

Company registration No. 2938984

GREAT NORTH EASTERN RAILWAY LIMITED

Report and Financial Statements

52 Weeks ended 6 January 2007

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GREAT NORTH EASTERN RAILWAY LIMITED

REPORT AND FINANCIAL STATEMENTS FOR THE 52 WEEKS ENDED 6 JANUARY 2007

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GREAT NORTH EASTERN RAILWAY LIMITED

**REPORT AND FINANCIAL STATEMENTS FOR THE 52 WEEKS ENDED
6 JANUARY 2007**

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

R D MacKenzie
J N Metcalfe

SECRETARY

J M Huck

REGISTERED OFFICE

Sea Containers House
20 Upper Ground
London
SE1 9PF

BANKERS

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

Bank of Scotland
Fourth Floor
Lisbon House
116 Wellington Street
Leeds
LS1 4LT

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 52 weeks ended 6 January 2007

BUSINESS REVIEW AND PRINCIPAL ACTIVITY

The company is a wholly owned subsidiary of Sea Containers Ltd. Sea Containers Ltd filed for Chapter Eleven bankruptcy protection in the United States of America on 15 October 2006. This has had no direct impact on the trading position of Great North Eastern Railway Limited but affected certain facilities and guarantees provided to Great North Eastern Railway Limited by Sea Containers Ltd.

The principal activity of the company is the operation of passenger railway services. The Franchise Agreement, signed in March 2005, provided for GNER to pay a premium each year to the Department for Transport. During 2006 it became apparent that, due to a combination of circumstances unforeseen at the time of signing the Franchise Agreement, GNER would not be able to continue to meet the agreed premium payments. In December 2006 the company signed a Franchise Management Agreement with the Department for Transport. This provides for Great North Eastern Railway Limited to continue operating the service and earn an incentive payment, while the Inter-City East Coast franchise is re-let. The Franchise Management Agreement transferred the financial risks of operating the franchise to the Department for Transport, which then withdraws or injects cash into the company to meet its trading requirements. At the time Great North Eastern Railway Limited ceases to operate the franchise, the remaining cash balance, less an allowance for certain fixed assets and any incentives earned will be 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 has been provided for in full within creditors at 6 January 2007. Further details of the effect of the agreement on the financial result are disclosed in note 2.

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. Consequently, it will cease operating the franchise when the new Franchise Operator commences trading. This is expected to be towards the end of 2007. As a result, the financial statements have been prepared on a basis other than that of a going concern.

In April 2007, GNER Holdings Ltd, the Company's immediate parent, announced its participation in the Inter-City East Coast franchise bid being prepared by Inter City Railways Ltd, a company jointly owned by the Stagecoach Group and the Virgin Group. This participation by GNER Holdings Ltd has no effect on the company or on the basis of preparation of these financial statements.

Great North Eastern Railway Limited has continued to invest in the operation of the Franchise, in particular, replacement of the engines and a full refurbishment of the interior of its HST fleet. GNER is expecting to commence half-hourly services between London and Leeds in May 2007 and is continuing to invest in upgrades to its Stations.

As shown in the company's profit and loss account, revenue has increased by 11% over the prior year. However, due to higher costs and the implementation of the terms of the Franchise Management Agreement, the profit after tax has reduced from £6,474,000 to a loss of £7,000.

Since signing the Franchise Management Agreement the company earns profit through the incentive mechanism included in the agreement, rather than as a direct result of trading. Consequently, the main financial key performance indicators have changed. The current financial key performance indicators are Revenue Incentive earned and Cost Incentive earned. Both of these are 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 include 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 88.7% at the end of 2006, compared to 86.2% at the end of 2005. Overall safety performance is measured by a range of key indicators which continue to improve.

Great North Eastern Railway Limited has agreed not to pay any dividends during the period it continues to operate under the Franchise Management Agreement. Consequently no dividend has been paid in relation to the 52 weeks ended 6 January 2007. A dividend of £35,740,000 was paid in relation to the 52 weeks ended 7 January 2006.

