

GREAT NORTH EASTERN RAILWAY LIMITED

Report and Financial Statements

52 Weeks ended 3 January 2004



GREAT NORTH EASTERN RAILWAY LIMITED

**REPORT AND FINANCIAL STATEMENTS FOR THE 52 WEEKS ENDED 3
JANUARY 2004**

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GREAT NORTH EASTERN RAILWAY LIMITED

REPORT AND FINANCIAL STATEMENTS FOR THE 52 WEEKS ENDED 3 JANUARY 2004

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

D G Benson
C W M Garnett
D J O'Sullivan

SECRETARY

J D Salter

REGISTERED OFFICE

Sea Containers House
20 Upper Ground
London
SE1 9PF

BANKERS

National Westminster Bank plc
City of London Office
P O Box 12264
3rd Floor
1 Princes Street
London
EC2R 8PB

The Royal Bank of Scotland plc
Corporate Banking Office
PO Box 450
5-10 Tower Street
London
EC3P 3HX

AUDITORS

Deloitte & Touche LLP
Chartered Accountants
London

GREAT NORTH EASTERN RAILWAY LIMITED

DIRECTORS' REPORT

The directors present their report and the audited financial statements for the 52 weeks ended 3 January 2004.

PRINCIPAL ACTIVITY AND BUSINESS DEVELOPMENTS

The principal activity of the company is the operation of passenger railway services. The company intends to continue similar operations in 2004.

In January 2004, the Strategic Rail Authority ("SRA") announced it would invite bids from all interested persons to operate the Inter City East Coast franchise currently operated by Great North Eastern Railway Limited (GNER) for a new term of seven to ten years after it expires in April 2005 and GNER plans to bid again for the franchise. There can be no assurance, however, that the franchise will be granted to GNER or offered on acceptable terms or that the terms of a new franchise will be as profitable for GNER as the existing one. Also, the willingness of the SRA to continue GNER as the franchisee may be affected by the pending dispute between the SRA and GNER described below.

On 17 October 2000 a Great North Eastern Railway train derailed near to Hatfield. Gauge corner cracking was identified as the cause of this incident and Network Rail Infrastructure Ltd (formerly Railtrack plc) imposed a number of speed restrictions on the UK rail network, resulting in the cancellation of services, extended delays and significant timetable adjustments to Great North Eastern Railway services. As a result, GNER made substantial claims against Network Rail Infrastructure Ltd. In December 2003, GNER and Network Rail Infrastructure Ltd reached agreement settling all GNER's claims arising out of the Hatfield derailment.

The SRA has separately claimed a portion of the compensation recognised by GNER in its settlement with Network Rail Infrastructure Limited. The SRA's claim amounts to about £25,000,000. GNER was advised by its legal counsel that GNER has no obligation to the SRA under its franchise agreement. If the parties do not reach agreement, the dispute between GNER and the SRA would be submitted to arbitration. Because these discussions may be unsuccessful and GNER may have to make payment to the SRA, the directors have recorded a liability in these accounts for this dispute.

A further accident occurred at Great Heck near Selby on 28 February 2001 caused by a Land Rover on the track resulting in the derailment of a train. All claims in relation to this incident have now been settled with the insurers of the Land Rover driver.

RESULTS, DIVIDEND AND TRANSFERS TO RESERVES

The company made a profit after taxation of £32,373,000 (52 weeks ended 4 January 2003: £41,209,000).

The directors do not recommend the payment of a final dividend. The total dividend paid during the year for the 52 weeks ended 3 January 2004 was £19,829,000. (52 weeks ended 4 January 2003: £45,500,000).

DIRECTORS AND THEIR INTERESTS

The directors who served during the period and to the date of these accounts were as follows:

D G Benson
C W M Garnett
D J O'Sullivan
M J L Stracey (resigned 13 October 2003)

None of the directors had any interests in the company's shares or those of its immediate parent company during the 52 weeks ended 3 January 2004. The interests of the directors in the shares of the ultimate parent company at the year end, Sea Containers Ltd, are not given as the company is a wholly owned subsidiary of a parent company incorporated outside Great Britain.

