

Company registration No. 2938984

GREAT NORTH EASTERN RAILWAY LIMITED

Report and Financial Statements

51 Weeks Ended 31 December 2007

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GREAT NORTH EASTERN RAILWAY LIMITED

**REPORT AND FINANCIAL STATEMENTS FOR THE 51 WEEKS ENDED
31 DECEMBER 2007**

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GREAT NORTH EASTERN RAILWAY LIMITED

**REPORT AND FINANCIAL STATEMENTS FOR THE 51 WEEKS ENDED
31 DECEMBER 2007**

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

R D Mackenzie
P A Calvert

SECRETARY

K A Crossan

REGISTERED OFFICE

Sea Containers House
20 Upper Ground
London
SE1 9PF

BANKERS

Barclays Bank plc
Barclays Corporate
50 Pall Mall
London
SW1A 1QA

AUDITORS

Deloitte & Touche LLP
Chartered Accountants & Registered Auditors
Leeds

GREAT NORTH EASTERN RAILWAY LIMITED

DIRECTORS' REPORT

The directors present their annual report on the affairs of the company, together with the financial statements and auditors' report, for the 51 weeks ended 31 December 2007

BUSINESS REVIEW AND PRINCIPAL ACTIVITY

Up to 8 December 2007 the principal activity of the company was the operation of passenger railway services under the Franchise Management Agreement for the Inter-City East Coast franchise which was entered into in December 2006. The Franchise Management Agreement provided for Great North Eastern Railway Limited to continue operating the service and earn an incentive payment, while the Inter-City East Coast franchise was re-let. The Franchise Management Agreement transferred the financial risks of operating the franchise to the Department for Transport.

Due to the financial position of its ultimate parent company, Great North Eastern Railway Limited was not in a position to submit a bid as part of the franchise re-let process. Following the award of the franchise to another operator effective from 9 December 2007, the company ceased trading at that date. As a result, the financial statements have been prepared on a basis other than that of a going concern.

As shown in the company's profit and loss account, revenue has increased by 4% over the prior period. The profit after tax has increased to £9,502,000 from a loss of £7,000.

The financial key performance indicators in the period were the Revenue and Cost Incentives earned. Both of these were measured by comparing the actual results against the targets agreed with the Department for Transport.

The main non financial key performance indicators used within the business included those for safety and performance. The main performance indicator is the moving annual average percentage of trains arriving within 10 minutes of scheduled arrival time. This was 81.7% at 8 December 2007, compared to 84.1% at the end of 2006. Overall safety performance is measured by a range of key indicators which remained within industry standard levels.

Great North Eastern Railway Limited agreed not to pay any dividends during the period of the Franchise Management Agreement. Consequently no dividend has been paid in the 51 weeks ended 31 December 2007 (52 weeks to 6 January 2007 - £nil).

PRINCIPAL RISKS AND UNCERTAINTIES

As described in note 12 to the financial statements, the Department for Transport has required that an amount of £4,216,000 be placed in legal escrow in relation to the final settlement of amounts concerning the Franchise Management Agreement. The company is in discussion with the Department for Transport regarding finalising the position. The Directors remain confident of the recovery of the majority of the sum placed in escrow but in recognition of the ongoing uncertainty have made a specific provision for the full amount held in escrow at the balance sheet date.

ENVIRONMENT

During the period of operations, the company had procedures to improve its environmental performance, maintain compliance with environmental legislation, and address the needs of its stakeholders. These arrangements included an environmental management systems and documented environmental objectives and targets.

The company had agreed franchise commitments to implement and obtain BS EN ISO 14001 certification throughout the business and to Reduce, Reuse or Recycle 20% of its on train waste. The company had successfully implemented and obtained BS EN ISO 14001 certification at its three managed Train Maintenance Depots and the Fleet, Engineering and Procurement Organisation based at York Main HQ.

The company participated in the annual Business in the Community environmental index, allowing Great North Eastern Railway Limited to benchmark its environmental performance against that of other businesses and to measure its improvement. During 2007, the company received a certificate for significant improvement.

GREAT NORTH EASTERN RAILWAY LIMITED

DIRECTORS' REPORT (continued)

DIRECTORS

The directors who served during the period and to the date of these financial statements, except as noted, were as follows

R D Mackenzie

J N Metcalfe (resigned 21 January 2008)

P A Calvert (appointed 20 December 2007)

EMPLOYEES

Details of the number of employees and related costs can be found in note 3 to the financial statements

Great North Eastern Railway Limited is a non-discriminatory employer operating an Equal Opportunities Policy, which aims to eliminate unfair discrimination, harassment and victimisation. The company is committed to ensuring that all individuals are treated fairly, with respect and are valued irrespective of disability, race, gender, health, social class, sexual preference, marital status, nationality, religion, employment status, age or membership or non-membership of a trade union.

The company uses the consultative procedures agreed with its staff and elected representatives with a view to ensuring that employees are aware of the financial and economic factors which affect the company's performance and prospects.

EMPLOYMENT OF DISABLED PERSONS

The company has continued the policy regarding the employment of disabled persons. Full and fair consideration is given to applications for employment made by disabled persons having regard to their particular aptitudes and abilities. Appropriate training is arranged for disabled persons, including retraining for alternative work of employees who become disabled, to promote their career development within the organisation.