The directors have become aware of a notice of dispute from HM Revenue & Customs in relation to the validity of the group relief in historical periods within the Sea Containers group. Details of the claim are set out in note 24.

GREAT NORTH EASTERN RAILWAY LIMITED

DIRECTORS' REPORT (continued)

PRINCIPAL RISKS AND UNCERTAINTIES

As noted above, the company is operating under a Franchise Management Agreement signed in December 2006. This provides for the company to earn incentives by increasing revenue and reducing controllable costs around targets set by the Department for Transport. The principal uncertainty facing the company is the date at which it will cease operating the franchise.

Under the Franchise Management Agreement, the company's day to day financing is underwritten by the Department for Transport. However, the company has taken out bank loans to finance some of the improvements to its operations. These are at a margin above UK base rate, so the company has some limited exposure to interest rate movements. The value of these loans is shown in note 16. All of the company's operations are in the UK, so it has no foreign exchange exposure.

ENVIRONMENT

The company has procedures to improve its environmental performance, maintain compliance with environmental legislation, and address the needs of its stakeholders. These arrangements include an environmental management systems and documented environmental objectives and targets.

The company 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. To date, Great North Eastern Railway Limited has 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 participates 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.

DIRECTORS AND THEIR INTERESTS

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

R D MacKenzie (appointed 31 August 2006)

I C Durant (resigned 6 June 2006)

C W M Garnett (resigned 4 September 2006)

J N Metcalfe

S M Mills (resigned 2 November 2006)

None of the directors had any interests in the company's shares or those of its immediate parent company during the 52 weeks ended 6 January 2007. The interests of the directors in the shares of the ultimate parent company, Sea Containers Ltd, at the year end are not given as the company is a wholly owned subsidiary of a parent company incorporated outside Great Britain.

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.

GREAT NORTH EASTERN RAILWAY LIMITED

DIRECTORS' REPORT (continued)

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 £390 during the 52 weeks ended 6 January 2007 (52 weeks ended 7 January 2006 £26,876).

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.

Creditor days at 6 January 2007 were 30 (7 January 2006 25).

AUDITORS

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

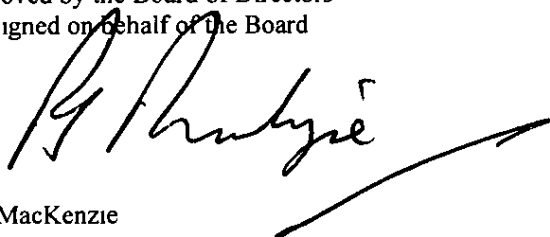
(1) so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware, and

(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



R D MacKenzie

Director

9 May 2007

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 52 week period to 6 January 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 26. 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 6 January 2007 and of its loss 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 will cease to operate when the franchise is re-let

Deloitte + Touche LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Leeds
^^ May 2007

GREAT NORTH EASTERN RAILWAY LIMITED

PROFIT AND LOSS ACCOUNT For the 52 weeks ended 6 January 2007

	Note	52 weeks ended 6 January 2007 £'000	52 weeks ended 7 January 2006 £'000
TURNOVER	1		
Passenger income		478,872	427,013
Other operating income		52,743	50,677
		<u>531,615</u>	<u>477,690</u>
Operating expenditure	4	(508,268)	(470,447)
OPERATING PROFIT	4	23,347	7,243
Loss arising on conversion of franchise to Franchise Management Agreement	2	(18,603)	-
Net finance income	5	259	1,375
		<u>5,003</u>	<u>8,618</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION			
Tax on profit on ordinary activities	6	(5,010)	(2,144)
		<u>(7)</u>	<u>6,474</u>
(LOSS)/PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION FOR THE FINANCIAL PERIOD			
Dividends	7	-	(35,740)
		<u>-</u>	<u>(35,740)</u>
Retained loss for the financial period withdrawn from reserves	19	(7)	(29,266)
		<u>(7)</u>	<u>(29,266)</u>