GREAT NORTH EASTERN RAILWAY LIMITED

DIRECTORS' REPORT (continued)

EMPLOYEES

GNER 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 no charitable donations during the 52 weeks ended 3 January 2004 (52 weeks ended 4 January 2003: £nil).

PAYMENT OF CREDITORS

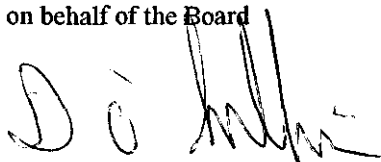
The company seeks to agree payment terms, which are normal for the industry with suppliers at the time of agreeing the terms of the transaction and seeks to make payment in accordance with those terms.

Creditor days at 3 January 2004 were 27 (4 January 2003: 27).

AUDITORS

On 1 August 2003, Deloitte & Touche, the Company's auditors transferred their business to Deloitte & Touche LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The Company's consent has been given to treating the appointment of Deloitte & Touche as extending to Deloitte & Touche LLP under the provisions of section 26(5) of the Companies Act 1989. A resolution to re-appoint Deloitte & Touche LLP as the Company's auditor will be proposed at the general meeting at which these accounts are presented.

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



D J O'Sullivan

Director

7 May 2004

GREAT NORTH EASTERN RAILWAY LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the system of internal control, 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 weeks ended 3 January 2004 which comprise the profit and loss account, the balance sheet, the statement of total recognised gains and losses, the statement of accounting policies and the related notes 1 to 24. These financial statements have been prepared under the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

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 if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the directors' report for the above period and consider the implications for our report if we become aware of any apparent misstatements.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

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

Fundamental uncertainty

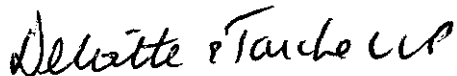
In forming our opinion, we have considered the accounting and disclosure for the Strategic Rail Authority ("SRA") claim and related matters referred to in note 3 to the accounts. The SRA has claimed a financial interest in the compensation recognised by GNER in its settlement with Network Rail Infrastructure Ltd. The SRA's claim amounts to about £25,000,000. GNER has been advised by its legal counsel that GNER has no obligation to the SRA for this claim under the franchise agreement. GNER and the SRA are currently engaged in discussions to resolve this dispute and the impact the resolution of this dispute will have on other related payments which may be due to the SRA. If the parties do not reach agreement, the dispute between GNER and the SRA would be submitted to arbitration. Because these discussions may be unsuccessful and GNER may have to make payments to the SRA, the directors have recorded a liability for the amount they believe will be payable in relation to these matters. The amount provided is considered to be commercially sensitive and in accordance with the provisions of FRS12 "Provisions, contingent liabilities and contingent assets" the amount has not been disclosed to avoid prejudicing the outcome of negotiations. Until these matters are resolved, it is not possible to quantify the effects, if any.

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

of the resolution of this significant uncertainty. In view of the significance of these matters we consider that they should be drawn to your attention but our opinion is not qualified in this respect.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 3 January 2004 and of its profit for the period then ended and have been properly prepared in accordance with the Companies Act 1985.



Deloitte & Touche LLP

Chartered Accountants and
Registered Auditors
London

7 May 2004

GREAT NORTH EASTERN RAILWAY LIMITED

PROFIT AND LOSS ACCOUNT

52 weeks ended 3 January 2004

	Note	52 weeks ended 3 January 2004 £'000	52 weeks ended 4 January 2003 £'000
TURNOVER	1		
Passenger income		381,460	362,016
Other operating income		47,623	48,434
		<u>429,083</u>	<u>410,450</u>
Operating expenditure (including exceptional income accounted for as compensation from Network Rail Infrastructure Ltd and provision for SRA claim- see note 3)	4	(384,054)	(353,199)
Profit from trading		45,029	57,251
Revenue grant		-	629
OPERATING PROFIT	4	<u>45,029</u>	<u>57,880</u>
Net interest receivable	5	927	909
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		<u>45,956</u>	<u>58,789</u>
Tax on profit on ordinary activities	6	(13,583)	(17,580)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION FOR THE FINANCIAL PERIOD		<u>32,373</u>	<u>41,209</u>
Dividends	7	(19,829)	(45,500)
Retained profit / (loss) transferred to reserves	18	<u>12,544</u>	<u>(4,291)</u>