CHARITABLE CONTRIBUTIONS

The company made charitable donations totalling £800 during the 51 weeks ended 31 December 2007 (52 weeks ended 6 January 2007 £390).

PAYMENT OF CREDITORS

The company seeks to agree payment terms, which are normal for the industry with suppliers at the time of agreeing the terms of the transaction and seeks to make payment in accordance with those terms.

Due to the transfer of the Franchise Assets and Liabilities including Trade Creditors to the new operator on 9 December 2007, the calculation of creditor days at 31 December 2007 is not meaningful (6 January 2007 creditor days were 30).

GREAT NORTH EASTERN RAILWAY LIMITED

DIRECTORS' REPORT (continued)

AUDITORS

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

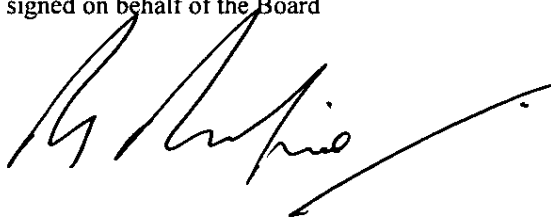
(1) so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware, and

(2) the director has taken all the steps that he ought to have taken as a director in order to make himself 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 provisions of s234ZA of the Companies Act 1985

Deloitte & Touche LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting

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

A handwritten signature in black ink, appearing to read 'R D Mackenzie', with a long horizontal stroke extending to the right.

R D Mackenzie

Director

23 September 2008

GREAT NORTH EASTERN RAILWAY LIMITED

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 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 period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business. Due to the circumstances set out in note 2, the directors do not believe that it would be appropriate to prepare the financial statements on a going concern basis.

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 GREAT NORTH EASTERN RAILWAY LIMITED

We have audited the financial statements of Great North Eastern Railway Limited for the 51 week period to 31 December 2007 which comprise the profit and loss account, the balance sheet, the statement of total recognised gains and losses 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 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 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 judgments 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.

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
GREAT NORTH EASTERN RAILWAY LIMITED (continued)**

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 31 December 2007 and of its profit for the period then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

Emphasis of matter – preparation on a basis other than a going concern

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosures made in notes 1 and 2 to the financial statements which explain that these financial statements have been prepared on a basis other than that of a going concern as the company has ceased to trade

Deloitte + Touche LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Leeds

24 September 2008

GREAT NORTH EASTERN RAILWAY LIMITED

PROFIT AND LOSS ACCOUNT

For the 51 weeks ended 31 December 2007

	Note	51 weeks ended 31 December 2007 £'000	52 weeks ended 6 January 2007 £'000
TURNOVER	1		
Passenger income		499,199	478,872
Other operating income		54,460	52,743
		<hr/>	<hr/>
Operating expenditure	4	553,659	531,615
Provision for DfT settlement	12	(4,216)	-
		<hr/>	<hr/>
OPERATING PROFIT	4	11,400	23,347
Credit/(charge) arising on conversion of franchise to Franchise Management Agreement	2	7,927	(18,603)
Net finance (expense)/income	5	(775)	259
		<hr/>	<hr/>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		18,552	5,003
Tax on profit on ordinary activities	6	(9,050)	(5,010)
		<hr/>	<hr/>
Profit/(loss) for the financial period transferred to/(withdrawn from) reserves	17	9,502	(7)
		<hr/>	<hr/>

All activities relate to discontinued operations

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

There were no recognised gains or losses in the financial period or in the previous period other than those appearing in the profit and loss account and therefore no statement of total recognised gains and losses has been presented

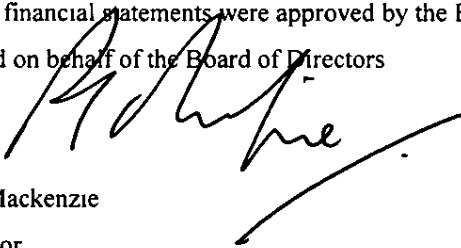
GREAT NORTH EASTERN RAILWAY LIMITED

BALANCE SHEET 31 December 2007

	Note	31 December 2007 £'000	6 January 2007 £'000
FIXED ASSETS			
Intangible assets	8	-	-
Tangible assets	9	-	16,310
Investments	10	-	-
		<u>-</u>	<u>16,310</u>
CURRENT ASSETS			
Stocks	11	-	3,828
Debtors	12	12,883	41,853
Cash at bank and in hand	13	9,598	27,012
		<u>22,481</u>	<u>72,693</u>
CREDITORS: amounts falling due within one year	15	<u>(7,537)</u>	<u>(83,561)</u>
NET CURRENT ASSETS/(LIABILITIES)		<u>14,944</u>	<u>(10,868)</u>
NET ASSETS		<u>14,944</u>	<u>5,442</u>
CAPITAL AND RESERVES			
Called up share capital	16	5,277	5,277
Profit and loss account	17	9,667	165
TOTAL EQUITY SHAREHOLDERS' FUNDS	19	<u>14,944</u>	<u>5,442</u>

These financial statements were approved by the Board of Directors on 23 September 2008

Signed on behalf of the Board of Directors


R D Mackenzie
Director

GREAT NORTH EASTERN RAILWAY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

51 weeks ended 31 December 2007

1. ACCOUNTING POLICIES

Basis of preparation

The financial statements are prepared in accordance with applicable United Kingdom accounting standards. The particular accounting policies adopted by the directors are described below.