All activities relate to continuing operations

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	Note	52 weeks ended 6 January 2007 £'000	52 weeks ended 7 January 2006 £'000
(Loss)/profit for the financial period		(7)	6,474
Actuarial gain relating to pension scheme	22	-	4,122
UK deferred tax attributable to actuarial gain		-	(1,237)
		<u>(7)</u>	<u>(1,237)</u>
Total gains and losses recognised since last financial statements		<u>(7)</u>	<u>9,359</u>

GREAT NORTH EASTERN RAILWAY LIMITED

BALANCE SHEET

6 January 2007

	Note	6 January 2007 £'000	7 January 2006 £'000
FIXED ASSETS			
Intangible assets	9	-	2,261
Tangible assets	10	16,310	12,005
Investments	11	-	-
		<u>16,310</u>	<u>14,266</u>
CURRENT ASSETS			
Stocks	12	3,828	3,615
Debtors	13	41,853	33,745
Cash at bank and in hand	14	27,012	17,888
		<u>72,693</u>	<u>55,248</u>
CREDITORS: amounts falling due within one year	16	<u>(83,561)</u>	<u>(63,743)</u>
NET CURRENT LIABILITIES		<u>(10,868)</u>	<u>(8,495)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		5,442	5,771
CREDITORS, amounts falling due after more than one year	17	<u>-</u>	<u>(322)</u>
NET ASSETS EXCLUDING PENSION LIABILITY		5,442	5,449
PENSION LIABILITY	22	<u>-</u>	<u>-</u>
NET ASSETS INCLUDING PENSION LIABILITY		<u>5,442</u>	<u>5,449</u>
CAPITAL AND RESERVES			
Called up share capital	18	5,277	5,277
Profit and loss account	19	165	172
		<u>5,442</u>	<u>5,449</u>
TOTAL EQUITY SHAREHOLDER'S FUNDS	21	<u>5,442</u>	<u>5,449</u>

These financial statements were approved by the Board of Directors on 9 May 2007

Signed on behalf of the Board of Directors



R D MacKenzie

Director

GREAT NORTH EASTERN RAILWAY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

52 weeks ended 6 January 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 will cease trading within the next 12 months when the new Inter-city East Coast Franchise is granted. 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 is governed by a complex agreement with multiple elements of franchise payment and receipt. Payments to the rolling stock companies and Network Rail are treated as operating leases in accordance with SSAP 21. Payments to upgrade infrastructure are capitalised and amortised over the franchise period. Receipts from or payments to the Department for Transport are 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. As the franchise is now expected to terminate during 2007, the franchise goodwill has been fully written off during the period.

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

52 weeks ended 6 January 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 at 6 January 2007

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

52 weeks ended 6 January 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 provides for Great North Eastern Railway Limited to continue to manage the franchise and earn incentive payments, until such time as the franchise is re-let. These incentives are 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 withdraw or inject cash into the company to meet its trading requirements. At the time Great North Eastern Railway Limited ceases to operate the franchise, the remaining cash balance, less an allowance for certain fixed assets and any incentives earned will be 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 has been provided for within creditors in full at 6 January 2007. The company also agreed to pay the Department for Transport a contribution towards the costs of re-letting the franchise the cost of which is included within this amount. Pending the outcome of discussions with the Department for Transport and HM Revenue & Customs the directors have taken the conservative view to treat the transaction as non deductible for tax purposes.

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 will cease operating the franchise when the franchise is handed over to the new Operator. This is expected to be towards the end of 2007.

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.

The Franchise Management Agreement provides that the operational assets and liabilities of the company will be transferred to the successor operator at the handover date. Consequently, the directors do not believe that any impairment provision is required in relation to these assets and liabilities, including lease commitments and the pension scheme balances, in these financial statements.

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.