All operations arise from continuing activities.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

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

GREAT NORTH EASTERN RAILWAY LIMITED

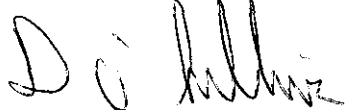
BALANCE SHEET

3 January 2004

	Note	3 January 2004 £'000	4 January 2003 £'000
FIXED ASSETS			
Tangible assets	9	10,845	11,980
Investments	10	-	-
		<u>10,845</u>	<u>11,980</u>
CURRENT ASSETS			
Stocks	11	4,225	4,624
Debtors	12	42,149	38,843
Cash at bank and in hand	13	56,284	39,694
		<u>102,658</u>	<u>83,161</u>
CREDITORS: amounts falling due within one year	15	<u>(99,774)</u>	<u>(93,447)</u>
NET CURRENT ASSETS / (LIABILITIES)		2,884	(10,286)
TOTAL ASSETS LESS CURRENT LIABILITIES		13,729	1,694
CREDITORS: amounts falling due after one year	16	<u>(816)</u>	<u>(1,325)</u>
NET ASSETS		<u>12,913</u>	<u>369</u>
CAPITAL AND RESERVES			
Called up share capital	17	277	277
Profit and loss account	18	12,636	92
TOTAL EQUITY SHAREHOLDER'S FUNDS	20	<u>12,913</u>	<u>369</u>

These financial statements were approved by the Board of Directors on 7 May 2004.

Signed on behalf of the Board of Directors



D J O'Sullivan

Director

GREAT NORTH EASTERN RAILWAY LIMITED

NOTES TO THE ACCOUNTS

52 weeks ended 3 January 2004

1. ACCOUNTING POLICIES

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

The financial statements are prepared under the historical cost convention.

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.

Revenue grant

The revenue grant relates to the support provided by the Office of the Passenger Rail Franchising for the operation of passenger services. This grant reduced to zero from April 2002.

Cash flow statement

A cash flow statement has not been produced as the company's ultimate parent undertaking, Sea Containers Limited, publishes a consolidated cashflow statement.

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 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.

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.

Deferred taxation

Deferred taxation is provided in full on all timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Pension costs

The Railways Pension Scheme provides pension benefits to the substantial majority of current employees on a defined benefit basis.

GREAT NORTH EASTERN RAILWAY LIMITED

NOTES TO THE ACCOUNTS

52 weeks ended 3 January 2004

The contributions to the pension scheme are paid in accordance with its rules. The charge to the profit and loss account reflects the regular service cost of such obligations.

2. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	52 weeks ended 3 January 2004 £'000	52 weeks ended 4 January 2003 £'000
Directors' remuneration		
Total emoluments for the period and emoluments of the highest paid director (excluding pension)	289	267
Total pension costs and pension costs in respect of the highest paid director	24	27
	<u>Number</u>	<u>Number</u>
Number of directors who are members of a defined benefit scheme	<u>1</u>	<u>1</u>

The remaining 3 directors are remunerated through other group companies and the remuneration and pension disclosures for these directors can be found in the relevant financial statements.

The amount of the accrued pension of the highest paid director at 3 January 2004 was £32,476 (4 January 2003: £27,257).

