

Signed /

Company No. 2938984

GREAT NORTH EASTERN RAILWAY LIMITED

(previously INTERCITY EAST COAST LIMITED)

REPORT AND FINANCIAL STATEMENTS

4 January 1997



GREAT NORTH EASTERN RAILWAY LIMITED
(previously INTERCITY EAST COAST LIMITED)

REPORT AND FINANCIAL STATEMENTS FOR THE PERIOD 1 APRIL 1996
TO 4 JANUARY 1997

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GREAT NORTH EASTERN RAILWAY LIMITED
(previously INTERCITY EAST COAST LIMITED)

DIRECTORS' REPORT

The directors present their report and the audited financial statements for the period 1 April 1996 to 4 January 1997.

1. PRINCIPAL ACTIVITY

On 28 April 1996 the share capital of the Company was acquired by Great Northern Railways Limited.

The principal activity of the Company is the operation of passenger railway services. The Company intends to continue similar operations in 1997.

On 22 October 1996 the Company changed its name to Great North Eastern Railway Limited.

2. RESULTS, DIVIDEND AND TRANSFERS TO RESERVES

The Company made a loss on operations of £5,814,000 after charging voluntary severance payments of £5,457,000.

The Directors do not recommend the payment of a dividend for the period 1 April 1996 to 4 January 1997 (Year to 31 March 1996 : £nil).

The loss of £5,814,000 was transferred to reserves (Year to 31 March 1996 : profit of £14,463,000).

3. AUDITORS

Price Waterhouse resigned as auditors at the AGM held on 31 January 1997.

Deloitte & Touche were appointed as auditors at the AGM. They have expressed their willingness to continue in office as auditors of the Company and their reappointment will be proposed at the general meeting at which these accounts are laid.

GREAT NORTH EASTERN RAILWAY LIMITED
(previously INTERCITY EAST COAST LIMITED)

DIRECTORS' REPORT

4. DIRECTORS AND THEIR INTERESTS

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

	Date of Appointment	Date of Resignation
D G Benson	28 April 1996	
C W M Garnett	28 April 1996	
D J O'Sullivan	28 April 1996	
M J L Stracey	28 April 1996	
P King		28 April 1996
B R Burdsall		28 April 1996
C R B Goldson		28 April 1996
P Pacey		28 April 1996
M Wright		28 April 1996

None of the directors had any interests in the Company's shares or those of its immediate parent company during the period 1 April 1996 to 4 January 1997.

5. EMPLOYEES

Great North Eastern Railway Ltd 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
(previously INTERCITY EAST COAST LIMITED)

DIRECTORS' REPORT

6. CHARITABLE CONTRIBUTIONS

The Company made no charitable donations during the period from 1 April 1996 to 4 January 1997 (Year to 31 March 1996 : £10,700).

No political contributions were made by the Company during the period from 1 April 1996 to 4 January 1997 (Year to 31 March 1996 : £nil).

On behalf of the Directors.



D. J. O'Sullivan
Secretary

30 April, 1997

GREAT NORTH EASTERN RAILWAY LIMITED
(previously INTERCITY EAST COAST LIMITED)

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each 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 a 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 safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

GREAT NORTH EASTERN RAILWAY LIMITED
(previously INTERCITY EAST COAST LIMITED)

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

We have audited the financial statements on pages 8 to 20 which have been prepared under the accounting policies set out on pages 10 and 11.

