

Company registration No. 2938984

**GREAT NORTH EASTERN RAILWAY LIMITED**

**Report and Financial Statements**

**52 Weeks ended 7 January 2006**



**GREAT NORTH EASTERN RAILWAY LIMITED**

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

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**GREAT NORTH EASTERN RAILWAY LIMITED**

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

**OFFICERS AND PROFESSIONAL ADVISERS**

**DIRECTORS**

I C Durant  
C W M Garnett  
J N Metcalfe  
S M Mills

**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

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

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

**AUDITORS**

Deloitte & Touche LLP  
Chartered Accountants  
Leeds

# **GREAT NORTH EASTERN RAILWAY LIMITED**

## **DIRECTORS' REPORT**

The directors present their report and the audited financial statements for the 52 weeks ended 7 January 2006.

### **PRINCIPAL ACTIVITY AND REVIEW OF DEVELOPMENTS**

The principal activity of the company is the operation of passenger railway services. The company intends to continue similar operations. In March 2005, the Strategic Rail Authority signed a new Franchise Agreement with Great North Eastern Railway Limited for a term of seven years from 1 May 2005, with automatic renewal for a further three years, subject to Great North Eastern Railway Limited meeting certain performance targets.

In March 2006 the Office of Rail Regulation announced plans to allow another Train Operating Company, Grand Central Railways, access to the East Coast Main Line used by Great North Eastern Railway Limited. This operator is planning to commence services in December 2006, though the details of the services are not yet known. If this competing operation commences as planned, it will have an adverse effect on the company's revenue growth. The company is preparing legal action to contest this decision by the Office of Rail Regulation and to challenge the outcome.

### **RESULTS, DIVIDENDS AND TRANSFERS TO RESERVES**

The company has adopted FRS 17 Retirement benefits and FRS 21 Events after the balance sheet date with effect from 9 January 2005. The impact on the Profit and Loss Account as a result of adopting FRS 17 and FRS 21 in the 53 weeks ended 8 January 2005 was to increase the profit after taxation by £384,000 and increase the retained profit for the financial period by £27,284,000. The impact in the 52 weeks ended 7 January 2006 of adopting FRS 17 and FRS 21 was to increase the profit after taxation by £18,000 and reduce the retained profit for the financial period by £26,882,000. These adjustments are largely due to moving the 2004 final dividend of £26,900,000 into 2005, when it was declared and paid.

The company made a profit after taxation of £6,474,000 (53 weeks ended 8 January 2005 (as restated): profit £14,703,000). The total dividends paid during the period for the 52 weeks ended 7 January 2006 was £8,840,000 and for the 53 weeks ended 8 January 2005, £26,900,000.

### **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:

I C Durant  
C W M Garnett  
J N Metcalfe  
S M Mills  
D J O'Sullivan (Resigned 10 January 2005)

None of the directors had any interests in the company's shares or those of its immediate parent company during the 52 weeks ended 7 January 2006. 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.

### **EMPLOYEES**

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 £26,876 during the 52 weeks ended 7 January 2006 (53 weeks ended 8 January 2005: £3,690).

### **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 7 January 2006 were 25 (8 January 2005: 32).

### **AUDITORS**

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



S M Mills

Director

28 April 2006

# **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 week period to 7 January 2006 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**

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 law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view in accordance with the relevant financial reporting framework and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the directors' report and the other information contained in the annual report for the above year as described in the contents section and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

**Basis of audit opinion**

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

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

**Opinion**

In our opinion the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 7 January 2006 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  
Leeds  
28 April 2006

# GREAT NORTH EASTERN RAILWAY LIMITED

## PROFIT AND LOSS ACCOUNT

For the 52 weeks ended 7 January 2006

	Note	52 weeks ended 7 January 2006 £'000	53 weeks ended 8 January 2005 (as restated) £'000
<b>TURNOVER</b>	1		
Passenger income		427,013	423,513
Other operating income		50,677	51,889
		<hr/>	<hr/>
Operating expenditure	4 3,4	477,690 (470,447)	475,402 (455,521)
<b>OPERATING PROFIT</b>	4	7,243	19,881
Net finance income	5	1,375	2,345
		<hr/>	<hr/>
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		8,618	22,226
Tax on profit on ordinary activities	6	(2,144)	(7,523)
		<hr/>	<hr/>
<b>PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION FOR THE FINANCIAL PERIOD</b>		6,474	14,703
Dividends	7	(35,740)	-
		<hr/>	<hr/>
<b>Retained (loss)/profit for the financial period transferred to reserves</b>	19	(29,266)	14,703
		<hr/> <hr/>	<hr/> <hr/>

All activities relate to continuing operations.

## STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	Note	52 weeks ended 7 January 2006 £'000	53 weeks ended 8 January 2005 (as restated) £'000
(Loss)/profit for the financial period		(29,266)	14,703
Actuarial gain relating to pension scheme	22	4,122	51
UK deferred tax attributable to actuarial gain		(1,237)	(15)
		<hr/>	<hr/>
<b>Total recognised gains and losses relating to the period</b>		(26,381)	14,739
		<hr/>	<hr/>
<b>Prior period adjustment (as explained in note 23)</b>		26,498	
		<hr/>	
<b>Total gains and losses recognised since last financial statements</b>		117	
		<hr/> <hr/>	



# GREAT NORTH EASTERN RAILWAY LIMITED

## BALANCE SHEET

7 January 2006

	Note	7 January 2006 £'000	8 January 2005 (as restated) £'000
<b>FIXED ASSETS</b>			
Intangible assets	9	2,261	186
Tangible assets	10	12,005	13,623
Investments	11	-	-
		<u>14,266</u>	<u>13,809</u>
<b>CURRENT ASSETS</b>			
Stocks	12	3,615	4,304
Debtors	13	33,745	72,745
Cash at bank and in hand	14	17,888	26,380
		<u>55,248</u>	<u>103,429</u>
<b>CREDITORS: amounts falling due within one year</b>	16	<u>(63,743)</u>	<u>(89,667)</u>
<b>NET CURRENT (LIABILITIES) / ASSETS</b>		(8,495)	13,762
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		5,771	27,571
<b>CREDITORS: amounts falling due after more than one year</b>	17	<u>(322)</u>	<u>(153)</u>
<b>NET ASSETS EXCLUDING PENSION LIABILITY</b>		5,449	27,418
<b>PENSION LIABILITY</b>	22	<u>-</u>	<u>(588)</u>
<b>NET ASSETS INCLUDING PENSION LIABILITY</b>		<u>5,449</u>	<u>26,830</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	18	5,277	277
Profit and loss account	19	172	26,553
<b>TOTAL EQUITY SHAREHOLDER'S FUNDS</b>	21	<u>5,449</u>	<u>26,830</u>

These financial statements were approved by the Board of Directors on 28 April 2006.

Signed on behalf of the Board of Directors



S M Mills

Director

# GREAT NORTH EASTERN RAILWAY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

52 weeks ended 7 January 2006

### 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. These have been applied consistently throughout the period and the preceding period with the exception of the adoption of FRS 17 Retirement benefits and FRS 21 Events after the balance sheet date, as explained in note 23.

#### 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.

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. Further information on the franchise commitments is presented in note 20.

#### Cash flow statement

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

#### 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 is capitalised and written off straight line over the franchise term of 7 years.

#### 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 7 January 2006

### 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.

#### Change in accounting policy for pension costs

The company has adopted FRS 17 Retirement benefits in these financial statements with effect from 9 January 2005. The adoption of this standard represents a change in accounting policy and the comparative figures have been restated to remove the pension costs under SSAP 24 as previously reported and to include the cost and pension liability under FRS 17 and related intangible asset. Details of the effect of adopting FRS 17 are given in the related prior year adjustment note 23.

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.

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 2. 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 7 January 2006

### 2. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	52 weeks ended 7 January 2006 £'000	53 weeks ended 8 January 2005 £'000
<b>Directors' remuneration</b>		
Total directors' emoluments for the period (excluding pension)	1,018	367
Total directors' pension costs	57	31
	<u>Number</u>	<u>Number</u>
Number of directors who are members of a defined benefit scheme	3	3
<b>Remuneration of the highest paid director</b>	£'000	£'000
Emoluments of the highest paid director (excluding pension)	432	302
Pension costs in respect of the highest paid director	27	25

The amount of the accrued pension of the highest paid director at 7 January 2006 was £20,091 (8 January 2005: £36,667).

IC Durant and DJ O'Sullivan 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 relate to the company.