Employees	Number	Number
Average number of persons employed in the period		
Operations	2,365	2,381
Ticket Retailing	323	341
Administration	319	314
	<u>3,007</u>	<u>3,036</u>
Staff costs incurred during the period in respect of these employees were:	£'000	£'000
Wages and salaries	72,201	71,636
Social security costs	5,551	5,143
Other pension costs	3,312	-
	<u>81,064</u>	<u>76,779</u>

3. INCIDENT RELATED CLAIMS

As a result of various incidents including those at Hatfield and Selby and gauge corner cracking, Great North Eastern Railway Limited ("GNER") made several substantial claims against Network Rail Infrastructure Ltd (formerly Railtrack plc), various insurers and other parties involved. GNER withheld payment of certain Network Rail Infrastructure Ltd invoices during 2001 and 2002. Full contractual payments by both parties resumed from March 2002. In December 2003 GNER and Network Rail Infrastructure Ltd reached agreement settling all GNER's claims arising out of the Hatfield incident and relieving GNER from any obligation to repay amounts previously withheld, other than £4,500,000 of track access charges over withheld.

GREAT NORTH EASTERN RAILWAY LIMITED

NOTES TO THE ACCOUNTS

52 weeks ended 3 January 2004

3. INCIDENT RELATED CLAIMS (Continued)

The Strategic Rail Authority ("SRA") has claimed a financial interest in the compensation recognised by GNER in its settlement with Network Rail Infrastructure Ltd. The SRA's claim amounts to about £25,000,000. GNER has been advised by its legal counsel that GNER has no obligation to the SRA for this claim under the franchise agreement. GNER and the SRA are currently engaged in discussions to resolve this dispute and the impact the resolution of this dispute will have on other related payments which may be due to the SRA. If the parties do not reach agreement, the dispute between GNER and the SRA would be submitted to arbitration. Because these discussions may be unsuccessful and GNER may have to make payments to the SRA, the directors have recorded a liability for the amount they believe will be payable in relation to these matters. The amount provided is considered to be commercially sensitive and in accordance with the provisions of FRS12 "Provisions, contingent liabilities and contingent assets" the amount has not been disclosed to avoid prejudicing the outcome of negotiations.

The separate claims against the insurers of the driver of the Land Rover involved in the Selby incident have also been settled during the year.

4. OPERATING PROFIT

	52 weeks ended 3 January 2004 £'000	52 weeks ended 4 January 2003 £'000
Operating profit is after charging/(crediting):	2004	2003
Access charges	100,510	93,775
Rentals under operating leases:		
Rolling stock	62,872	59,876
Other plant and equipment	262	470
Property leases	1,026	663
Depot/station leases	3,244	3,220
Depreciation – owned assets	2,524	1,325
Depreciation – assets held under finance leases	1,045	880
Rents receivable	(3,004)	(2,888)

The audit fee for the 52 weeks ended 3 January 2004 and for the preceding financial period was borne by the ultimate parent company.

Analysis by activity of turnover and profit before interest and tax:

	52 weeks ended 3 January 2004		52 weeks ended 4 January 2003	
	Turnover	Operating Profit	Turnover	Operating Profit
	£'000	£'000	£'000	£'000
Passenger income and other services	413,448	44,360	395,631	56,547
Train maintenance	15,635	669	14,819	1,333
	<u>429,083</u>	<u>45,029</u>	<u>410,450</u>	<u>57,880</u>

Turnover originates wholly in the U.K.

GREAT NORTH EASTERN RAILWAY LIMITED

NOTES TO THE ACCOUNTS

52 weeks ended 3 January 2004

5. NET INTEREST

	52 weeks ended 3 January 2004 £'000	52 weeks ended 4 January 2003 £'000
Interest payable and similar charges	429	325
Less: Interest receivable and similar income	(1,356)	(1,234)
	<u>(927)</u>	<u>(909)</u>

	52 weeks ended 4 January 2003 £'000	52 weeks ended 4 January 2003 £'000
<u>Interest payable and similar charges</u>		
Bank loans	31	-
Finance leases	229	162
Performance bond	155	163
Other interest	14	-
	<u>429</u>	<u>325</u>