Respective responsibilities of directors and auditors

As described on page 6, the Company's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with 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 circumstances of the Company, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company as at 4 January 1997 and of its loss for the period from 1 April 1996 to 4 January 1997 and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

DELOITTE & TOUCHE

Chartered Accountants and Registered Auditors
Hill House
1 Little New Street
London
EC4A 3TR

30 April, 1997

GREAT NORTH EASTERN RAILWAY LIMITED
(previously INTERCITY EAST COAST LIMITED)

PROFIT AND LOSS ACCOUNT
Period from 1 April 1996 to 4 January 1997

	Note	Period ended 4 January 1997 £000	Year ended 31 March 1996 £000
Turnover	1 (b)		
Passenger income		194,655	235,912
Other income		<u>35,919</u>	<u>42,856</u>
		230,574	278,768
Operating Expenditure		<u>(280,763)</u>	<u>(345,354)</u>
Loss from trading		(50,189)	(66,586)
Revenue grant	1 (c)	49,815	84,241
 		-----	-----
Loss/(Profit) on operations before exceptional items		(374)	17,655
Exceptional items	4	(5,457)	(2,314)
 		-----	-----
(Loss)/Profit on operations before interest and tax		(5,831)	15,341
Net interest receivable/(payable) and similar charges	6	17	(878)
 		-----	-----
(Loss)/ Profit on ordinary activities before taxation	5 (a)	(5,814)	14,463
Tax on (Loss)/Profit on ordinary activities	7	0	0
 		-----	-----
(Loss)/ Profit on ordinary activities after taxation		<u>(5,814)</u>	<u>14,463</u>

All activities derive from continuing operations.

There are no other recognised gains or losses other than the loss for the period ended 4 January 1997.

A reconciliation of the movement in shareholders funds is given in note 21.

The notes on pages 10 to 20 form part of these accounts.

GREAT NORTH EASTERN RAILWAY LIMITED
(previously INTERCITY EAST COAST LIMITED)

BALANCE SHEET

As at 4 January 1997

	Note	4 January 1997		31 March 1996	
		£000	£000	£000	£000
FIXED ASSETS					
Tangible assets	9	1,349		731	
Investments	10	0		0	
		<hr/>	1,349	<hr/>	731
CURRENT ASSETS					
Stocks	11	3,574		2,975	
Debtors	12	31,420		32,674	
Cash at bank and in hand	13	6,940		14,033	
		<hr/>	41,934	<hr/>	49,682
CREDITORS : Amounts falling due within one year	14		(47,815)		(49,061)
NET CURRENT (LIABILITIES)/ASSETS			(5,881)		621
TOTAL ASSETS LESS CURRENT LIABILITIES			<hr/>	<hr/>	1,352
CREDITORS : Amounts falling due after more than one year	15		(4)		(351)
			<hr/>	<hr/>	1,001
CAPITAL AND RESERVES					
Called up share capital	16 (a)		250		0
Share Premium	16 (b)		27		0
Profit and loss account	17		(4,813)		1,001
Equity shareholders' funds			<hr/>	<hr/>	1,001
			<hr/>	<hr/>	

These financial statements were approved at a meeting of the Board of Directors held on 30 April, 1997.

Signed on behalf of the Board of Directors.

D. J. O'SULLIVAN

Director



GREAT NORTH EASTERN RAILWAY LIMITED
(previously INTERCITY EAST COAST LIMITED)

NOTES TO THE ACCOUNTS
Period from 1 April 1996 to 4 January 1997

1. ACCOUNTING POLICIES

The financial statements have been prepared in accordance with applicable accounting standards. The particular accounting policies adopted are described below.

(a) Accounting convention

The financial statements, which comprise the financial statements of the Company are prepared under the historical cost convention.

(b) Turnover

- (i) 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.

- (ii) Other income relates to the provision of ancillary services to external parties.

(c) 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 is accounted for in accordance with SSAP4, being recognised in the same period as the expenditure to which it relates. This grant reduces to zero over the seven years of the franchise.

(d) 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 so as to write off the assets over their estimated useful lives commencing in the year following acquisition. The principal asset lives used are set out below :

Plant & Machinery 3 - 20 years

Buildings on short term lease 2 - 10 years

GREAT NORTH EASTERN RAILWAY LIMITED
(previously INTERCITY EAST COAST LIMITED)

NOTES TO THE ACCOUNTS
Period from 1 April 1996 to 4 January 1997

1. ACCOUNTING POLICIES (continued)

(e) Leased Assets

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.

