

**P&O Scottish Ferries Limited**

**Directors' report and financial  
statements**

**Registered number 71375**

**31 December 2000**



## Contents

Directors' report	1
Statement of directors' responsibilities	3
Report of the auditor to the members of P&O Scottish Ferries Limited	4
Profit and loss account	5
Balance sheet	6
Notes	7

## Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2000.

### Principal activities

The principal activities of the company are ship owning and the operation of passenger and freight ferry services together with holiday package deals.

### Business review

In December 2000 the Scottish Executive announced that NorthLink Orkney and Shetland Ferries Limited had successfully tendered to provide a subsidised passenger ferry service to the Northern Isles from October 2002. This contract is currently held by P&O Scottish Ferries Limited with subsidies of £11.018 million per annum. This contract is fundamental to the company's ongoing strategy and therefore management are actively considering the future options for the company.

High international oil prices adversely affected fuel costs for much of the year resulting in total fuel costs being in excess of £600,000 (45%) over budget. Reduced ship repair and maintenance costs helped offset the full effect of high fuel prices.

Freight volumes were down on 1999 due to a slowdown in the Islands' economy. An ISA outbreak reduced both imports of salmon feed and exports of salmon.

The strong pound, poor summer weather and high fuel costs coupled with fuel protests resulted in a dire tourist season for Scotland. Overall summer visitors were between 16-26% down on 1999. P&O Scottish Ferries Limited fared somewhat better, with numbers 6% below budget, however passenger revenue was virtually in line with budget.

### Euro

The first phase of the introduction of the Euro is not expected to have any significant implications for P&O Scottish Ferries Limited.

### Dividend

The directors recommend that a final ordinary dividend of £1,046,000 (1999: £566,000) be paid.

### Directors and directors' interests

The directors who held office during the year were as follows:

GDS Dunlop	(Chairman)
TC Cairns	
CS Colegate	
C Cunningham	
H Stapleton	

None of the directors who held office at the end of the financial year had any disclosable interest in the shares of the company.

## Directors' Report *(continued)*

### Directors and directors' interests *(continued)*

According to the notifications received by the company relating to the interests of the directors and their families in the share capital and debentures of group companies, there were the following interests in the stock of the ultimate holding company, The Peninsular and Oriental Steam Navigation Company:

	Deferred Stock		Deferred stock under Option	
	31 December 2000 Number	31 December 1999 Number	granted (lapsed) Number	exercised Number
TC Cairns	5,882	1,352	65,807	11,687
CS Colegate	389	341	12,412	-
CH Cunningham	12,692	-	41,365	2,719
H Stapleton	-	-	-	-

The interests of Mr GDS Dunlop are disclosed in the directors' report of The Peninsular and Oriental Steam Navigation Company.

### Employees

#### *Disabled employees:*

The company's policy is to give full and fair consideration to applications for employment made by disabled persons, to encourage the training, career development and promotion of disabled persons on the basis of their aptitudes and abilities and to retain and retrain employees who become disabled.

#### *Employee consultation:*

During the year the company maintained its arrangements for consulting with, and providing information to, employees about the progress of the company. Employee involvement in the company's performance is actively encouraged and, to this end, an employee profit incentive scheme is operated.

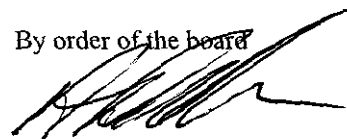
### Creditors

The company has procedures for dealing promptly with complaints and disputes. The company had 54 days purchases outstanding at 31 December 2000.

### Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit Plc as auditor of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board



**A Robertson**  
 Secretary

28 March 2001

## **Statement of directors' responsibilities**

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 and of the profit or loss for that year. 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, subject to any material departures disclosed and explained in the financial statements; and
- 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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.



KPMG Audit Plc

37 Albyn Place  
Aberdeen  
AB10 1JB  
United Kingdom

## **Report of the auditor to the members of P&O Scottish Ferries Limited**

We have audited the financial statements on pages 5 to 16.

### **Respective responsibilities of the director and auditors**

The directors are responsible for preparing the directors' report and, as described on page 3, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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. 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 transactions with the company is not disclosed.