6. TAX ON PROFIT ON ORDINARY ACTIVITIES

	52 weeks ended 4 January 2003 £'000	52 weeks ended 4 January 2003 £'000
UK corporation tax 30% (52 weeks ended 4 January 2003: 30%)	13,756	17,460
Adjustment in respect of prior periods	448	120
Total current tax charge	14,204	17,580
Deferred tax	(621)	-
	<u>13,583</u>	<u>17,580</u>

GREAT NORTH EASTERN RAILWAY LIMITED

NOTES TO THE ACCOUNTS

52 weeks ended 3 January 2004

6. TAX ON PROFIT ON ORDINARY ACTIVITIES (continued)

The differences between the current tax credit shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows :

	52 weeks ended 3 January 2004 £'000	52 weeks ended 4 January 2003 £'000
Profit on ordinary activities before tax	45,956	58,789
Tax on profit on ordinary activities at 30%	13,787	17,637
Factors affecting the charge for the period :		
Capital allowances for the period less than / (in excess of) depreciation	139	(257)
Other timing differences	(179)	72
Expenses not deductible for tax purposes	9	8
Adjustments to tax charge in respect of prior periods	448	120
Total amount of current tax	14,204	17,580

7. DIVIDENDS

	52 weeks ended 3 January 2004 £'000	52 weeks ended 4 January 2003 £'000
Paid - £71.58 per ordinary share (52 weeks ended 4 January 2003: £97.29 per ordinary share)	19,829	26,900
Proposed - £nil per ordinary share (52 weeks ended 4 January 2003: £67.27 per ordinary share)	-	18,600
Total paid and proposed £71.58 per ordinary share (52 weeks ended 4 January 2003: £164.56 per ordinary share)	19,829	45,500

8. OPERATING AND OTHER LEASE COMMITMENTS

The company has signed contracts with Network Rail Infrastructure Ltd for access to the railway infrastructure (track, station and depots). These contracts are for a period of 8 years and consist of fixed and variable charges. They may be terminated by joint agreement between the company and Network Rail Infrastructure Ltd. The company is committed to pay a fixed charge of £80.0m for the 53 weeks ending 8 January 2005, including £12.6m in respect of station and depot leases. This will decrease in 2005 as a full year's impact of the reduction due the regulatory review will be included. The variable charges cover track usage and traction current and are primarily dependent on train miles run.

The company has signed contracts, which commit it to lease rolling stock from HSBC Rail (UK) Limited and Angel Train Contracts Limited until April 2005.

These contracts can be terminated by agreement with the relevant rolling stock company.

GREAT NORTH EASTERN RAILWAY LIMITED

NOTES TO THE ACCOUNTS

52 weeks ended 3 January 2004

8. OPERATING AND OTHER LEASE COMMITMENTS (Continued)

The company has the following annual commitments due under operating leases:

	Rolling stock £'000	Property £'000	Other £'000
Leases which expire:			
Within one year	-	-	-
Within two to five years	68,208	780	364
	<u>68,208</u>	<u>780</u>	<u>364</u>

GREAT NORTH EASTERN RAILWAY LIMITED

NOTES TO THE ACCOUNTS

52 weeks ended 3 January 2004

9. TANGIBLE FIXED ASSETS

	Buildings- short leasehold £'000	Plant and machinery £'000	Assets under construction £'000	Total £'000
Cost				
At 5 January 2003	4,573	12,217	1,306	18,096
Additions	56	358	2,478	2,892
Disposals	-	(13)	(427)	(440)
Funded disposals	-	-	(25)	(25)
Transfers	174	608	(782)	-
	<u>4,803</u>	<u>13,170</u>	<u>2,550</u>	<u>20,523</u>
At 3 January 2004				
Accumulated depreciation				
At 5 January 2003	1,035	5,081	-	6,116
Charge for the period	780	2,789	-	3,569
Disposals	-	(7)	-	(7)
	<u>1,815</u>	<u>7,863</u>	<u>-</u>	<u>9,678</u>
At 3 January 2004				
Net book value				
At 3 January 2004	<u>2,988</u>	<u>5,307</u>	<u>2,550</u>	<u>10,845</u>
At 4 January 2003	<u>3,538</u>	<u>7,136</u>	<u>1,306</u>	<u>11,980</u>

Assets under construction relates to various station and other capital improvement projects, some of which are the subject of negotiation with Network Rail Infrastructure Ltd with regard to funding. Funded disposals relate to assets for which final agreements have been negotiated with Network Rail Infrastructure Ltd for which ownership is transferred. Transfers relate to the capitalisation of assets under construction. The assets under construction balance of £2,550,000 at 3 January 2004 represents ongoing capital projects.