Loss arising on conversion of franchise to franchise management agreement

	£'000
Transfer of net asset value	16,704
Impairment of intangible asset (note 9)	1,899
	<hr/>
	18,603
	<hr/>

The tax impact of the exceptional item is to reduce the charge for the year by £570,000

GREAT NORTH EASTERN RAILWAY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

52 weeks ended 6 January 2007

3 INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	52 weeks ended 6 January 2007 £'000	52 weeks ended 6 January 2007 £'000	52 weeks ended 7 January 2006 £'000	52 weeks ended 7 January 2006 £'000
Directors' remuneration	Total	Highest paid director	Total	Highest paid director
Total directors' emoluments for the period (excluding pension)	594	258	1,018	432
Total directors' pension costs	61	17	57	27

In addition, total directors' payments for loss of office amounted to £338,000 during the 52 weeks ended 6 January 2007 (52 weeks ended 7 January 2006 £nil)

	Number	Number
Number of directors who are members of a defined benefit scheme	1	3

The amount of the accrued pension of the highest paid director at 6 January 2007 was £22,193 (7 January 2006 £20,091)

IC Durant and RD MacKenzie 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	52 weeks ended 6 January 2007 Number	52 weeks ended 7 January 2006 Number
Average number of persons employed in the period		
Operations	2,209	2,378
Ticket Retailing	266	311
Administration	404	376
	<u>2,879</u>	<u>3,065</u>

GREAT NORTH EASTERN RAILWAY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

52 weeks ended 6 January 2007

3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES (continued)

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

	52 weeks ended 6 January 2007 £'000	52 weeks ended 7 January 2006 £'000
Wages and salaries	81,010	79,035
Social security costs	6,866	6,230
Other pension costs	7,330	6,915
	<u>95,206</u>	<u>92,180</u>

4. OPERATING PROFIT

Operating profit is after charging/(crediting):

	52 weeks ended 6 January 2007 £'000	52 weeks ended 7 January 2006 £'000
Access charges	139,805	86,135
Rentals under operating leases		
Rolling stock	62,207	69,511
Other plant and equipment	187	220
Property leases	960	800
Depot/station leases	3,324	3,233
Depreciation – owned assets	2,407	2,850
Depreciation – assets held under finance leases	24	853
Amortisation of franchise goodwill	362	435
Auditors' remuneration for audit services	115	140
Rents receivable	<u>(4,129)</u>	<u>(3,604)</u>

Other audit fees paid by the company in relation to the 52 weeks ended 6 January 2007 were Nil (2005 £97,500)

Operating expenditure in the profit and loss account consists of £417,470,000 (2005 £431,811,000) in respect of cost of sales and £36,798,000 (2005 £38,636,000) in respect of administrative expenses. Gross profit for the year was £26,737,000 (2005 £45,879,000)

GREAT NORTH EASTERN RAILWAY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

52 weeks ended 6 January 2007

4. OPERATING PROFIT (continued)
Analysis by activity of turnover

	52 weeks ended 6 January 2007 £'000	52 weeks ended 7 January 2006 £'000
Passenger income and other services	520,572	465,547
Train maintenance	11,043	12,143
	<u>531,615</u>	<u>477,690</u>

Turnover originates wholly in the U K

5 NET FINANCE INCOME

	52 weeks ended 6 January 2007 £'000	52 weeks ended 7 January 2006 £'000
Interest payable and similar charges	(822)	(964)
Less Interest receivable and similar income	1,081	980
Net return on pension scheme (see note 22)	-	1,359
	<u>259</u>	<u>1,375</u>
<i>Interest payable and similar charges</i>		
Bank loans	703	645
Finance leases	-	170
Performance bond	119	149
	<u>822</u>	<u>964</u>

GREAT NORTH EASTERN RAILWAY LIMITED

NOTES TO THE FINANCIAL STATEMENTS 52 weeks ended 6 January 2007

6. TAX ON PROFIT ON ORDINARY ACTIVITIES

	52 weeks ended 6 January 2007 £'000	52 weeks ended 7 January 2006 £'000
UK corporation tax 30% (52 weeks ended 7 January 2006 30%)	5,201	2,463
Adjustment in respect of prior periods	(372)	-
Total current tax charge	4,829	2,463
Deferred tax (see note 15)	181	(410)
Deferred tax on pension scheme liability (see note 22)	-	91
	<u>5,010</u>	<u>2,144</u>