### **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 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 of the state of the company's affairs as at 31 December 2000 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*KPMG Audit Plc.*

KPMG Audit Plc  
Chartered Accountants  
Registered Auditor

9 April 2001

## Profit and loss account

for the year ended 31 December 2000

	Note	2000 £000	1999 £000
<b>Turnover</b>	2	<b>30,425</b>	30,338
Staff costs	5	(10,117)	(10,210)
Depreciation	9	(5,730)	(5,585)
Other operating charges		(12,599)	(11,952)
		<hr/>	<hr/>
<b>Operating profit</b>		<b>1,979</b>	2,591
Interest receivable	6	427	163
Interest payable	7	(41)	(134)
		<hr/>	<hr/>
<b>Profit on ordinary activities before taxation</b>	3-5	<b>2,365</b>	2,620
Tax on profit on ordinary activities	8	(611)	(179)
		<hr/>	<hr/>
<b>Profit for the financial year</b>	19	<b>1,754</b>	2,441
Dividend on equity shares		(1,046)	(566)
		<hr/>	<hr/>
Retained profit for year		708	1,875
Retained profit brought forward		6,346	4,471
		<hr/>	<hr/>
<b>Retained profit carried forward</b>		<b>7,054</b>	6,346
		<hr/>	<hr/>

There is no material difference between the profit for the financial year as reported and that calculated on an unmodified historical cost basis.

There are no recognised gains or losses other than the profit for the financial year.

## Balance sheet

at 31 December 2000

	Note	2000 £000	1999 £000
<b>Fixed assets</b>			
Tangible assets	9	9,890	15,385
Investments	10	403	403
		<u>10,293</u>	<u>15,788</u>
<b>Current assets</b>			
Stocks	11	286	211
Debtors	12	6,139	2,873
Cash at bank and in hand		5,715	5,517
		<u>12,140</u>	<u>8,601</u>
<b>Creditors: amounts falling due within one year</b>	13	<u>(5,281)</u>	<u>(6,291)</u>
<b>Net current assets</b>		<u>6,859</u>	<u>2,310</u>
<b>Total assets less current liabilities</b>		<u>17,152</u>	<u>18,098</u>
<b>Creditors: amounts falling due after more than one year</b>	14	(60)	(6,218)
<b>Provisions for liabilities and charges</b>	15	(1,705)	(2,953)
<b>Deferred income</b>	16	(98)	(494)
<b>Net assets</b>		<u>15,289</u>	<u>8,433</u>
<b>Capital and reserves</b>			
Called up share capital	17	8,148	2,000
Revaluation reserve	18	87	87
Profit and loss account		7,054	6,346
<b>Equity shareholders' funds</b>	19	<u>15,289</u>	<u>8,433</u>

These financial statements were approved by the board of directors on 28 March 2001 and were signed on its behalf by:



**TC Cairns**  
 Director



## Notes

*(forming part of the financial statements)*

### 1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements:

#### *Basis of preparation*

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules, modified to include the revaluation of certain land and buildings. The accounts continue to be prepared on a going concern basis. The company's principal source of revenue is from the provision of a ferry service. The subsidies it receives in relation to this service will not be available from October 2002. Management is currently considering the company's trading strategy after this date. Further information is given in the Business Review section of the Directors' Report.

The company is exempt by virtue of s228 of the Companies Act 1985 from the requirement to prepare group financial statements. These financial statements present information about the company as an individual undertaking and not about its group.

Under Financial Reporting Standard 1, the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements.

As the company is a wholly owned subsidiary of The Peninsular and Oriental Steam Navigation Company, the company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group (or investees of the group qualifying as related parties). The consolidated financial statements of The Peninsular and Oriental Steam Navigation Company, within which this company is included, can be obtained from the Registrar of Companies, Companies House, Crown Way, Cardiff CF4 3HZ.

#### *Fixed assets and depreciation*

The company's property was revalued in 1993 on the basis of open market value by The Peninsular and Oriental Steam Navigation Company Chief Surveyor RA Knight FRICS and Healey & Baker. On adoption of FRS 15 the company has followed the transitional provisions to retain the net book value of land and buildings which were revalued on those dates but not to revalue in the future.

Also under FRS 15, from 1 January 2000 depreciation is being charged on all freehold and leasehold properties occupied by the company to write off the cost of these properties to their estimated residual value on a straight line basis over the remaining life of the lease. The additional amortisation charge for the year ended 31 December 2000 in respect of these properties is £106,000.