The net book value of the company's plant and machinery includes £1,597,000 (4 January 2003: £2,549,000) in respect of assets held under finance leases.

10. 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.

GREAT NORTH EASTERN RAILWAY LIMITED

NOTES TO THE ACCOUNTS

52 weeks ended 3 January 2004

11. STOCKS

	3 January 2004 £'000	4 January 2003 £'000
Raw materials and consumables	4,225	4,597
Work-in-progress	-	27
	<u>4,225</u>	<u>4,624</u>

12. DEBTORS

	3 January 2004 £'000	4 January 2003 £'000
Trade debtors	24,187	24,399
Amounts owed by group undertakings	2,020	1,345
Other debtors	5,672	4,462
Prepayments and accrued income	9,649	8,637
Deferred taxation	621	-
	<u>42,149</u>	<u>38,843</u>

13. CASH AT BANK AND IN HAND

	3 January 2004 £'000	4 January 2003 £'000
Cash at bank and in hand	53,266	36,863
Season ticket bond deposit	3,018	2,831
	<u>56,284</u>	<u>39,694</u>

GREAT NORTH EASTERN RAILWAY LIMITED

NOTES TO THE ACCOUNTS

52 weeks ended 3 January 2004

14. DEFERRED TAXATION

The amounts of deferred tax asset provided in the accounts are :

	3 January 2004 £'000	4 January 2003 £'000
Deferred taxation asset b/fwd	-	-
Depreciation in excess of capital allowances	13	-
Other timing differences	608	-
	<hr/>	<hr/>
Deferred taxation asset c/fwd	621	-
	<hr/> <hr/>	<hr/> <hr/>

15. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	3 January 2004 £'000	4 January 2003 £'000
Overdrafts and bank loans	361	-
Obligations under finance leases and hire purchase contracts	1,272	1,010
Trade creditors	37,681	36,166
Amounts owed to group undertakings	3,853	1,948
Dividends payable	-	18,600
Taxation and social security	3,447	3,104
Other creditors (see note 3)	36,534	16,846
Accruals and deferred income	16,626	15,773
	<hr/>	<hr/>
	99,774	93,447
	<hr/> <hr/>	<hr/> <hr/>

16. CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR

	3 January 2004 £'000	4 January 2003 £'000
Bank Loan	226	-
Obligations under finance leases and hire purchase contracts - between one and two years	590	1,010
- between two and five years	-	315
	<hr/>	<hr/>
	816	1,325
	<hr/> <hr/>	<hr/> <hr/>

GREAT NORTH EASTERN RAILWAY LIMITED

NOTES TO THE ACCOUNTS 52 weeks ended 3 January 2004

17. CALLED UP SHARE CAPITAL

	3 January 2004 £'000	4 January 2003 £'000
Authorised:		
17,750,000 Ordinary shares of £1 each	17,750	17,750
Called up, allotted and fully paid:		
276,501 Ordinary shares of £1 each	277	277

18. RESERVES

	Profit and loss account £'000
At 5 January 2003	92
Profit for the financial period	12,544
At 3 January 2004	12,636

19. CAPITAL COMMITMENTS

	3 January 2004 £'000	4 January 2003 £'000
Expenditure contracted for but not provided	474	150

20. RECONCILIATION OF MOVEMENTS IN SHAREHOLDER'S FUNDS

	52 weeks ended 3 January 2004 £'000	52 weeks ended 4 January 2003 £'000
Profit for the financial period	32,373	41,209
Dividends	(19,829)	(45,500)
Net increase/(reduction) in equity shareholder's funds	12,544	(4,291)
Opening equity shareholder's funds	369	4,660
Closing equity shareholders' funds	12,913	369

21. PENSION SCHEMES

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.