<b>Employees</b>	Number	Number
Average number of persons employed in the period		
Operations	2,378	2,372
Ticket Retailing	311	311
Administration	376	370
	<u>3,065</u>	<u>3,053</u>

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

	52 weeks ended 7 January 2006 £'000	53 weeks ended 8 January 2005 (as restated) £'000
Wages and salaries	79,035	75,921
Social security costs	6,230	5,868
Other pension costs	6,915	4,975
	<u>92,180</u>	<u>86,764</u>

# GREAT NORTH EASTERN RAILWAY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

52 weeks ended 7 January 2006

### 3. INCIDENT RELATED CLAIMS

A claim against a supplier, Railcare Limited, relating to a derailment at Sandy in 1998 was successfully concluded in the prior period and the settlement of £2,703,000 was included in other income in the 53 weeks ended 8 January 2005. During the current period, costs in relation to the claim were agreed and the settlement of £725,000 is included in operating expenditure as a reduction in costs.

### 4. OPERATING PROFIT

Operating profit is after charging/(crediting):	52 weeks ended 7 January 2006 £'000	53 weeks ended 8 January 2005 (as restated) £'000
Access charges	86,135	86,046
Rentals under operating leases:		
Rolling stock	69,511	66,889
Other plant and equipment	220	243
Property leases	800	758
Depot/station leases	3,233	3,255
Depreciation – owned assets	2,850	3,007
Depreciation – assets held under finance leases	853	1,327
Amortisation of franchise goodwill	435	617
Rents receivable	(3,604)	(3,502)

The audit fee for the 52 weeks ended 7 January 2006 and the previous period was borne by the ultimate parent company, Sea Containers Ltd. Other audit fees paid by the company in relation to the 52 weeks ended 7 January 2006 was £97,500 (2004: £1,500).

Operating expenditure in the profit and loss account consists of £431,811,000 (2004: £412,199,000) in respect of cost of sales and £38,636,000 (2004: £43,322,000) in respect of administrative expenses. Gross profit for the year was £45,879,000 (2004: £63,203,000).

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

	52 weeks ended 7 January 2006		53 weeks ended 8 January 2005	
	Turnover £'000	Operating profit £'000	Turnover £'000	Operating profit £'000
Passenger income and other services	465,547	5,700	461,762	18,385
Train maintenance	12,143	1,543	13,640	1,496
	<u>477,690</u>	<u>7,243</u>	<u>475,402</u>	<u>19,881</u>

Turnover originates wholly in the U.K.

# GREAT NORTH EASTERN RAILWAY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

52 weeks ended 7 January 2006

### 5. NET FINANCE INCOME

	52 weeks ended 7 January 2006 £'000	53 weeks ended 8 January 2005 (as restated) £'000
Interest payable and similar charges	(964)	(745)
Less: Interest receivable and similar income	980	1,684
Net return on pension scheme (see note 22)	1,359	1,406
	<u>1,375</u>	<u>2,345</u>
<i>Interest payable and similar charges</i>		
Bank loans	645	222
Finance leases	170	232
Performance bond	149	291
	<u>964</u>	<u>745</u>

### 6. TAX ON PROFIT ON ORDINARY ACTIVITIES

	52 weeks ended 7 January 2006 £'000	53 weeks ended 8 January 2005 (as restated) £'000
UK corporation tax 30% (53 weeks ended 8 January 2005: 30%)	2,463	6,965
Adjustment in respect of prior periods	-	339
Total current tax charge	2,463	7,304
Deferred tax (see note 15)	(410)	(210)
Deferred tax on pension scheme liability (see note 22)	91	429
	<u>2,144</u>	<u>7,523</u>

# GREAT NORTH EASTERN RAILWAY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

52 weeks ended 7 January 2006

### 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 7 January 2006 £'000	53 weeks ended 8 January 2005 (as restated) £'000
Profit on ordinary activities before tax	8,618	22,226
Tax on profit on ordinary activities at 30%	2,585	6,668
Factors affecting the charge for the period :		
Capital allowances for the period (in excess of)/less than depreciation	(108)	636
Other timing differences	(20)	(385)
Expenses not deductible for tax purposes	6	46
Adjustments to tax charge in respect of prior periods	-	339
Total amount of current tax	<u>2,463</u>	<u>7,304</u>

### 7. DIVIDENDS

	52 weeks ended 7 January 2006 £'000	53 weeks ended 8 January 2005 (as restated) £'000
Paid - £6.77 per ordinary share (53 weeks ended 8 January 2005: £nil per ordinary share)	<u>35,740</u>	<u>-</u>

A dividend of £26,900,000 was declared on the 29 April 2005 in respect of the 53 weeks ended 8 January 2005. In accordance with FRS 21, this dividend is included in the results for the 52 weeks ended 7 January 2006 (see note 23). Dividends totalling £8,840,000 have been declared and paid in respect of the 52 weeks ended 7 January 2006.