Accounting convention

As explained in note 2, the company ceased trading on 8 December 2007 when the new Inter-city East Coast Franchise was re-let. The financial statements have been prepared on a basis other than that of a going concern which includes, where appropriate, writing down the company's assets to net realisable value from the amounts recorded under the historical cost convention (the basis upon which the financial statements had previously been prepared).

Turnover

Passenger income represents agreed amounts attributed to the company by the income allocation systems of Rail Settlement Plan Limited mainly in respect of passenger receipts. Income is attributed principally on models of certain aspects of passenger behaviour and to a lesser extent from allocations agreed for specific revenue 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.

Other operating income mainly relates to catering, train maintenance, station services and retail commission income. The income is recognised in the period in which the services are provided.

Franchise Agreement

The franchise was governed by a complex agreement with multiple elements of franchise payment and receipt. Payments to the rolling stock companies and Network Rail were treated as operating leases in accordance with SSAP 21. Payments to upgrade infrastructure were capitalised and amortised over the franchise period. Receipts from or payments to the Department for Transport were calculated in accordance with a detailed formula on a periodic basis and are accounted for in the period to which the operational conditions relate. While the method of calculating the payment to the Department for Transport has changed due to the move to the Franchise Management Agreement, none of the above policies have been affected by preparing the accounts on a basis other than that of a going concern.

Cash flow statement

A cash flow statement has not been produced as the company's results are included within the consolidated cash flow statement published by Sea Containers U.K. Limited.

Intangible fixed assets

Franchise goodwill arises on transition of a rail franchise or extension of a current franchise agreement, representing the fair value of the proportion of the pension scheme deficit the company is expected to fund over the franchise term. Franchise goodwill was capitalised and was to be written off straight line over the franchise term of 7 years. However as the franchise was known to be terminated during 2007, the franchise goodwill was fully written off during the previous 52 week period to 6 January 2007.

Tangible fixed assets

Tangible fixed assets are included in the balance sheet at historical cost.

Depreciation is provided on the cost of assets in use on the straight line basis to write off the assets over their estimated useful lives. Depreciation commences in the 4 week financial period following the asset becoming operational. The principal asset lives used are set out below.

Buildings on short term lease	2-15 years
Plant and machinery	3-20 years

Assets in the course of construction are held on the balance sheet at cost until they are complete. They are then transferred to the appropriate asset class at cost, net of any funding received from third parties.

GREAT NORTH EASTERN RAILWAY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

51 weeks ended 31 December 2007

1. ACCOUNTING POLICIES (continued)

Leases

The capital cost of assets leased for substantially the whole of their estimated useful lives (including assets under construction where a leasing agreement has been made) is included in tangible fixed assets with a corresponding liability within loans and leasing liabilities

The excess of the lease payments over the recorded liability is treated as interest charges, which are amortised to give a constant rate of charge on the remaining balance of the obligation

Payments under operating leases are charged to the profit and loss account as incurred

Investments

Investments held as fixed assets are stated at cost less provision for any impairment in value

Stocks

Stocks are stated at the lower of cost and net realisable value

Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted at the balance sheet date

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 company'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 differences can be deducted

Pension costs

The company adopted FRS 17 Retirement benefits with effect from 9 January 2005

The Railways Pension Scheme provides pension benefits to the substantial majority of current employees on a defined benefit basis. The company's main obligation in respect of the Railway Pension Scheme is to pay contributions as agreed with the scheme actuary and trustees over the franchise term

The deficit reflected in the balance sheet reflects only that portion of the deficit that is expected to be funded over the franchise term, net of deferred tax. A "franchise adjustment" is made to the deficit on this basis. The franchise adjustment is the projected deficit at the end of the franchise term which the company will not be required to fund, discounted back to present value. On transition of a rail franchise or extension of a current franchise agreement, an intangible asset is recognised, which exactly offsets the initial recognition of the portion of the deficit the company is expected to fund, net of deferred tax. This intangible asset is subsequently amortised on a straight line basis over the franchise term

Due to the circumstances set out in note 2, no amount has been recognised on the balance sheet in relation to the pension scheme

The current service cost is charged to operating profit. The finance cost of liabilities and expected return on assets are shown as a net amount of other finance charges or credits on the face of the Profit and Loss account. The service cost is included as part of staff costs in note 3. The actuarial gain/loss is charged through the Statement of Total Recognised Gains and Losses

The pension scheme assets are measured using fair values whilst the pension scheme liabilities are measured using a projected unit method and discounted using an appropriate discount rate

GREAT NORTH EASTERN RAILWAY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

51 weeks ended 31 December 2007

2. INFORMATION REGARDING THE FRANCHISE

The Franchise Agreement signed in March 2005 provided for Great North Eastern Railway Limited to pay a substantial premium each year to the Department of Transport. Although it was trading profitably during 2006, it became apparent that a number of factors would affect its ability to continue to pay this premium in subsequent years. The main changes to circumstances unforeseen at the time of signing the Franchise Agreement were lower revenue growth, due to general economic factors and the London Bombings, anticipated electricity prices significantly higher than those allowed for and the expected, highly revenue abstractive, introduction of open access passenger services onto its route from mid 2007.