No depreciation is provided on freehold land.

## Notes (continued)

### 1 Accounting policies (continued)

#### *Ships and other fixed assets*

Depreciation is provided by the company to write off the cost or valuation less the estimated residual value of ships and other fixed assets by equal instalments over their estimated useful economic lives, as follows:

Ships in service	-	15 to 20 years (see below)
Plant and machinery	-	4 to 10 years

The useful economic lives of the ships were amended in 1998 to write off the remaining net book value up to March 2002. This is the date of expiry of the current Scottish Office contract but it also represents the introduction of new IMO regulations under which the current fleet will become obsolete without substantial capital expenditure which is currently considered uneconomic.

Interest incurred in respect of payments on account of assets under construction is capitalised in the cost of the asset concerned.

#### *Foreign currencies*

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

#### *Goodwill*

Purchased goodwill (both positive and negative) arising on business combination in respect of acquisitions before 1 January 1998, when FRS 10 *Goodwill and intangible assets* was adopted, was written off to reserves in the year of acquisition and would have been fully amortised prior to the application of FRS10. When a subsequent disposal occurs any related goodwill previously written off to reserves is written back through the profit and loss account as part of the profit or loss on disposal.

#### *Government grants*

Capital based government grants are included within deferred income in the balance sheet and credited to operating profit over the estimated useful economic lives of the assets to which they relate.

#### *Leases*

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors. Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

#### *Pension costs*

The company contributes to a group contributory defined benefit pension scheme.

#### *Stocks*

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

## Notes (continued)

### 1 Accounting policies (continued)

#### *Taxation*

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax only to the extent that it is probable that a liability will crystallise.

### 2 Analysis of turnover

Turnover represents the value of passenger and freight ferry services supplied (excluding value added tax) principally on the routes to Orkney and Shetland from the UK mainland during the year.

### 3 Profit on ordinary activities before taxation

	2000 £000	1999 £000
<i>Profit on ordinary activities before taxation is stated after charging:</i>		
Operating lease rentals payable:		
Land and buildings	210	192
Other operating leases	1	3
Directors' emoluments (note 4):		
As executives	127	151
Auditors' remuneration and expenses :		
Audit	19	18
Other services	3	2
	<hr/>	<hr/>

### 4 Emoluments of directors

	2000 £000	1999 £000
Directors' emoluments	127	151
	<hr/>	<hr/>

Retirement benefits are accruing to the following numbers of directors under:

	Number of directors	
	2000	1999
Defined benefit schemes	2	2
	<hr/>	<hr/>

**Notes (continued)**

**5 Employees**

The average number of persons employed by the company (including directors) during the year, analysed by category, was as follows:

	<b>Number of employees</b>	
	<b>2000</b>	<b>1999</b>
Shore staff	188	195
Sea staff contracted from P&O Scottish Ferries (Bermuda) Limited	236	228
	<hr/>	<hr/>
	<b>424</b>	<b>423</b>
	<hr/>	<hr/>

The aggregate payroll costs of these persons were:

	<b>2000</b>	<b>1999</b>
	<b>£000</b>	<b>£000</b>
Wages and salaries	3,545	3,655
Social security costs	261	264
Other pension costs (note 21)	293	234
	<hr/>	<hr/>
	<b>4,099</b>	<b>4,153</b>
Staff recharges	6,018	6,057
	<hr/>	<hr/>
	<b>10,117</b>	<b>10,210</b>
	<hr/>	<hr/>

**6 Interest receivable and similar income**

	<b>2000</b>	<b>1999</b>
	<b>£000</b>	<b>£000</b>
Receivable from group undertakings	73	39
Bank interest receivable	354	124
	<hr/>	<hr/>
	<b>427</b>	<b>163</b>
	<hr/>	<hr/>

**7 Interest payable**

	<b>2000</b>	<b>1999</b>
	<b>£000</b>	<b>£000</b>
On bank loans	28	119
Finance charges payable in respect of finance leases and hire purchase contracts	13	15
	<hr/>	<hr/>
	<b>41</b>	<b>134</b>
	<hr/>	<hr/>

