1,532

10 DEBTORS

	7 January 2006 £'000	8 January 2005 £'000
Due within one year:		
Trade debtors	**1,809**	2,258
Rail Settlement Plan debtors	**2,552**	3,248
Amounts owed by group undertakings	**778**	25
Other debtors	**2,544**	2,724
Prepayments and accrued income	**6,588**	2,489
	14,271	10,744
Due after more than one year:		
Other debtors	**1,407**	38

11 CASH AT BANK AND IN HAND

Cash on deposit, at bank and in hand is £6,473,000 (2005 - £9,524,000). 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 £1,000,000 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 7 January 2006 (continued)

12 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	7 January 2006 £'000	8 January 2005 Restated* £'000
Trade creditors	**7,090**	6,692
Rail Settlement Plan creditors	**2,348**	3,060
Amounts owed to group undertaking	**15,664**	4,275
Other taxation and social security	**2,312**	1,910
Other creditors	**432**	1,174
Accruals and deferred income	**5,909**	5,071
Deferred season ticket income	**5,076**	5,065
	38,831	27,247

* restated for the change in accounting policy see note 1(c)

13 CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR

	7 January 2006 £'000	8 January 2005 £'000
Amounts owed to group undertaking	**9,100**	9,100
Accruals and deferred income	**1,183**	823
	10,283	9,923
Analysis of debt:		
Debt can be analysed as falling due:		
Between one and two years	**184**	165
Between two and five years	**233**	219
In five years or more	**9,866**	9,539
	10,283	9,923

A reciprocal loan arrangement is in place between M40 and Chiltern .The maximum sum is £50million and the interest rate is 6.2% per annum. The arrangement is in place whilst Chiltern remain 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.

14 LOANS

The Company together with the immediate Parent "M40 Trains Limited", has a joint loan facility agreement with the Royal Bank of Scotland for £50m. All details of loans are disclosed in the accounts of the Parent Company.

The Company also has a short-term and long-term intercompany loan with M40 Trains Limited that are both non - interest bearing.

Notes to the financial statements for the 52 weeks ended 7 January 2006 (continued)

15 PROVISIONS FOR LIABILITIES AND CHARGES

	Deferred taxation £'000
At 9 January 2005	*(265)*
Adjustment in respect of prior years	1
Charged to profit and loss account	(942)
At 7 January 2006	(1,206)

	7 January 2006 £'000	8 January 2005 £'000
Difference between accumulated depreciation, amortisation and capital allowances	(1,308)	(365)
Other timing differences	102	100
Deferred tax liability	(1,206)	(265)

16 CALLED UP SHARE CAPITAL

	7 January 2006 No.	8 January 2005 No.
Authorised:		
Ordinary Shares at £1 each	2,150,000	2,150,000

	7 January 2006 £'000	8 January 2005 £'000
Allotted, called up and fully paid:		
2,150,000 Ordinary Shares at £1 each	2,150	2,150

17 MOVEMENT IN RESERVES

	Pension reserve £'000	Profit and loss account £'000	Total £'000
At 9 January 2005	(6,160)	7,574	1,414
Profit for the period	-	5,210	5,210
Dividends paid	-	(7,574)	(7,574)
Actuarial loss on post retirement obligations	(1,800)	-	(1,800)
Movement on deferred tax relating to post retirement obligation	660	-	660
Current pension service costs in excess of current contribution	(400)	400	-
At 7 January 2006	(7,700)	5,610	(2,090)

18 RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS

	7 January 2006 £'000	9 January 2005 Restated* £'000
Shareholders' funds at beginning of period as previously stated	2,150	2,150
Prior year adjustment for FRS21	7,574	6,200
Prior year adjustment for FRS17	(6,160)	(4,900)
Shareholders' funds at beginning of period as restated	3,564	3,450
Profit for the financial period	5,210	7,274
Dividends paid on equity shares	(7,574)	(6,200)
Actuarial loss on post retirement obligation	(1,800)	(1,200)
Movement on deferred tax relating to post retirement obligation	660	540
Deficit on post retirement service costs	-	(300)
Net (reduction)/addition to shareholders' funds	(3,504)	114
Opening shareholders' funds	3,564	3,450
Closing shareholders' funds	60	3,564

Notes to the financial statements for the 52 weeks ended 7 January 2006 (continued)

19 *CAPITAL COMMITMENTS, CONTINGENT LIABILITIES AND FINANCIAL COMMITMENTS*

As at 7 January 2006, future commitments for which no provision had been made are as follows:

	7 January 2006 £'000	8 January 2005 £'000
Contracted	1,341	1,761

The Company has contracts with Network Rail Infrastructure Ltd and London Underground for access to the railway infrastructure (track, station and depots). These contracts are for a remaining period of 6 and 5 years respectively. The contracts may be terminated by joint agreement between the companies.