In December 2006 the company signed a Franchise Management Agreement with the Department for Transport. This provided for Great North Eastern Railway Limited to continue to manage the franchise and earn incentive payments, until such time as the franchise was re-let. These incentives were earned by the company outperforming revenue and cost targets agreed with the Department for Transport.

The Franchise Management Agreement transferred the financial risks of operating the franchise to the Department for Transport, who then withdrew or injected cash into the company to meet its trading requirements. At the time Great North Eastern Railway Limited ceased to operate the franchise, the remaining cash balance, less an allowance for certain fixed assets and any incentives earned were transferred to the Department for Transport. The effect of this is that all of the value of the company's net assets, other than the allowance for certain fixed assets, transferred to the Department for Transport at 10 December 2006. This transfer of value of £16,704,000 had been provided for within creditors in full at 6 January 2007 as included in the table below. There has been an adjustment to the provision of £7,927,000 in the period to 31 December 2007 primarily due to prior periods taxation adjustments arising in the period together with related interest, and deferred taxation on the reversal of timing differences previously provided (see note 6).

Due to the financial position of its ultimate parent company, Great North Eastern Railway Limited was not in a position to submit a bid for the franchise itself. Consequently, the company ceased operating the franchise on 8 December 2007 when the re-let franchise was awarded to another Operator.

Preparation on a basis other than that of a going concern includes, where appropriate, writing down the company's assets to net realisable value. Provision has also been made for any onerous contractual commitments at the balance sheet date. The financial statements do not include any provision for the future costs of terminating the business of the company except to the extent that such costs were committed at the balance sheet date.

Where the directors believe that the early termination of the Franchise has resulted in impairment of value, such as the intangible asset created at the start of the franchise period, or costs on projects which have had to be aborted, this has been provided for in these financial statements.

Credit/(charge) arising on conversion of franchise to franchise management agreement

	51 weeks ended 31 December 2007 £'000	52 weeks ended 6 January 2007 £'000
Transfer of net asset value	7,927	(16,704)
Impairment of intangible asset (note 8)	-	(1,899)
	<u>7,927</u>	<u>(18,603)</u>

The exceptional item has no impact on the taxation charge for the period (52 weeks ended 6 January 2007 – reduction of £570,000)

GREAT NORTH EASTERN RAILWAY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

51 weeks ended 31 December 2007

3 INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	51 weeks ended 31 December 2007 £'000	51 weeks ended 31 December 2007 £'000	52 weeks ended 6 January 2007 £'000	52 weeks ended 6 January 2007 £'000
Directors' remuneration	Total	Highest paid director	Total	Highest paid director
Total directors' emoluments for the period (excluding pension)	523	523	594	258
Total directors' pension costs	30	30	61	17

In addition, total directors' payments for loss of office amounted to £nil during the 51 weeks ended 31 December 2007 (52 weeks ended 6 January 2007 £338,000)

	Number	Number
Number of directors who are members of a defined benefit scheme	1	1

R D Mackenzie and P A Calvert were remunerated through other group companies and the remuneration and pension disclosures for these directors can be found in the financial statements of the ultimate parent company. It is not practicable to ascertain what proportion of their emoluments relates to the company.

Employees	51 weeks ended 31 December 2007 Number	52 weeks ended 6 January 2007 Number
Average number of persons employed in the period		
Operations	2,062	2,209
Ticket Retailing	227	266
Administration	338	404
	<u>2,627</u>	<u>2,879</u>

As stated in note 2 Great North Eastern Railway Limited ceased to operate the franchise on 8 December 2007 when it was awarded to another operator and all employees transferred to the new operator under the Transfer of Undertakings (Protection of Employment) Regulations 2006

GREAT NORTH EASTERN RAILWAY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

51 weeks ended 31 December 2007

3 INFORMATION REGARDING DIRECTORS AND EMPLOYEES (continued)

Staff costs incurred during the period in respect of these employees were

	51 weeks ended 31 December 2007 £'000	52 weeks ended 6 January 2007 £'000
Wages and salaries	79,356	81,010
Social security costs	6,301	6,866
Other pension costs	7,149	7,330
	<u>92,806</u>	<u>95,206</u>

4 OPERATING PROFIT

Operating profit is after charging/(crediting):

	51 weeks ended 31 December 2007 £'000	52 weeks ended 6 January 2007 £'000
Access charges	146,042	139,805
Rentals under operating leases		
Rolling stock	65,603	62,207
Other plant and equipment	200	187
Property leases	1,171	960
Depot/station leases	3,151	3,324
Depreciation – owned assets	2,483	2,407
Depreciation – assets held under finance leases	81	24
Amortisation of franchise goodwill	-	362
Auditors' remuneration for audit services	134	115
Rents receivable	(3,854)	(4,129)
	<u>(3,854)</u>	<u>(4,129)</u>

Fees payable to the company's auditors for non-audit services in relation to the 51 weeks ended 31 December 2007 were Nil (2006 £Nil)