## Notes (continued)

### 8 Taxation

	2000 £000	1999 £000
Taxation based on the profit for the year:		
Corporation tax at 30% (1999: 30%)	1,859	1,574
Deferred tax	(1,241)	(762)
	<u>618</u>	<u>812</u>
Prior year adjustment		
Corporation tax	-	33
Deferred tax	(7)	(666)
	<u>611</u>	<u>179</u>

### 9 Tangible fixed assets

	Ships £000	Land and buildings £000	Plant and machinery £000	Total £000
<b>Cost or valuation</b>				
At beginning of year	39,064	844	4,551	44,459
Additions	-	-	235	235
Disposals	-	-	(165)	(165)
	<u>39,064</u>	<u>844</u>	<u>4,621</u>	<u>44,529</u>
<b>Depreciation</b>				
At beginning of year	25,717	-	3,357	29,074
Charged in year	5,211	106	413	5,730
Disposals	-	-	(165)	(165)
	<u>30,928</u>	<u>106</u>	<u>3,605</u>	<u>34,639</u>
<b>Net book value</b>				
At 31 December 2000	<u>8,136</u>	<u>738</u>	<u>1,016</u>	<u>9,890</u>
At 31 December 1999	<u>13,347</u>	<u>844</u>	<u>1,194</u>	<u>15,385</u>

Included in fixed assets are leased assets with a net book value of £84,000 (1999: £133,000). The depreciation charge in respect of leased assets for the period is £49,000 (1999: £49,000).

The net book value of land and buildings comprises:

	Short leasehold £000	Long leasehold £000	Total £000
At beginning of year	600	244	844
Depreciation charge in year	(84)	(22)	(106)
	<u>516</u>	<u>222</u>	<u>738</u>

## Notes (continued)

### 9 Tangible fixed assets (continued)

The valuation of properties at 31 December 2000 were all made on the basis of open market value by The Peninsular and Orientation Steam Navigation Company Group chief surveyor RA Knight FRICS and Healey & Baker. The historical cost of properties net of accumulated amortisation is £799,000 (1999: £799,000).

The cost of ships includes capitalised interest of £793,000 (1999: £793,000).

### 10 Unlisted investments (held as fixed assets)

	Shares in group undertakings £000	Other unlisted investments £000	Total £000
<i>Cost</i>			
At beginning and end of year	400	3	403

The company holds 100% of the ordinary share capital of North of Scotland Orkney and Shetland Shipping Company Limited which is incorporated in Great Britain and registered in Scotland. From 1 January 1999 this company was renamed P&O Scottish Ferries Ship Management Limited, and commenced trading as a manager of vessels.

Group financial statements are not submitted as the company is a wholly owned subsidiary of The Peninsular and Oriental Steam Navigation Company which is incorporated in Great Britain. In the opinion of the directors the investments in subsidiary undertakings are worth at least the amounts at which they are stated in the balance sheet.

### 11 Stocks

	2000 £000	1999 £000
Raw materials, consumables and fuel	115	85
Goods for resale	171	126
	<u>286</u>	<u>211</u>

### 12 Debtors

	2000 £000	1999 £000
Amounts falling due within one year:		
Trade debtors	2,057	2,133
Amounts owed by group undertakings	1,231	44
Other debtors	137	115
Prepayments and accrued income	2,714	581
	<u>6,139</u>	<u>2,873</u>

**Notes (continued)**

**13 Creditors: amounts falling due within one year**

	2000	1999
	£000	£000
Bank loans (note 14)	-	722
Trade creditors	2,171	2,076
Amounts owed to group undertakings	26	21
Other creditors including taxation and social security:		
Corporation tax	1,859	1,574
Other taxes and social security	290	275
	<hr/>	<hr/>
Taxation and social security	2,149	1,849
Other creditors	4	153
	<hr/>	<hr/>
	2,153	2,002
Accruals	523	1,021
Deferred income (note 16)	396	396
Obligations under finance leases (note 14)	12	53
	<hr/>	<hr/>
	5,281	6,291
	<hr/>	<hr/>

**14 Creditors: amounts falling due after more than one year**

	2000	1999
	£000	£000
Bank loans	-	722
Less: Current instalments (note 13)	-	(722)
	<hr/>	<hr/>
	-	-
Parent company funding loan	-	6,148
Obligations under finance leases	60	70
	<hr/>	<hr/>
	60	6,218
	<hr/>	<hr/>

During the year the company fully repaid the bank loan which was used to finance the acquisition of the ships.