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

	52 weeks ended 6 January 2007 £'000	52 weeks ended 7 January 2006 £'000
Profit on ordinary activities before tax	5,003	8,618
Tax on profit on ordinary activities at 30%	1,501	2,585
Factors affecting the charge for the period		
Capital allowances for the period in excess of depreciation	(101)	(108)
Payment re Franchise Management Agreement	3,678	-
Other timing differences	122	(20)
Expenses not deductible for tax purposes	1	6
Adjustments to tax charge in respect of prior periods	(372)	-
Total amount of current tax	<u>4,829</u>	<u>2,463</u>

In addition, there is a contingent liability relating to current tax in respect of prior periods. Further details are given in note 24

7. DIVIDENDS

	52 weeks ended 6 January 2007 £'000	52 weeks ended 7 January 2006 £'000
Paid - £nil per ordinary share (52 weeks ended 7 January 2006 £6.77 per ordinary share)	-	35,740
	<u>-</u>	<u>35,740</u>

GREAT NORTH EASTERN RAILWAY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

52 weeks ended 6 January 2007

8. OPERATING AND OTHER LEASE COMMITMENTS

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

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

As stated in note 2 Great North Eastern Railway Limited is expected to hand over the franchise to a successor operator within the next twelve months. These contracts are expected to be transferred to a successor operator at that time. As a result, the amount Great North Eastern Railway Limited is committed to pay in respect of its lease commitments is uncertain.

9. INTANGIBLE ASSETS

	Franchise goodwill
	£'000
Cost	
At 8 January 2006 and 6 January 2007	2,510
Accumulated amortisation	
At 8 January 2006	249
Charge for the period	362
Impairment	1,899
At 6 January 2007	2,510
Net book value	
At 6 January 2007	-
At 7 January 2006	2,261

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 is presented in note 22.

As a result of the expected termination of the Franchise within the next twelve months, the Franchise goodwill has been written off at 6 January 2007.

GREAT NORTH EASTERN RAILWAY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

52 weeks ended 6 January 2007

10 TANGIBLE FIXED ASSETS

	Buildings- short leasehold £'000	Plant and machinery £'000	Assets under construction £'000	Total £'000
Cost				
At 8 January 2006	11,613	16,026	1,064	28,703
Additions	59	294	8,332	8,685
Disposals	-	(2,509)	(1,776)	(4,285)
Transfers	125	-	(125)	-
	<u>11,797</u>	<u>13,811</u>	<u>7,495</u>	<u>33,103</u>
Accumulated depreciation				
At 8 January 2006	3,972	12,726	-	16,698
Charge for the period	1,052	1,379	-	2,431
Disposals	-	(2,336)	-	(2,336)
	<u>5,024</u>	<u>11,769</u>	<u>-</u>	<u>16,793</u>
Net book value				
At 6 January 2007	<u>6,773</u>	<u>2,042</u>	<u>7,495</u>	<u>16,310</u>
At 7 January 2006	<u>7,641</u>	<u>3,300</u>	<u>1,064</u>	<u>12,005</u>

Assets under construction relates to various station and other capital improvement projects. Transfers relate to the capitalisation of assets under construction. The assets under construction balance of £7,495,000 at 6 January 2007 represents ongoing capital projects.

The net book value of the company's plant and machinery includes £nil (7 January 2006 £24,000) in respect of assets held under finance leases.

11. INVESTMENTS HELD AS FIXED ASSETS

In accordance with a direction from the Secretary of State for Transport one 4 pence share in each of the following companies was transferred from the British Railways Board to the company for nil consideration on 28 April 1996

	% 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 is one of twenty two members and has 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 is one of ten members and has 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 has a limited liability of £1 00.