# GREAT NORTH EASTERN RAILWAY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

52 weeks ended 7 January 2006

### 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 is committed to pay a fixed charge of £142million for the 52 weeks ending 6 January 2007, including £23million in respect of station and depot leases. The variable charges cover track usage and traction current and are primarily dependent on train miles run.

The company had contracts, which committed it to lease rolling stock from HSBC Rail (UK) Limited, Angel Trains Contracts Limited and Porterbrook Leasing Company Limited until April 2005. Following the successful retention of the Inter-city East Coast franchise, these contracts have been extended for a short period on equivalent terms, while they are renegotiated. These contracts can be terminated by agreement with the relevant rolling stock company.

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

	Rolling stock £'000	Property £'000	Other £'000
Leases which expire:			
Within one year	62,561	-	-
Within two to five years	-	851	226
	<u>62,561</u>	<u>851</u>	<u>226</u>

### 9. INTANGIBLE ASSETS

	Franchise goodwill (as restated) £'000
<b>Cost</b>	
At 9 January 2005	1,213
Additions	2,510
Disposals	(1,213)
At 7 January 2006	<u>2,510</u>
<b>Accumulated amortisation</b>	
At 9 January 2005	1,027
Charge for the period	435
Disposals	(1,213)
At 7 January 2006	<u>249</u>
<b>Net book value</b>	
At 7 January 2006	<u>2,261</u>
At 8 January 2005	<u>186</u>

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.



# GREAT NORTH EASTERN RAILWAY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

52 weeks ended 7 January 2006

### 10. TANGIBLE FIXED ASSETS

	Buildings- short leasehold £'000	Plant and machinery £'000	Assets under construction £'000	Total £'000
<b>Cost</b>				
At 9 January 2005	5,641	14,507	6,515	26,663
Additions	118	316	1,661	2,095
Disposals	-	(55)	-	(55)
Transfers	5,854	1,258	(7,112)	-
	<u>11,613</u>	<u>16,026</u>	<u>1,064</u>	<u>28,703</u>
<b>Accumulated depreciation</b>				
At 9 January 2005	2,679	10,361	-	13,040
Charge for the period	1,293	2,410	-	3,703
Disposals	-	(45)	-	(45)
	<u>3,972</u>	<u>12,726</u>	<u>-</u>	<u>16,698</u>
<b>Net book value</b>				
At 7 January 2006	<u>7,641</u>	<u>3,300</u>	<u>1,064</u>	<u>12,005</u>
At 8 January 2005	<u>2,962</u>	<u>4,146</u>	<u>6,515</u>	<u>13,623</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 £1,064,000 at 7 January 2006 represents ongoing capital projects.

The net book value of the company's plant and machinery includes £24,000 (8 January 2005: £875,000) 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 7 January 2006**

**12. STOCKS**

	<b>7 January 2006 £'000</b>	<b>8 January 2005 £'000</b>
Raw materials and consumables	3,615	4,304
	<u>3,615</u>	<u>4,304</u>

**13. DEBTORS**

	<b>7 January 2006 £'000</b>	<b>8 January 2005 £'000</b>
Trade debtors	19,356	23,278
Amounts owed by group undertakings	1,784	36,038
Other debtors	3,215	3,913
Prepayments and accrued income	8,149	8,685
Deferred taxation (see note 15)	1,241	831
	<u>33,745</u>	<u>72,745</u>

**14. CASH AT BANK AND IN HAND**

	<b>7 January 2006 £'000</b>	<b>8 January 2005 £'000</b>
Cash at bank and in hand	12,482	22,366
Season ticket bond deposit	5,406	4,014
	<u>17,888</u>	<u>26,380</u>

**15. DEFERRED TAXATION**

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

	<b>7 January 2006 £'000</b>	<b>8 January 2005 £'000</b>
Deferred taxation asset brought forward	831	621
Credit for the year	410	210
Deferred taxation asset carried forward	<u>1,241</u>	<u>831</u>

The deferred tax asset is made up of the following :

Depreciation in excess of capital allowances	1,040	347
Other timing differences	201	484
	<u>1,241</u>	<u>831</u>