(f) Investments

Investments held as fixed assets are stated at cost.

(g) Stocks

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

(h) Taxation

Deferred taxation is provided at the anticipated tax rates on timing differences arising from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements, to the extent that it is probable that a liability or asset will crystallise in the future.

(i) Pension Costs

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

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 less a proportion of any actuarial surpluses, calculated across the scheme as a whole. These surpluses are credited over the estimated average remaining service lives of employees in the scheme.

GREAT NORTH EASTERN RAILWAY LIMITED
(previously INTERCITY EAST COAST LIMITED)

NOTES TO THE ACCOUNTS

Period from 1 April 1996 to 4 January 1997

2. ULTIMATE PARENT COMPANY

Prior to 28 April 1996, InterCity East Coast Ltd was a subsidiary of the British Railways Board.

From 28 April 1996, the Company's ultimate parent holding Company is Sea Containers Ltd., a Company incorporated in Bermuda. Copies of its accounts can be obtained from the company's registered office at 41 Cedar Avenue Hamilton Bermuda. The immediate parent Company is GNER Holdings Ltd 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. Ltd 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.

3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

The emoluments of the directors of the Company totalled £97,200, including pension contributions, for the period ended 4 January 1997. (Year to 31 March 1996 : £129,000)

The emoluments, excluding pension contributions, of the highest paid director were £80,000 (Year to 31 March 1996 : £81,000). The emoluments of the chairman were £nil (Year to 31 March 1996 : £nil). The emoluments of the other directors fell within the following bands :

	Period ended 04.01.97	Year ended 31.03.96
£0 - £5000	7	5
£40,001 - £45,000	-	1
	<hr style="width: 100%;"/>	<hr style="width: 100%;"/>
Employee costs for the period were as follows :	£000	£000
Wages and salaries	37,732	49,494
Social security costs	2,900	3,790
Other pensions costs	1,044	968
	<hr style="width: 100%;"/>	<hr style="width: 100%;"/>
	41,676	54,252
	<hr style="width: 100%;"/>	<hr style="width: 100%;"/>
	No.	No.
Average number of employees	2,755	2,897
	<hr style="width: 100%;"/>	<hr style="width: 100%;"/>

GREAT NORTH EASTERN RAILWAY LIMITED
(previously INTERCITY EAST COAST LIMITED)

NOTES TO THE ACCOUNTS
Period from 1 April 1996 to 4 January 1997

4. EXCEPTIONAL ITEMS

The following exceptional items have been included in arriving at the operating (loss)/profit before tax.

	Period ended	Year ended
	04.01.97	31.03.96
	£000	£000
Cost of voluntary severance schemes	5,457	1,779
Privatisation costs	0	535
	<u>5,457</u>	<u>2,314</u>

5. TURNOVER AND (LOSS)/ PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

(a) (Loss)/Profit on ordinary activities before taxation is after charging/(crediting) :

Access charges	109,383	151,777
Rentals under operating leases :		
Rolling Stock	41,520	53,549
Other plant and equipment	77	35
Depreciation	147	293
Auditors remuneration	0	38
Rents receivable	(1,584)	(1,427)

The audit fee for the period ended 4 January 1997 is borne by the ultimate parent company.

GREAT NORTH EASTERN RAILWAY LIMITED
(previously INTERCITY EAST COAST LIMITED)

NOTES TO THE ACCOUNTS
Period from 1 April 1996 to 4 January 1997

(b) Analysis of turnover and loss by activity before interest and tax.

	Period to 4 January 1997		Year to 31 March 1996	
	Turnover £000	Profit / (Loss) £000	Turnover £000	Profit/(Loss) £000
Passenger services	205957	(2,815)	255,020	17,895
Train Maintenance	15,302	935	11,914	1,058
Catering	9,315	(3,951)	11,834	(3,612)
	<u>230,574</u>	<u>(5,831)</u>	<u>278,768</u>	<u>15,341</u>

Turnover originates wholly in the U.K.