An independent actuarial valuation of the Great North Eastern Railway shared cost section of the above scheme was carried out by Watson Wyatt Partners as at 31 December 2001. The valuation assumes that contributions will be at a rate of 7.5% for employers from March 2003 until September 2003 and 5% for members until September 2003, and will then revert to the normal joint rate.

GREAT NORTH EASTERN RAILWAY LIMITED

NOTES TO THE ACCOUNTS

52 weeks ended 3 January 2004

21. PENSION SCHEMES (continued)

Pension increases are guaranteed index-linked whilst salary increases have been assumed to be in line with forecast inflation of 2.5%.

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 discloses a funding level of 97.4% and a deficit of £4.3m and values the assets at £162.3m.

The amount charged to the profit and loss account for the 52 weeks ended 3 January 2004 was £3.3m (52 weeks ended 5 January 2003: £nil).

In 2002 the normal pension cost charge was offset by the employer pension contribution holiday effective from 1 September 2000 to 28 February 2003.

FRS 17

The Railway Pension Scheme is a multi-employer scheme. However, since the assets and liabilities of the GNER section are separately identifiable, we have been required to present the full FRS 17 transitional disclosures below. GNER's main obligation in respect of the RPS is to pay contributions as agreed with the scheme actuary and trustees. The directors and trustees have increased contribution rates, as part of a range of measures to address the deficit. However, these measures will extend over a number of years, beyond the end of the current franchise, which expires in April 2005. GNER has no obligations in relation to the pension scheme, beyond the end of its current franchise and any increased pension contributions will be considered when negotiating a new franchise agreement.

In November 2000 the Accounting Standards Board issued FRS 17 'Retirement Benefits' replacing SSAP 24 'Accounting for Pensions Costs'. The full implementation of FRS 17 has now been deferred until 2005, but certain disclosures are required in the transition period, for periods ending on or after 22 June 2001. These further disclosures are included below.

A full actuarial valuation was carried out by Watson Wyatt Partners as at 31 December 2001 and updated to 3 January 2004 by Mercer Human Resources. The major assumptions used by the actuary were (in nominal terms):

	At 3 January 2004	At 4 January 2003	At 5 January 2002
Rate of increase in salaries	3.25%	3%	4%
Rate of increase of pensions in payment and deferment	2.75%	2.2%	2.5%
Discount rate	5.4%	5.6%	5.75%
Inflation assumption	2.75%	2.2%	2.5%

GREAT NORTH EASTERN RAILWAY LIMITED

NOTES TO THE ACCOUNTS
52 weeks ended 3 January 2004

21. PENSION SCHEMES (continued)

The assets and liabilities of the GNER section of the Railways Pension Scheme at 3 January 2004 are shown below:

	Expected rate of return at 3 January 2004	3 January 2004 £'000	Expected rate of return at 4 January 2003	4 January 2003 £'000	Expected rate of return at 5 January 2002	5 January 2002 £'000
Equities	7.25%	136,935	7.0%	114,555	7.3%	149,600
Bonds	5.4%	14,879	5.6%	10,857	5.75%	12,700
Cash and other assets	4.0%	608	4.0%	822	4.0%	500
		<u>152,422</u>		<u>126,234</u>		<u>162,800</u>
Actuarial value of liabilities		<u>(168,545)</u>		<u>(135,009)</u>		<u>(154,467)</u>
(Deficit) / Surplus in the Scheme attributable to members		<u>(16,123)</u> 6,408		<u>(8,775)</u> 3,510		<u>8,333</u> (3,333)
Company share of (deficit) / surplus Related deferred tax liability		<u>(9,715)</u> 2,915		<u>(5,265)</u> 1,580		<u>5,000</u> (1,500)
		<u>(6,800)</u>		<u>(3,685)</u>		<u>3,500</u>

The deficit shown above is the company's share of the deficit, which, in accordance with the scheme rules, represents 60% of the total scheme deficit identified by Mercer Human Resources.