# GREAT NORTH EASTERN RAILWAY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

52 weeks ended 7 January 2006

### 16. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	7 January 2006 £'000	8 January 2005 (as restated) £'000
Overdrafts and bank loans	-	1,823
Obligations under finance leases and hire purchase contracts	-	622
Trade creditors	31,650	39,826
Amounts owed to group undertakings	1,718	2,153
Taxation and social security	4,258	4,067
Other creditors	7,762	22,896
Accruals and deferred income	18,355	18,280
	<u>63,743</u>	<u>89,667</u>

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

	7 January 2006 £'000	8 January 2005 £'000
Grants not yet credited to the profit and loss account	322	153
	<u>322</u>	<u>153</u>

### 18. CALLED UP SHARE CAPITAL

	7 January 2006 £'000	8 January 2005 £'000
<b>Authorised:</b>		
17,750,000 Ordinary shares of £1 each	17,750	17,750
<b>Called up, allotted and fully paid:</b>		
5,276,501 Ordinary shares of £1 each (8 January 2005: 276,501)	5,277	277
	<u>5,277</u>	<u>277</u>

On 27 April 2005 the company issued 5,000,000 ordinary shares of £1 each at par.

# GREAT NORTH EASTERN RAILWAY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

52 weeks ended 7 January 2006

### 19. RESERVES

	Profit and loss account (as restated) £'000
At 8 January 2005 as previously stated	55
Prior period adjustment (see note 23)	26,498
	<hr/>
At 8 January 2005 as restated	26,553
Retained loss for the financial period	(29,266)
Amount relating to defined benefit pension scheme liability, net of related deferred tax	2,885
	<hr/>
At 7 January 2006	172
	<hr/> <hr/>

### 20. CAPITAL AND FRANCHISE COMMITMENTS

	7 January 2006 £'000	8 January 2005 £'000
Expenditure contracted for but not provided	769	270
	<hr/>	<hr/>

On 18 March 2005, the SRA signed a new Franchise Agreement with Great North Eastern Railway Limited to operate the Inter City East Coast Franchise for a term of seven years from 1 May 2005, with automatic renewal for a further three years, subject to Great North Eastern Railway Limited meeting certain performance targets. The terms of the Franchise include a number of financial and operational obligations to be satisfied over the franchise term. The committed obligations include: an investment of up to £75million in the company's fleet of High Speed Trains (funded through the rolling stock payments); a £25million station modernisation programme; at least £3million on measures to improve passenger security; £5million investment in depot facilities; and, working with Network Rail to make improvements to the rail infrastructure.

### 21. RECONCILIATION OF MOVEMENTS IN SHAREHOLDER'S FUNDS

	52 weeks ended 7 January 2006 £'000	53 weeks ended 8 January 2005 (as restated) £'000
Profit for the financial period	6,474	14,703
Other recognised gains and losses (net)	2,885	36
Dividends	(35,740)	-
	<hr/>	<hr/>
Net (reduction)/increase in equity shareholder's funds	(26,381)	14,739
Opening equity shareholder's funds as previously stated	332	12,913
Prior period adjustment (see note 23)	26,498	(822)
	<hr/>	<hr/>
Opening equity shareholder's funds as restated	26,830	12,091
New shares issued	5,000	-
	<hr/>	<hr/>
Closing equity shareholder's funds	5,449	26,830

**GREAT NORTH EASTERN RAILWAY LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**52 weeks ended 7 January 2006**

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# GREAT NORTH EASTERN RAILWAY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

52 weeks ended 7 January 2006

### 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.

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. The valuation requires the contribution rate to increase. However, the amount of the increase and hence the final contribution rate has not yet been agreed.

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 90% and a deficit of £20m and values the assets at £173m.

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. The directors and trustees have increased contribution rates, as part of a range of measures to address the deficit and the contributions will be increased further as a result of the 2004 valuation. These increased rates are expected to extend over the remainder of the Franchise period.

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. At 7 January 2006, the deficit recognised in the balance sheet is £nil as, the deficit is not expected to be funded on an FRS 17 basis during the franchise term. The full scheme deficit on an FRS 17 basis is expected to increase over the franchise term.