6. NET INTEREST RECEIVABLE / (PAYABLE) AND SIMILAR CHARGES

	Period Ended 04.01.97 £000	Year Ended 31.03.96 £000
Interest Receivable		
Bank deposits and short term loans	289	10
Group and fellow subsidiary undertakings	-	87
Interest Payable		
Loans and bank overdrafts wholly repayable within five years	(271)	(974)
Finance charges - finance leases	<u>(1)</u>	<u>(1)</u>
NET INTEREST RECEIVABLE /(PAYABLE)	<u>17</u>	<u>(878)</u>

GREAT NORTH EASTERN RAILWAY LIMITED
(previously INTERCITY EAST COAST LIMITED)

NOTES TO THE ACCOUNTS
Period from 1 April 1996 to 4 January 1997

7. **TAX ON (LOSS)/ PROFIT ON ORDINARY ACTIVITIES**

	Period Ended	Year Ended
	04.01.97	31.03.96
	£000	£000
Provision for U.K Corporation Tax based at 33% (Year to 31 March 1996 33%)	0	4657
less Group relief	<u> </u>	<u>(4657)</u>
	<u>NIL</u>	<u>NIL</u>

The loss for the year will be carried forward. There are no timing differences on which Deferred Tax should be provided

8. **OPERATING AND OTHER LEASE COMMITMENTS**

The Company has signed contracts with Railtrack 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 Railtrack. The Company is committed to pay a fixed charge of £147.1m for the year ending 4 January 1998 and thereafter it will be indexed annually by a percentage equal to RPI minus 2%. 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 Eversholt Leasing Limited and Angel Train Contracts Limited over the next 7 years. These contracts can be terminated by agreement with the relevant rolling stock Company.

The Company has the following annual commitments due under operating leases which expire as follows:

	Rolling Stock	Other
	£000	£000
Under one year	0	0
Between one and five years	0	100
Five years and over	<u>54,100</u>	<u>0</u>
	<u>54,100</u>	<u>100</u>

GREAT NORTH EASTERN RAILWAY LIMITED
(previously INTERCITY EAST COAST LIMITED)

NOTES TO THE ACCOUNTS
Period from 1 April 1996 to 4 January 1997

9. TANGIBLE FIXED ASSETS

	Assets Under Construction £000	Plant and Owned £000	Machinery Leased £000	Buildings Short Leasehold £000	Total £000
Cost at 1 April 1996	-	1,472	33	44	1,549
Additions	572	194	-	4	770
Disposals	-	(26)	-	-	(26)
Cost at 4 January 1997	<u>572</u>	<u>1,640</u>	<u>33</u>	<u>48</u>	<u>2,293</u>
Accumulated Depreciation at 1 April 1996	-	785	33	-	818
Charge for the year	-	143	-	4	147
Disposals	-	(21)	-	-	(21)
Accumulated Depreciation at 4 January 1997	<u>-</u>	<u>907</u>	<u>33</u>	<u>4</u>	<u>944</u>
Net book value at 4 January 1997	<u>572</u>	<u>733</u>	<u>-</u>	<u>44</u>	<u>1,349</u>
Net book value at 31 March 1996	<u>-</u>	<u>687</u>	<u>-</u>	<u>44</u>	<u>731</u>

GREAT NORTH EASTERN RAILWAY LIMITED
(previously INTERCITY EAST COAST LIMITED)

NOTES TO THE ACCOUNTS
Period from 1 April 1996 to 4 January 1997

10. INVESTMENTS

In accordance with a Direction from the Secretary of State for Transport a 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 Ltd	4
Rail Settlement Plan Ltd	4
Rail Staff Travel Ltd	4

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

11. STOCKS

	04.01.97	31.03.96
	£000	£000
Raw materials and consumables	3,540	2,844
Work in progress	34	131
	3,574	2,975
	3,574	2,975