The Company is committed to pay a fixed charge of £29.2 million in the next financial year including £3.8 million an amount for station and depot leases. Thereafter Network Rail contracts will rise by RPI + 5% and London Underground contracts by RPI. In addition, a variable charge is levied on the basis of train miles actually run.

The Company has the following annual commitments, amounting to £15,177,000 (2005 - £14,636,000) due under non-cancellable operating leases, *which expire as follows:*

	2006		2005	
	Rolling stock £'000	Other £'000	Rolling stock £'000	Other £'000
Operating leases which expire:				
Within 1 year	-	-	-	25
Between 1 and 5 years	-	19	-	18
In five years or more	15,158	-	14,593	-
	15,158	19	14,593	43

The Company has entered into a RPI swap agreement to mitigate its risk in respect of inflation linked income. RPI is hedged at 2.16% until 30 June 2007 against an ascending scale of principal amounts. The Company has also entered into a fuel swap agreement to buy 1,200,000 litres of gas oil per month between 1 January 2006 and 31 March 2006 at 16.24 pence per litre. In addition the Company has entered into fixed interest rate swaps to mitigate its interest exposure. The fair value of these swaps at 31 December 2005 is £706,000 (2004 - £1,142,000) , £334,000 (2004 - £100,000) and £157,000 (2004 - £176,000) respectively.

20 TRANSACTIONS WITH RELATED PARTIES

As a greater than 90% subsidiary of John Laing plc, 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 John Laing plc group. Note 22 gives details of how to obtain a copy of the published financial statements of John Laing plc.

Notes to the financial statements for the 52 weeks ended 7 January 2006 (continued)

21 PENSION SCHEMES

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 £39,081 (2005 - £17,800).

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

Defined benefit pension schemes

The company operates two defined benefit schemes, "The Chiltern Railway Limited" and "The Chiltern Railway Limited (Maintenance Section)" for the benefit of the employees and executive directors. The assets of the 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 or 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 most recent valuation was at 31 December 2004 and updated at 31 December 2005.

The most recent actuarial valuation showed the market value of the Chiltern Railways Company Scheme' assets was £42,200,000 at 31 December 2005 and that the actuarial value of those assets represented 81% of the benefits that had accrued to members, after allowing for expected future increases in earnings. The contributions of the company and employees are 15.54% and 10.36% respectively.

The most recent actuarial valuation showed the market value of the Chiltern Railways (Maintenance) Scheme' assets was £6,400,000 at 31 December 2005 and that the actuarial value of those assets represented 84% of the benefits that had accrued to members, after allowing for expected future increases in earnings. The contributions of the company and employees are 13.86% and 9.24% respectively.

The pension charge for the period was £2,524,976 (2005 - £1,984,200) for the two schemes.

The notes below are in accordance with the FRS 17 'Retirement benefits' disclosures. Cost and liabilities of the scheme are based on actuarial valuations. The latest full actuarial valuation was carried out at 31 December 2004 and updated to 31 December 2005 by a qualified independent actuary.

The main assumptions used by the actuary for both schemes were:

	07-Jan-06	08-Jan-05	03-Jan-04	04-Jan-03
	%	%	%	%
Rate of increase in salaries	**4.25**	4.25	4.3	3.8
Rate of increase for pensions in payment	**2.75**	2.75	2.8	2.3
Discount rate	**4.8**	5.3	5.6	5.8
Inflation	**2.75**	2.75	2.8	2.3
Rates of increase for deferred pensioners	**2.75**	2.75	2.8	2.3

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.

Notes to the financial statements for the 52 weeks ended 7 January 2006 (continued)

21 PENSION SCHEME (continued)

Scheme assets

The fair value of the scheme's 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:

The Chiltern Railway Company Limited

	Expected rate of return	07-Jan-06	Expected rate of return	08-Jan-05	Expected rate of return	03-Jan-04
	%	£'000	%	£'000	%	£'000
Equities	8.25	34,000	8.50	24,600	8.00	21,500
Bonds	4.60	4,500	5.00	3,100	4.75	2,500
Property	8.25	3,300	8.50	2,100	8.00	1,300
Other	4.50	400	4.95	1,600	4.75	100
Total market value of assets	7.80	42,200	8.00	31,400	7.70	25,400
Present value of scheme liabilities		(58,500)		(45,300)		(36,400)
Deficit in the scheme		(16,300)		(13,900)		(11,000)
Members share of deficit		6,500		5,600		4,400
Net pension liability		(9,800)		(8,300)		(6,600)
Related deferred tax asset		2,940		2,490		1,980
Net pension liability		(6,860)		(5,810)		(4,620)