Operating expenditure in the profit and loss account consists of £498,468,000 (2006 £471,470,000) in respect of cost of sales and £39,575,000 (2006 £36,798,000) in respect of administrative expenses. Gross profit for the period was £55,191,000 (2006 £60,145,000)

GREAT NORTH EASTERN RAILWAY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

51 weeks ended 31 December 2007

4. OPERATING PROFIT (continued)

Analysis by activity of turnover

	51 weeks ended 31 December 2007 £'000	52 weeks ended 6 January 2007 £'000
Passenger income and other services	539,683	520,572
Train maintenance	13,976	11,043
	<u>553,659</u>	<u>531,615</u>

Turnover originates wholly in the U K

5. NET FINANCE (EXPENSE)/INCOME

	51 weeks ended 31 December 2007 £'000	52 weeks ended 6 January 2007 £'000
Interest payable and similar charges	(2,095)	(822)
Less Interest receivable and similar income	1,320	1,081
	<u>(775)</u>	<u>259</u>
<i>Interest payable and similar charges</i>		
Bank loans	420	703
Finance leases	7	-
Performance bond	73	119
Overdue tax	1,595	-
	<u>2,095</u>	<u>822</u>

GREAT NORTH EASTERN RAILWAY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

51 weeks ended 31 December 2007

6. TAX ON PROFIT ON ORDINARY ACTIVITIES

	51 weeks ended 31 December 2007 £'000	52 weeks ended 6 January 2007 £'000
UK corporation tax 30% (52 weeks ended 6 January 2007 30%)	1,971	5,201
Adjustment in respect of prior periods	6,019	(372)
Total current tax charge	7,990	4,829
Deferred tax (see note 14)	1,060	181
	<u>9,050</u>	<u>5,010</u>

Adjustments in respect of prior periods primarily relates to the adjustment arising on conversion of the Franchise to the Franchise Management Agreement as described in note 2

The differences between the 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

	51 weeks ended 31 December 2007 £'000	52 weeks ended 6 January 2007 £'000
Profit on ordinary activities before tax	18,552	5,003
Tax on profit on ordinary activities at 30%	5,566	1,501
Factors affecting the charge for the period		
Capital allowances for the period in excess of depreciation	(992)	(101)
Transfer of net asset value	(2,378)	3,678
Other timing differences	(323)	122
Expenditure not deductible for tax purposes	98	1
Adjustments to tax charge in respect of prior periods	6,019	(372)
Total amount of current tax	<u>7,990</u>	<u>4,829</u>

GREAT NORTH EASTERN RAILWAY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

51 weeks ended 31 December 2007

7 OPERATING AND OTHER LEASE COMMITMENTS

The company had contracts with Network Rail Infrastructure Ltd for access to the railway infrastructure (track, station and depots), consisting of fixed and variable charges. They could be terminated by joint agreement between the company and Network Rail Infrastructure Ltd.

The company also had contracts, which committed it to lease rolling stock from HSBC Rail (UK) Limited, Angel Trains Contracts Limited and Porterbrook Leasing Company Limited.

These contracts were transferred to the successor operator of the franchise on 9 December 2007 and accordingly the company has no operating lease commitments at 31 December 2007.

8. INTANGIBLE ASSETS

Franchise goodwill

	51 weeks ended 31 December 2007 £'000	52 weeks ended 6 January 2007 £'000
Cost		
Brought forward	2,510	2,510
Disposal	2,510	-
Carried forward	-	2,510
Accumulated amortisation		
Brought forward	2,510	249
Charge for the period	-	362
Impairment	-	1,899
Disposal	(2,510)	-
Carried forward	-	2,510
Net book value	-	-

Franchise goodwill arises on transition of a rail franchise or extension of a current franchise agreement, representing the fair value of the proportion of the pension scheme deficit the company is expected to fund over the franchise term. The proportion of the deficit recognised on 1 May 2005, being the date of commencement of the new Franchise Agreement, was £3,586,000, offset by a corresponding deferred tax asset of £1,076,000. Further information on the pension scheme is presented in note 20.

The Franchise goodwill was impaired at 6 January 2007 as a result of the anticipated termination of the Franchise.

GREAT NORTH EASTERN RAILWAY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

51 weeks ended 31 December 2007

9. TANGIBLE FIXED ASSETS

	Buildings- short leasehold £'000	Plant and machinery £'000	Assets under construction £'000	Total £'000
Cost				
At 7 January 2007	11,797	13,811	7,495	33,103
Additions	277	803	15,607	16,687
Disposals	(21,730)	(25,177)	(2,883)	(49,790)
Transfers	9,656	10,563	(20,219)	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
At 31 December 2007	-	-	-	-
Accumulated depreciation				
At 7 January 2007	5,024	11,769	-	16,793
Charge for the period	1,132	1,432	-	2,564
Disposals	(6,156)	(13,201)	-	(19,357)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
At 31 December 2007	-	-	-	-
Net book value				
At 31 December 2007	-	-	-	-
At 6 January 2007	<u>6,773</u>	<u>2,042</u>	<u>7,495</u>	<u>16,310</u>

Assets under construction relates to various station and other capital improvement projects. Transfers relate to the capitalisation of assets under construction.

The net book value of the company's plant and machinery includes £nil (6 January 2007 £nil) in respect of assets held under finance leases.