GREAT NORTH EASTERN RAILWAY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

52 weeks ended 6 January 2007

12. STOCKS

	6 January 2007 £'000	7 January 2006 £'000
Raw materials and consumables	3,828	3,615
	<u>3,828</u>	<u>3,615</u>

13. DEBTORS

	6 January 2007 £'000	7 January 2006 £'000
Trade debtors	24,937	19,356
Amounts owed by group undertakings	841	1,784
Other debtors	4,260	3,215
Prepayments and accrued income	10,755	8,149
Deferred taxation (see note 15)	1,060	1,241
	<u>41,853</u>	<u>33,745</u>

14. CASH AT BANK AND IN HAND

	6 January 2007 £'000	7 January 2006 £'000
Cash at bank and in hand	21,389	12,482
Season ticket bond deposit	5,623	5,406
	<u>27,012</u>	<u>17,888</u>

15. DEFERRED TAXATION

The amounts of deferred tax asset provided in the accounts are

	6 January 2007 £'000	7 January 2006 £'000
Deferred taxation asset brought forward	1,241	831
(Charge)/Credit for the year	(181)	410
Deferred taxation asset carried forward	<u>1,060</u>	<u>1,241</u>

The deferred tax asset is made up of the following

Depreciation in excess of capital allowances	737	1,040
Other timing differences	323	201
	<u>1,060</u>	<u>1,241</u>

GREAT NORTH EASTERN RAILWAY LIMITED

NOTES TO THE FINANCIAL STATEMENTS 52 weeks ended 6 January 2007

16. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	6 January 2007 £'000	7 January 2006 £'000
Overdrafts and bank loans	7,380	-
Trade creditors	37,526	31,650
Amounts owed to group undertakings	2,282	1,718
Taxation and social security	4,333	4,258
Other creditors	16,294	7,762
Accruals and deferred income	15,349	18,355
Grants not yet credited to profit and loss account	397	-
	<u>83,561</u>	<u>63,743</u>

17. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	6 January 2007 £'000	7 January 2006 £'000
Grants not yet credited to the profit and loss account	-	322
	<u>-</u>	<u>322</u>

18. CALLED UP SHARE CAPITAL

	6 January 2007 £'000	7 January 2006 £'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>

19. RESERVES

	Profit and loss account £'000
At 8 January 2006	172
Retained loss for the financial period	<u>(7)</u>
At 6 January 2007	<u>165</u>

GREAT NORTH EASTERN RAILWAY LIMITED

NOTES TO THE FINANCIAL STATEMENTS 52 weeks ended 6 January 2007

20. CAPITAL AND FRANCHISE COMMITMENTS

	6 January 2007 £'000	7 January 2006 £'000
Expenditure contracted for but not provided	4,959	769

The main expenditure contracted for but not yet provided includes the new internet retailing system, enhancements to several of the stations the company operates and the introduction of a wheel lathe facility at the Bounds Green depot

21. RECONCILIATION OF MOVEMENTS IN SHAREHOLDER'S FUNDS

	52 weeks ended 6 January 2007 £'000	52 weeks ended 7 January 2006 £'000
(Loss)/Profit for the financial period	(7)	6,474
Other recognised gains and losses (net)	-	2,885
Dividends	-	(35,740)
Net (reduction) in equity shareholder's funds	(7)	(26,381)
Opening equity shareholder's funds	5,449	26,830
New shares issued	-	5,000
Closing equity shareholders' funds	5,442	5,449

22. PENSION SCHEME

The majority of the company's employees are members of the Railways Pension Scheme (RPS), a funded defined benefit scheme. 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 is to pay contributions as agreed with the scheme actuary and trustees.

An independent actuarial valuation of the Great North Eastern Railway Limited shared cost section of the above scheme was carried out by Watson Wyatt Partners as at 31 December 2004. As a result of the valuation the employer's contribution rate has increased to 15.84% and the employees' rate to 10.56%. These increased rates are expected to extend over the remainder of the Franchise period.

The assets of the Scheme are 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.

GREAT NORTH EASTERN RAILWAY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

52 weeks ended 6 January 2007

22. PENSION SCHEME (continued)

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.

As stated in note 2 Great North Eastern Railway Limited expects to transfer the operation of the franchise to a successor operator within the next twelve months. The company's only obligation in respect of the pension scheme is to pay the agreed contributions as they fall due. Consequently, at 6 January 2007, no amounts have been recognised on the balance sheet in respect of the pension scheme. At 7 January 2006, the deficit recognised in the balance sheet was £nil, as the deficit was not expected to be funded on an FRS 17 basis during the franchise term.