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. 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 7 January 2006

### 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>(588)</u>		<u>(1,625)</u>

### AMOUNTS INCLUDED IN OPERATING PROFIT

	52 weeks ended 7 January 2006 £'000	53 weeks ended 8 January 2005 £'000
Current service cost	6,915	4,975
Total operating charge	<u>6,915</u>	<u>4,975</u>

### AMOUNTS INCLUDED IN NET FINANCE INCOME

	52 weeks ended 7 January 2006 £'000	53 weeks ended 8 January 2005 £'000
Expected return on scheme assets	7,095	6,511
Interest on pension liabilities	(6,090)	(5,504)
Interest on franchise adjustment	354	399
Net finance return	<u>1,359</u>	<u>1,406</u>

**GREAT NORTH EASTERN RAILWAY LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**52 weeks ended 7 January 2006**

**22. PENSION SCHEME (continued)**

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

	52 weeks ended 7 January 2006 £'000	53 weeks ended 8 January 2005 £'000
Actual return less expected return on assets	14,923	4,162
Experience gains and losses on liabilities	(19,265)	-
Experience gains and losses on franchise adjustment	42,644	(293)
Changes in assumptions	(34,180)	(3,818)
	<hr/>	<hr/>
Actuarial gain recognised	4,122	51
	<hr/>	<hr/>

**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
<b>Difference between expected and actual returns on scheme assets</b>	14,923	4,162	12,450	12,450
Percentage of scheme assets	7%	2%	8%	8%
<b>Experience gains and losses on scheme liabilities</b>	(19,265)	-	(866)	(866)
Percentage of scheme liabilities	(7%)	0%	(1%)	(1%)
<b>Total actuarial gain or loss recognised in the statement of total recognised gains and losses excluding experience gains and losses on franchise adjustment</b>	(38,522)	344	(3,156)	(3,156)
Percentage of scheme liabilities	(13%)	0%	(2%)	(2%)
<b>Total amount recognised in statement of total recognised gains and losses including experience gains and losses on franchise adjustment</b>	4,122	51	N/a	N/a



# GREAT NORTH EASTERN RAILWAY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

52 weeks ended 7 January 2006

### 22. PENSION SCHEME (continued)

#### ANALYSIS OF THE MOVEMENT IN SHARE OF SCHEME DEFICIT DURING THE YEAR

	52 weeks ended 7 January 2006 £'000	53 weeks ended 8 January 2005 £'000
Opening share of deficit	(840)	(2,321)
Current service cost	(6,915)	(4,975)
Contributions	5,860	4,999
Net finance income	1,359	1,406
Actuarial gain	4,122	51
Share of opening deficit in new franchise	(3,586)	-
	<u>-</u>	<u>(840)</u>
Closing share of deficit	-	(840)

### 23. PRIOR PERIOD ADJUSTMENTS

The company has adopted FRS 17 Retirement benefits and FRS 21 Events after the balance sheet date with effect from 9 January 2005. As a result, the 8 January 2005 Balance Sheet has been restated as follows:

	Intangible assets £'000	Dividends proposed £'000	Pension liability £'000	Equity shareholders funds £'000
8 January 2005 as previously reported	-	(26,900)	-	332
Adoption of FRS 17	186	-	(588)	(402)
Adoption of FRS 21	-	26,900	-	26,900
	<u>186</u>	<u>-</u>	<u>(588)</u>	<u>26,830</u>
8 January 2005 restated	186	-	(588)	26,830

The impact on the Profit and Loss Account as a result of adopting FRS 17 and FRS 21 in the 53 weeks ended 8 January 2005 was to increase net finance income by £1,406,000, increase operating expenditure by £593,000, increase the tax charge by £429,000 and reduce dividends by £26,900,000.

The impact in the 52 weeks to 7 January 2006 of adopting FRS 17 and FRS 21 was to increase net finance income by £1,359,000, increase operating expenditure by £1,491,000, decrease the tax charge by £150,000 and increase dividends by £26,900,000.

### 24. GUARANTEE

The company has undertaken under the new franchise agreement to reimburse the Department for Transport (previously the Strategic Rail Authority) its costs in the event that the company 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 issued by a bank in the amount of £6,567,000, rising to £15,258,000 on 1 May 2006, and to £28,694,000 on 1 May 2007, pursuant to a facility with the company which Sea Containers Ltd (see note 26) has guaranteed. The provisions of the facility contain amongst other things representations and warranties in respect of the financial position of Sea Containers Ltd and that Sea Containers Ltd is not in breach of any other agreements or instruments. In the event that the bank providing the facility declares an event of default arising from a non compliance of a relevant representation the bank could require the company to cash collateralise the facility.

# **GREAT NORTH EASTERN RAILWAY LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS**

**52 weeks ended 7 January 2006**

### **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. 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 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.

The Sea Containers Ltd group recently announced that it will not be able to comply with certain covenants in certain of its bank borrowing agreements. Sea Containers Ltd is currently in discussions with its banks to obtain certain loan covenant waivers or amendments. The company is not a party to these agreements.