10. INVESTMENTS HELD AS FIXED ASSETS

The investments listed below were transferred from the British Railways Board to the company at the start of the franchise period on 28th April 1996 for nil consideration. In accordance with the statutory Franchise Transfer Scheme, all of these investments were transferred to the new franchise operator on 9 December 2007 for nil consideration.

	% Holding
ATOC Limited	4
Rail Settlement Plan Limited	4
Rail Staff Travel Limited	4

ATOC Limited is the contracting arm of ATOC, the Association of Train Operating Companies. Rail Settlement Plan Limited operates the income allocation and settlement routines on behalf of ATOC. Rail Staff Travel Limited manages staff travel arrangements in the industry on behalf of ATOC.

Genius Limited, a company limited by guarantee, was incorporated to manage the development of software used to control the location of rolling stock in the railway industry. Great North Eastern Railway Limited was one of twenty two members and had a limited guarantee liability of £1 00.

Tribute Limited, a company limited by guarantee, was incorporated to hold under licence, acquire, manage and develop software systems. Great North Eastern Railway Limited was one of ten members and had a limited guarantee liability of £1 00.

RITC Limited, a private company limited by shares, is the national training organisation for the rail industry and as such has been granted Government recognition to represent the industry on education and training. Great North Eastern Railway Limited had a limited liability of £1 00.

GREAT NORTH EASTERN RAILWAY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

51 weeks ended 31 December 2007

11. STOCKS

	31 December 2007 £'000	6 January 2007 £'000
Raw materials and consumables	-	3,828
	<u>-</u>	<u>3,828</u>

12. DEBTORS

	31 December 2007 £'000	6 January 2007 £'000
Trade debtors	-	24,937
Amounts owed by group undertakings	-	841
Other debtors	12,399	4,260
Prepayments and accrued income	484	10,755
Deferred taxation (see note 14)	-	1,060
	<u>12,883</u>	<u>41,853</u>

Within other debtors is an amount due from the Department for Transport of £7,977,000 (2006 £Nil) for amounts owed in respect of the Franchise Management Agreement

Within the amount due from the Department for Transport included in other debtors is a provision for DfT settlement which relates to outstanding disputes with the Department for Transport in relation to the final receipts concerning the Franchise Management Agreement. The major outstanding matter concerns alleged damage to rolling stock during the franchise period. In order to release the franchise surety bond (see note 21), the Department for Transport have required that an amount of £4,216,000 be placed in legal escrow. The company is in discussion with the Department for Transport regarding finalising the position. The Directors remain confident of the recovery of the majority of the sum placed in escrow but in recognition of the ongoing uncertainty have made a specific provision for the full amount held in escrow at the balance sheet date.

13. CASH AT BANK AND IN HAND

	31 December 2007 £'000	6 January 2007 £'000
Cash at bank and in hand	9,598	21,389
Season ticket bond deposit	-	5,623
	<u>9,598</u>	<u>27,012</u>

GREAT NORTH EASTERN RAILWAY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

51 weeks ended 31 December 2007

14. DEFERRED TAXATION

The amounts of deferred tax asset provided in the accounts are

	31 December 2007 £'000	6 January 2007 £'000
Deferred taxation asset brought forward	1,060	1,241
Charge for the period	(1,060)	(181)
Deferred taxation asset carried forward	<u>-</u>	<u>1,060</u>

The deferred tax asset is made up of the following

Depreciation in excess of capital allowances	-	737
Other timing differences	-	323
	<u>-</u>	<u>1,060</u>

15. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	31 December 2007 £'000	6 January 2007 £'000
Overdrafts and bank loans	-	7,380
Trade creditors	146	37,526
Amounts owed to group undertakings	54	2,282
Corporation tax	1,971	4,265
Other taxation and social security	-	4,333
Other creditors	2,914	12,029
Accruals and deferred income	2,452	15,349
Grants not yet credited to profit and loss account	-	397
	<u>7,537</u>	<u>83,561</u>

16. CALLED UP SHARE CAPITAL

	31 December 2007 £'000	6 January 2007 £'000
Authorised:		
17,750,000 Ordinary shares of £1 each	<u>17,750</u>	<u>17,750</u>
Called up, allotted and fully paid.		
5,276,501 Ordinary shares of £1 each	<u>5,277</u>	<u>5,277</u>

GREAT NORTH EASTERN RAILWAY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

51 weeks ended 31 December 2007

17. RESERVES

	Profit and loss account £'000
At 7 January 2007	165
Retained profit for the financial period	9,502
	<hr/>
At 31 December 2007	9,667
	<hr/> <hr/>

18. CAPITAL AND FRANCHISE COMMITMENTS

	31 December 2007 £'000	6 January 2007 £'000
Expenditure contracted for but not provided	-	4,959
	<hr/>	<hr/>

19. RECONCILIATION OF MOVEMENTS IN SHAREHOLDER'S FUNDS

	51 weeks ended 31 December 2007 £'000	52 weeks ended 6 January 2007 £'000
Profit/(loss) for the financial period	9,502	(7)
Opening equity shareholder's funds	5,442	5,449
	<hr/>	<hr/>
Closing equity shareholders' funds	14,944	5,442
	<hr/> <hr/>	<hr/> <hr/>

20. PENSION SCHEME

The majority of the company's employees were members of the Railways Pension Scheme (RPS), a funded defined benefit scheme. As stated in note 2 Great North Eastern Railway Limited ceased to operate the franchise on 8 December 2007 when it was awarded to another operator and all employees transferred to the new operator under the Transfer of Undertakings (Protection of Employment) Regulations 2006. The company and the new operator entered into a deed of participation and change of designated employer in respect of the Great North Eastern Railway Limited shared cost section (GNER section) of the RPS and the Secretary of State for Transport assumed any liabilities arising from the period in which the company was designated employer of the GNER section or in connection with the cessation of the company's participation in the GNER section.