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

Movement in deficit during the 52 week period ended 7 January 2006

The Chiltern Railway Company Limited

	52 weeks ended 7 January 2006	53 weeks ended 8 January 2005
	£'000	£'000
Deficit in scheme at beginning of the period	(8,300)	(6,600)
Current service cost	(2,500)	(2,100)
Contributions	2,200	1,900
Actuarial loss	(1,200)	(1,500)
Deficit in scheme at end of the period	(9,800)	(8,300)

Notes to the financial statements for the 52 weeks ended 7 January 2006 (continued)

21 PENSION SCHEME (continued)

Scheme assets

The fair value of the scheme's 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:

The Chiltern Railway Company Limited (Maintenance Section)

	Expected rate of return	07-Jan-06	Expected rate of return	08-Jan-05	Expected rate of return	03-Jan-04
	%	£'000	%	£'000	%	£'000
Equities	8.25	5,200	8.50	3,900	8.50	3,600
Bonds	4.60	700	5.00	500	5.10	400
Property	8.25	500	8.50	400	6.80	300
Other	4.50	-	4.95	300	3.80	-
Total market value of assets	7.85	6,400	7.95	5,100	8.10	4,300
Present value of scheme liabilities		(8,300)		(5,900)		(5,000)
Deficit in the scheme		(1,900)		(800)		(700)
Members share of deficit		700		300		300
Net pension liability		(1,200)		(500)		(400)
Related deferred tax asset		360		150		120
Net pension liability		(840)		(350)		(280)

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

Movement in deficit during the 52 week period ended 7 January 2006

The Chiltern Railway Company Limited (Maintenance Section)

	52 weeks ended 7 January 2006	53 weeks ended 8 January 2005
	£'000	£'000
Deficit in scheme at beginning of the period	(500)	(400)
Current service cost	(300)	(300)
Contributions	200	200
Actuarial loss	(600)	-
Deficit in scheme at end of the period	(1,200)	(500)

Notes to the financial statements for the 52 weeks ended 7 January 2006 (continued)

21 PENSION SCHEME (continued)

Analysis of the amount of other pension costs charged in arriving at operating profit/loss

	The Chiltern Railway Company Limited		The Chiltern Railway Company (Maintenance) Section	
	52 weeks ended 7 January 2006	53 weeks ended 8 January 2005	52 weeks ended 7 January 2006	53 weeks ended 8 January 2005
	£'000	£'000	£'000	£'000
Current service cost	2,500	2,100	300	300
Total operating charge	2,500	2,100	300	300

Analysis of amounts included in other financing income

	The Chiltern Railway Company Limited		The Chiltern Railway Company (Maintenance) Section	
	52 weeks ended 7 January 2006	53 weeks ended 8 January 2005	52 weeks ended 7 January 2006	53 weeks ended 8 January 2005
	£'000	£'000	£'000	£'000
Expected return on pension scheme assets	1,600	1,200	200	200
Interest on pension scheme liabilities	(1,600)	(1,200)	(200)	(200)
Net finance cost	-	-	-	-

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

	The Chiltern Railway Company Limited		The Chiltern Railway Company (Maintenance) Section	
	52 weeks ended 7 January 2006	53 weeks ended 8 January 2005	52 weeks ended 7 January 2006	53 weeks ended 8 January 2005
	£'000	£'000	£'000	£'000
Actual return less expected return on pension scheme assets	2,600	700	400	100
Experience gains and losses arising on pension liability scheme liabilities	1,300	(800)	(300)	(100)
Changes in assumptions underlying the present value of the scheme liabilities	(5,100)	(1,400)	(700)	-
Actuarial (loss) recognised in statement of total recognised gains and losses	(1,200)	(1,500)	(600)	-

History of pension schemes gains and losses

	52 weeks ended 7 January 2006	53 weeks ended 8 January 2005	52 weeks ended 3 January 2004	52 weeks ended 4 January 2003
	£'000	£'000	£'000	£'000
Net gains and Losses Chiltern scheme	(1,200)	(1,500)	(3,200)	(2,700)
Net gains and losses Maintenance scheme	(600)	-	(400)	(700)
Total	(1,800)	(1,500)	(3,600)	(3,400)

Notes to the financial statements for the 52 weeks ended 7 January 2006 (continued)

22 ULTIMATE PARENT UNDERTAKING

The Company's ultimate parent and controlling party, and the largest in which its results are consolidated, is John Laing plc, a company incorporated in Great Britain and registered in England and Wales. The smallest group in which its results are consolidated is M40 Trains Ltd. Copies of the consolidated accounts of John Laing plc and M40 Trains Ltd are available from their registered offices at Allington House, 150 Victoria Street, London, SW1E 5LB.

The John Laing plc website at www.laing.com can also be accessed for Parent Company information, including annual reports, Stock Exchange announcements, press releases and other background information.

Information on Chiltern Railways may be found at www.chilternrailways.co.uk.