12. DEBTORS

Trade debtors	7,147	12,129
Amounts due from group undertakings	-	11,145
Other debtors	17,547	7,610
Prepayments and accrued income	6,726	1,790
	31,420	32,674
	31,420	32,674

GREAT NORTH EASTERN RAILWAY LIMITED
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NOTES TO THE ACCOUNTS
Period from 1 April 1996 to 4 January 1997

13. CASH AT BANK AND IN HAND

	04.01.97	31.03.96
	£000	£000
Cash at bank and in hand	4,640	14,033
Season ticket bond deposit	<u>2,300</u>	<u>0</u>
	<u>6,940</u>	<u>14,033</u>

14. CREDITORS : AMOUNTS FALLING DUE WITHIN ONE YEAR

Trade creditors	22,449	21,193
Amounts due to group undertakings	3,223	19,351
Other creditors	10,600	4,263
Taxation and social security	3,372	1,230
Accruals and deferred income	8,171	3,024
	<u>47,815</u>	<u>49,061</u>

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

Obligations under finance leases	4	10
Provisions for claims	0	341
	<u>4</u>	<u>351</u>

a) Obligations under finance leases

Total liabilities repayable within :		
One year	6	3
One to two years	3	6
Two to five years	1	4
	<u>10</u>	<u>13</u>
Total liabilities to end of leasing terms	10	13
Less : Amounts repayable within one year	6	3
	<u>4</u>	<u>10</u>
Amounts repayable after more than one year	4	10

GREAT NORTH EASTERN RAILWAY LIMITED
(previously INTERCITY EAST COAST LIMITED)

NOTES TO THE ACCOUNTS
Period from 1 April 1996 to 4 January 1997

16. CALLED UP SHARE CAPITAL

16a	Issued Share Capital	No. of Shares 000	Authorised £000	Issued and Fully Paid £
	At 1 April 1996	10	10	1
	Increase in share capital	17,740	17,740	249,999
	At 4 January 1997	<u>17,750</u>	<u>17,750</u>	<u>250,000</u>

Shares were issued on the 28 April 1996 in connection with the privatisation of the Company.

16b	Share Premium Account	£000
	At 1 April 1996	0
	Premium on issue of shares	<u>27</u>
	At 4 January 1997	<u>27</u>

17. PROFIT AND LOSS ACCOUNT

At 1 April 1996		1,001
Loss for the period		(5,814)
At 4 January 1997		<u>(4,813)</u>

18. CAPITAL COMMITMENTS

		04.01.97	31.03.96
		£000	£000
	Expenditure contracted for	226	0
	Expenditure approved by the directors but not contracted for	2,084	0
		<u>2,310</u>	<u>0</u>

GREAT NORTH EASTERN RAILWAY LIMITED
(previously INTERCITY EAST COAST LIMITED)

NOTES TO THE ACCOUNTS
Period from 1 April 1996 to 4 January 1997

19. 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. The BRPS was last valued for the purposes of assessing the appropriate pension cost for the British Railways Board as a whole as at 1 April 1996 by R. Watson and Sons, independent qualified actuaries. Further details of this valuation are given in the financial statements of the Board.

20. CASH FLOW STATEMENT

The financial statement of Sea Containers U.K. Ltd for the year ended 31 December 1996 contain a statement of consolidated cash flows. The Company has taken advantage of the exemption granted by FRS1 whereby it is not required to publish its own statement of cash flows.

21. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS	Period Ended 04.01.97 £000	Year Ended 31.03.96 £000
Opening shareholders' funds	1,001	(13,462)
Issue of shares	277	-
(Loss)/Profit for the year	<u>(5,814)</u>	<u>14,463</u>
Closing shareholders' funds	<u>(4,536)</u>	<u>1,001</u>

22. CONTINGENT LIABILITIES

There are no contingent liabilities that the directors are aware of.

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.