During the year 618,400 ordinary shares of £10 each were allotted to the Peninsular and Oriental Steam Navigation Company in exchange for the parent company funding loan.

The maturity of obligations under finance leases is as follows:

	2000	1999
	£000	£000
Between one and two years	12	12
Between two and five years	33	33
After five years	15	25
	<hr/>	<hr/>
	60	70
Amounts due within one year (note 13)	12	53
	<hr/>	<hr/>
	72	123
	<hr/>	<hr/>

## Notes (continued)

### 15 Provisions for liabilities and charges

The amounts provided for deferred taxation, equivalent to the full potential liability and calculated on the liability method, are set out below:

	Difference between accumulated depreciation and capital allowances £000	Other £000	Total £000
At beginning of year	2,935	18	2,953
Transferred to profit and loss account	(1,233)	(15)	(1,248)
<b>At end of year</b>	<b>1,702</b>	<b>3</b>	<b>1,705</b>

### 16 Deferred income: amount falling due after more than one year

	2000 £000	1999 £000
<i>Government grants</i>		
At beginning of year	890	1,286
Credited to operating profit	(396)	(396)
	494	890
Less: Current instalment (note 13)	(396)	(396)
<b>At end of year</b>	<b>98</b>	<b>494</b>

### 17 Share capital

	2000 £000	1999 £000
<i>Authorised</i>		
1,000,000 ordinary shares of £10 each (1999: 200,000 ordinary shares of £10 each)	10,000	2,000
		£000
<i>Allotted, called up and fully paid</i>		
At start of year		2,000
Issued during the year		6,148
<b>At end of year</b>		<b>8,148</b>

An Extraordinary General Meeting of the company was held on 31 October 2000 and it was resolved that the authorised share capital be increased from 200,000 ordinary shares of £10 each to 1,000,000 ordinary shares of £10 each. It was resolved that 614,800 ordinary shares of £10 each were allotted to the Peninsular and Oriental Steam Navigation Company in exchange for payment of £6,148,000, being the intergroup loan due from P&O Scottish Ferries Limited to The Peninsular and Oriental Steam Navigation Company at 31 December 1999.



## Notes (continued)

### 18 Reserves

£000

#### Revaluation reserve:

At beginning and end of year

87

The cumulative amount of goodwill resulting from acquisitions of businesses in earlier financial years which has been written off against the profit and loss account is £95,000.

### 19 Reconciliation of movements in shareholders' funds

	2000 £000	1999 £000
Profit for the financial year	1,754	2,441
Dividends	(1,046)	(566)
Issue of share capital (note 17)	6,148	-
Net addition to shareholders' funds	6,856	1,875
Opening shareholders' funds	8,433	6,558
Closing shareholders' funds	15,289	8,433

### 20 Commitments

- (a) Capital commitments at 31 December 2000 were nil (1999: nil).
- (b) At 31 December 2000 the company has annual commitments under non-cancellable operating leases of £211,000 (1999: £195,000) which expire as follows:

	Land and buildings		Other	
	2000 £000	1999 £000	2000 £000	1999 £000
Within one year	11	11	-	2
2 - 5 years	-	-	1	1
Over 5 years	199	181	-	-

### 21 Pension schemes

The company participates in a group contributory defined benefit pension scheme covering the majority of its onshore salaried employees and sea staff of officer rank. The scheme funds are administered by trustees and are independent of the company's finances. Contributions are paid by the company to group who then pay these on to the Scheme in accordance with the recommendation of independent actuaries. The charge against profits in the year is the annual contributions paid to the Scheme on the company's behalf by group.

Further details of the most recent actuarial valuations and main actuarial assumptions of the schemes are disclosed in the accounts of The Peninsular and Oriental Steam Navigation Company.

## Notes *(continued)*

### **22 Ultimate holding company**

The company's ultimate holding company is The Peninsular and Oriental Steam Navigation Company, which is incorporated in Great Britain and registered in England and Wales.

The largest group in which the results of the company are consolidated is that headed by The Peninsular and Oriental Steam Navigation Company. The consolidated financial statements of The Peninsular and Oriental Steam Navigation Company are available to the public and may be obtained from the Registrar of Companies, Companies House, Crown Way, Cardiff CF4 3HZ.

No other group financial statements include the results of the company.