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

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 is to pay agreed contributions, the valuation has not been updated to 6 January 2007. 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

52 weeks ended 6 January 2007

22. 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		(78,131)		(13,833)		(16,123)
Less deficit attributable to members		31,252		5,493		6,408
Less franchise adjustment		46,879		7,500		7,394
		<u>-</u>		<u>(840)</u>		<u>(2,321)</u>
Company share of deficit		-		252		696
Related deferred tax asset		-		(588)		(1,625)
		<u><u>-</u></u>		<u><u>(588)</u></u>		<u><u>(1,625)</u></u>

GREAT NORTH EASTERN RAILWAY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

52 weeks ended 6 January 2007

22 PENSION SCHEME (continued)

AMOUNTS INCLUDED IN OPERATING PROFIT

	52 weeks ended 6 January 2007 £'000	52 weeks ended 7 January 2006 £'000
Current service cost	7,330	6,915
Total operating charge	<u>7,330</u>	<u>6,915</u>

AMOUNTS INCLUDED IN NET FINANCE INCOME

	52 weeks ended 6 January 2007 £'000	52 weeks ended 7 January 2006 £'000
Expected return on scheme assets	-	7,095
Interest on pension liabilities	-	(6,090)
Interest on franchise adjustment	-	354
Net finance return	<u>-</u>	<u>1,359</u>

ANALYSIS OF AMOUNT RECOGNISED IN STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	52 weeks ended 6 January 2007 £'000	52 weeks ended 7 January 2006 £'000
Actual return less expected return on assets	-	14,923
Experience gains and losses on liabilities	-	(19,265)
Experience gains and losses on franchise adjustment	-	42,644
Changes in assumptions	-	(34,180)
Actuarial gain recognised	<u>-</u>	<u>4,122</u>

GREAT NORTH EASTERN RAILWAY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

52 weeks ended 6 January 2007

22. 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 YEAR

	52 weeks ended 6 January 2007 £'000	52 weeks ended 7 January 2006 £'000
Opening share of deficit	-	(840)
Current service cost	(7,330)	(6,915)
Contributions	7,330	5,860
Net finance income	-	1,359
Actuarial gain	-	4,122
Share of opening deficit in new franchise	-	(3,586)
Closing share of deficit	-	-

GREAT NORTH EASTERN RAILWAY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

52 weeks ended 6 January 2007

23. GUARANTEE

The company has 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 is secured by a surety bond in the amount of £12,758,000, which Sea Containers Ltd has guaranteed.

As stated in note 2, the Department for Transport is now in the process of awarding the franchise to a new operator. Great North Eastern Railway Limited agreed to make a contribution towards the Department of Transport's costs when signing the Franchise Management Agreement. The cost of this contribution has been included in the operating costs of the business in 2006. No further claim is expected in relation to the costs of re-letting the Franchise but the guarantee remains in place in case of other material breaches of the Franchise Agreement.

24. CONTINGENT LIABILITY

Great North Eastern Railway Limited is part of the Sea Containers tax group. Great North Eastern Railway paid cash to another Sea Containers group company, Ferry & Port Holdings Limited, for group relief to settle its tax liability for 2003. HM Revenue & Customs is now disputing the validity of the group relief. If the challenge to the group relief were to be successful, an assessment for unpaid tax could be made against Great North Eastern Railway Limited. The directors estimate the amount of the liability including penalties and interest as approximately £6 million. A notice of dispute from HM Revenue and Customs has only recently been received by Ferry & Port Holdings Limited. The directors of Great North Eastern Railway Limited are currently considering this claim and it is therefore being treated as a contingent liability.

In the opinion of the directors, should the company eventually make a payment to HM Revenue and Customs in relation to this dispute, this would result in an adjustment to the exceptional charge relating to the transfer to the Franchise Management Agreement as disclosed in note 2. It would therefore not reduce the net assets available to the company as stated at 6 January 2007.

25. 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.

26. 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.

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.