The RPS was established with effect from 1 October 1994 when the British Rail Pension Scheme (BRPS) was partitioned.

The Railway Pension Scheme is a multi-employer scheme. Great North Eastern Railway Limited's main obligation in respect of the RPS was to pay contributions as agreed with the scheme actuary and trustees.

GREAT NORTH EASTERN RAILWAY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

51 weeks ended 31 December 2007

20 PENSION SCHEME (continued)

An independent actuarial valuation of the GNER section of the RPS was carried out by Watson Wyatt Partners as at 31 December 2004. As a result of the valuation the employer's contribution rate were increased to 15.84% and the employees' rate to 10.56%.

The assets of the Scheme were held separately to the assets of the company.

The assets of the Pension Fund are invested through a number of pooled investment funds, which allows the Scheme to hold a broader range of investments.

The valuation disclosed a funding level of 90% and a deficit of £20m and valued the assets at £173m.

The deficit reflected in the balance sheet reflects only that portion of the deficit that is expected to be funded over the franchise term, net of deferred tax. A "franchise adjustment" is made to the deficit on this basis. The franchise adjustment is the projected deficit at the end of the franchise term which the company will not be required to fund, discounted back to present value. On transition of a rail franchise, an intangible asset is recognised, which exactly offsets the initial recognition of the portion of the deficit the company is expected to fund, net of deferred tax. This intangible asset is subsequently amortised on a straight line basis over the franchise term. The initial portion of the deficit recognised on 1 May 2005, being the date of commencement of the new Franchise Agreement, was £3,586,000 along with a corresponding deferred tax asset of £1,076,000.

The company's only obligation in respect of the pension scheme during the period was to pay the agreed contributions that fell due up to the franchise transfer date. Consequently, at both 6 January 2007 and 31 December 2007, no amounts have been recognised on the balance sheet in respect of the pension scheme.

The disclosures set out below are made in relation to the comparative balances and the profit and loss movements in the period.

A full actuarial valuation was carried out by Watson Wyatt Partners as at 31 December 2004 and updated to 7 January 2006 by Mercer Human Resources, as the company's only obligation in respect of the scheme was to pay agreed contributions up to 8 December 2007, the valuation has not been updated to that date. The major assumptions used by the actuary were (in nominal terms)

	At 7 January 2006	At 8 January 2005	At 3 January 2004
Rate of increase in salaries	3.50%	3.25%	3.25%
Rate of increase of pensions in payment and deferment	3.00%	2.75%	2.75%
Discount rate	4.75%	5.30%	5.40%
Inflation assumption	3.00%	2.75%	2.75%

GREAT NORTH EASTERN RAILWAY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

51 weeks ended 31 December 2007

20. PENSION SCHEME (continued)

The assets and liabilities of the Great North Eastern Railway Limited section of the Railways Pension Scheme at 7 January 2006 are shown below

	Expected rate of return at 7 January 2006	7 January 2006 £'000	Expected rate of return at 8 January 2005	8 January 2005 £'000	Expected rate of return at 3 January 2004	3 January 2004 £'000
Equities	6.60%	181,675	7.00%	147,358	7.25%	136,935
Bonds	4.75%	31,278	5.30%	25,456	5.40%	14,879
Cash and other assets	4.25%	641	4.00%	96	4.00%	608
		<u>213,594</u>		<u>172,910</u>		<u>152,422</u>
Actuarial value of liabilities		(291,725)		(186,743)		(168,545)
Deficit in the Scheme		<u>(78,131)</u>		<u>(13,833)</u>		<u>(16,123)</u>
Less deficit attributable to members		31,252		5,493		6,408
Less franchise adjustment		46,879		7,500		7,394
Company share of deficit		-		(840)		(2,321)
Related deferred tax asset		-		252		696
		<u>-</u>		<u>(588)</u>		<u>(1,625)</u>

AMOUNTS INCLUDED IN OPERATING PROFIT

	51 weeks ended 31 December 2007 £'000	52 weeks ended 6 January 2007 £'000
Contributions to the scheme	7,149	7,330
Total operating charge	<u>7,149</u>	<u>7,330</u>