As noted above, the company enjoyed a pensions contribution holiday during 2002. This ended on 28 February 2003, as part of a range of measures to address the deficit.

The employees' share is also being addressed by increased rates for employee contributions.

Had the company adopted FRS 17 early, profit and loss reserves would have been stated as follows:

	3 January 2004 £'000	4 January 2003 £'000
Profit and loss reserves in the financial statements as at year end	12,636	92
(Deficit) /surplus in relation to the GNER section of the Railways Pension Scheme	<u>(6,800)</u>	<u>(3,685)</u>
Profit and loss reserves as adjusted	<u>5,836</u>	<u>(3,593)</u>

GREAT NORTH EASTERN RAILWAY LIMITED

NOTES TO THE ACCOUNTS

52 weeks ended 3 January 2004

21. PENSION SCHEMES (continued)

AMOUNTS INCLUDED IN OPERATING PROFIT

	52 weeks ended 3 January 2004 £'000	52 weeks ended 4 January 2003 £'000
Current Service Cost	3,961	4,879
Past Service Cost	-	-
Total Operating Charge	<u>3,961</u>	<u>4,879</u>

AMOUNTS INCLUDED IN OTHER FINANCE INCOME

	52 weeks ended 3 January 2004 £'000	52 weeks ended 4 January 2003 £'000
Expected return on scheme assets	5,164	6,911
Interest on pension liabilities	(4,536)	(5,382)
Net finance return	<u>628</u>	<u>1,529</u>

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

	52 weeks ended 3 January 2004 £'000	52 weeks ended 4 January 2003 £'000
Actual return less expected return on assets	11,464	(26,287)
Experience gains and losses on liabilities	(866)	8,123
Changes in assumptions	(14,740)	11,840
Actuarial loss recognised	<u>(4,142)</u>	<u>(6,324)</u>

GREAT NORTH EASTERN RAILWAY LIMITED

NOTES TO THE ACCOUNTS 52 weeks ended 3 January 2004

21. PENSION SCHEMES (continued)

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

	52 weeks ended 3 January 2004 £'000	52 weeks ended 3 January 2004 £'000
Difference between expected and actual returns on scheme assets	11,464	(26,287)
Percentage of scheme assets	8%	(21%)
Experience gains and losses on scheme liabilities	(866)	8,123
Percentage of scheme liabilities	(1%)	6%
Total actuarial gain or loss recognised in the statement of total recognised gains and losses	(4,142)	(6,324)
Percentage of scheme liabilities	(2%)	(5%)

ANALYSIS OF THE MOVEMENT IN THE SCHEME (DEFICIT) / SURPLUS DURING THE YEAR

	52 weeks ended 3 January 2004 £'000	52 weeks ended 4 January 2003 £'000
Opening (deficit) / surplus in the scheme	(5,265)	5,000
Current service cost	(3,961)	(4,879)
Contributions / (Employer share of surplus refund)	3,025	(591)
Net return on assets	628	1,529
Actuarial loss	(4,142)	(6,324)
Closing deficit in the scheme	(9,715)	(5,265)

22. GUARANTEE

GNER has undertaken since 1996 to reimburse the SRA its costs in the event GNER breaches its franchise agreement to the extent that the SRA must award the franchise to another operator. This undertaking is secured by a surety bond issued by an insurance company in the amount of £17,750,000, which the company has guaranteed.

23. 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.

GREAT NORTH EASTERN RAILWAY LIMITED

NOTES TO THE ACCOUNTS

52 weeks ended 3 January 2004

24. ULTIMATE PARENT COMPANY

The company's ultimate parent holding company and controlling party is Sea Containers Ltd, a company incorporated in Bermuda. Copies of its accounts can be obtained from the company's registered office at 22 Victoria Street, 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.