GREAT NORTH EASTERN RAILWAY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

51 weeks ended 31 December 2007

20. PENSION SCHEME (continued)

HISTORY OF THE EXPERIENCE GAINS AND LOSSES RECOGNISED IN STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	52 weeks ended 7 January 2006 £'000	53 weeks ended 8 January 2005 £'000	52 weeks ended 3 January 2004 £'000	52 weeks ended 4 January 2003 £'000
Difference between expected and actual returns on scheme assets	14,923	4,162	12,450	12,450
Percentage of scheme assets	7%	2%	8%	8%
Experience gains and losses on scheme liabilities	(19,265)	-	(866)	(866)
Percentage of scheme liabilities	(7%)	0%	(1%)	(1%)
Total actuarial gain or loss recognised in the statement of total recognised gains and losses excluding experience gains and losses on franchise adjustment	(38,522)	344	(3,156)	(3,156)
Percentage of scheme liabilities	(13%)	0%	(2%)	(2%)
Total amount recognised in statement of total recognised gains and losses including experience gains and losses on franchise adjustment	4,122	51	N/a	N/a

ANALYSIS OF THE MOVEMENT IN SHARE OF SCHEME DEFICIT DURING THE PERIOD

	51 weeks ended 31 December 2007 £'000	52 weeks ended 6 January 2007 £'000
Opening share of deficit	-	-
Current service cost	(7,149)	(7,330)
Contributions	7,149	7,330
Net finance income	-	-
Actuarial gain	-	-
Share of opening deficit in new franchise	-	-
Closing share of deficit	-	-

21. GUARANTEE

The company had undertaken under its franchise agreement to reimburse the Department for Transport (previously the Strategic Rail Authority) its costs in the event that Great North Eastern Railway Limited breaches its franchise agreement to the extent that the Department for Transport must award the franchise to another operator. The undertaking was secured by a surety bond in the amount of £12,758,000, which Sea Containers Ltd had guaranteed. The surety bond expired on 30 April 2008.

GREAT NORTH EASTERN RAILWAY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

51 weeks ended 31 December 2007

22. RELATED PARTY TRANSACTIONS

The company has taken advantage of the exemption granted under paragraph 3(c) of FRS8 whereby, as a member of a group, it is not required to disclose intra group related party transactions

23. ULTIMATE PARENT COMPANY

The company's ultimate parent holding company and controlling party is Sea Containers Ltd, a company incorporated in Bermuda

On 2 October 2006, Sea Containers Ltd announced that it has been advised by the New York Stock Exchange (NYSE) that its common shares and its Senior Notes would be suspended from trading on the NYSE and NYSE Arca. On 15 October 2006, Sea Containers Ltd and certain of Sea Containers Ltd's subsidiaries each filed for Chapter 11 protection. Filing for Chapter 11 is an action by Sea Containers Ltd in the United States of America to seek protection from its creditors and was undertaken principally because of a maturing \$115m public note obligation on 15 October 2006 which it was unable to repay. Under Chapter 11, the directors are left in place to manage the company under United States of America Court supervision.

On July 3, 2007, the Determinations Panel of the United Kingdom government Pensions Regulator (which regulates employment-based pension plans in the UK and aims to protect the benefits of members of UK pension plans) published notices of its decision that a Financial Support Direction (FSD) will be issued against SCL under Section 43 of the Pensions Act 2004 in respect of the Sea Containers 1983 Pension Scheme (the "1983 Scheme") and the Sea Containers 1990 Pension Scheme (the "1990 Scheme") (together the "Schemes"). The hearing before the Determination Panel took place on 12 and 13 June 2007 to consider the warning notices issued by the Regulator in October 2006 and April 2007 in respect of the two Pension Schemes.

Prior to the claims bar date on 16 July 2007, the shareholders of SCL, the Company's ultimate parent and other parties, filed proof of claims in the SCL bankruptcy case. The Directors of SCL are currently in the process of evaluating these proofs of claim and the clauses asserted therein.

On July 24, 2007, SCL announced that it had lodged an appeal in respect of the Determination Notices issued by the Determinations Panel of the Pension Regulator on June 15, 2007. The appeal contested the Panel's decision that FSDs should be issued against SCL under section 43 of the Pensions Act 2004 in respect of the two Pension Schemes. It has always been SCL's expectation that any restructuring plan of reorganization proposed under the Chapter 11 bankruptcy protection process would be subject to the Pensions Regulator's Clearance procedure.

On 6 February, 2008, SCL announced that it had reached a settlement in principle with the Trustees of the two Pension Schemes to agree the amount of their claims against the Sea Containers estate. Under the agreement, the Trustees would have a claim recognized in the Group's Chapter 11 proceedings. The agreement in principle will also create an additional reserve for certain potential pension scheme liabilities in respect of age-related equalization changes. In connection with this important agreement, SCL has withdrawn its appeal against the Financial Support Direction ("FSD"). SCL considers that the settlement will adequately address any FSD and that the current legal proceedings would be of no further benefit. SCL, alongside the Trustees, will be seeking approval from the Pensions Regulator for the proposed settlement, which is also subject to Bankruptcy Court approval. On the same, certain creditors lodged an objection against the proposed settlement with the Bankruptcy court which was overruled and judgment given in SCL's favour on September 19, 2008.

Copies of Sea Containers Ltd's accounts can be obtained from the company's registered office at 41 Cedar Avenue, Hamilton, Bermuda.

The immediate parent company is GNER Holdings Limited, a company registered in England and Wales. The smallest group of which this company is a member and for which group accounts are prepared is Sea Containers U K Limited, a company registered in England and Wales. Copies of the group accounts may be obtained from the company's registered office at 20 Upper Ground, London SE1 9PF.