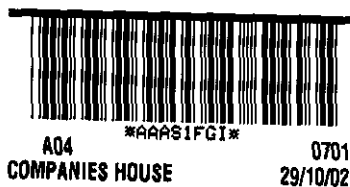


P&O Stena Line (Short Sea) Limited

Directors' report and financial statements

31 December 2001

Registered number: 03242391



Directors' report and financial statements

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Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2001.

Principal activity and business review

The principal activity of the company is the operation of ferry services between Great Britain and Continental Europe.

The profit for the year after tax amounted to £6,812,000 (2000: £7,732,000).

The UK travel industry was badly affected during 2001 by the impact on foot and mouth disease on the desire of continental travellers to visit the UK. As a consequence passenger numbers fell by around 6% on the previous year. Average tourist rates suffered as a result.

The downturn in rates and passenger volumes was more than compensated for by improvements in onboard spend which has grown beyond levels seen under duty free. The company plans to continue to develop and expand on its onboard offer to capitalise on this recovery.

The Group's exemption from EU anti-trust legislation expired in March 2001. In June 2001 the European Commission announced that the P&O Stena Line joint venture had been granted a further six year exemption from anti-trust provisions.

Overall the directors are pleased to report that the company has remained profitable over the previous year during a very difficult period for the industry.

Future prospects

The company plans to continue to operate short sea ferry services and to build on the positive results achieved since the end of duty free.

Charitable and political donations

During the period the company made no charitable or political donations (2000: £nil).

Directors

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

R D Peters	(Chairman)
H Deeble	
J R Govett	
M J Ridley	
B J Cork	
A D Marsh	
N Powis	
P J Hollis	
C A Mowatt	
C J Laming	

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

Dividend

No dividend was declared or paid during the year (2000: £nil).

Directors' report *(continued)*

Employees

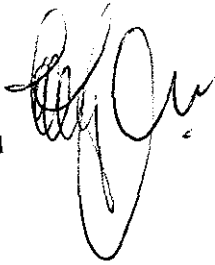
The company does not employ any personnel directly, but draws on the resources of the employees of P&O Stena Line Limited, the costs of which are borne directly by that company. A recharge is made to P&O Stena Line (Short Sea) Limited by P&O Stena Line Limited to reflect this.

Auditors

By an Elective Resolution passed on 31 October 1997 in accordance with section 386 of the Companies Act 1985, the company has dispensed with the obligation to appoint auditors annually and KPMG Audit Plc therefore continue in office for the forthcoming year.

By order of the board

J G Langford
Secretary



Channel House
Channel View Road
Dover
Kent
CT17 9TJ

April 2002

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 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, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

8 Salisbury Square
London EC4Y 8BB
United Kingdom

Independent auditors' report to the members of P&O Stena Line (Short Sea) Limited

We have audited the financial statements of P&O Stena Line (Short Sea) Limited on pages 5 to 12 for the year ended 31 December 2001.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report. As described on page 3, this includes responsibility for preparing 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 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 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 2001 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

A handwritten signature in dark ink, appearing to read 'KPMG Audit Plc', written over a horizontal line.

KPMG Audit Plc
*Chartered Accountants
Registered Auditor*

11 April 2002

Profit and loss account
for the year ended 31 December 2001

	<i>Note</i>	2001 £000	2000 £000
Turnover	2	100,617	98,700
Cost of sales		(89,287)	(85,438)
Gross profit		11,330	13,262
Administrative expenses		(4,518)	(4,782)
Operating profit		6,812	8,480
Interest payable	3	-	(748)
Profit on ordinary activities before taxation	2	6,812	7,732
Tax on profit on ordinary activities	5	-	-
Retained profit for the financial year	11	6,812	7,732

The company had no recognised gains or losses in 2001 or 2000 other than those reported in the profit and loss account.

All of the company's activities are continuing.

Balance sheet
at 31 December 2001

		2001	2000
	Notes	£000	£000
Fixed assets			
Tangible assets	6	327	611
Investments	7	487	489
		814	1,100
Current assets			
Stocks	8	1,393	1,396
Debtors	9	3,360	2,887
Cash in hand		1	1
		4,754	4,284
Creditors:			
Amounts falling due within one year	10	(13,458)	(20,086)
Net current liabilities		(8,704)	(15,802)
Net liabilities		(7,890)	(14,702)
Capital and reserves			
Share capital	11	15,000	15,000
Profit and loss account	11	(22,890)	(29,702)
Shareholder's deficit – equity		(7,890)	(14,702)

These financial statements were approved by the board of directors on 9 April 2002 and were signed on its behalf by:



R D Peters
Director



H Deeble
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.

The financial statements have been prepared on a going concern basis, notwithstanding the deficit on net assets, as the company's parent company has continued to provide ongoing financial support.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

The Company is exempt by virtue of Section 228 of the Companies Act 1985 from the requirement to prepare group accounts. These financial statements present information about the Company as an individual undertaking and not its group.

Cash flow statement

Under Financial Reporting Standard 1 (Revised), the company is exempt from the requirement to prepare a cash flow statement as it is a wholly owned subsidiary undertaking of a parent undertaking which has produced a group cash flow statement in accordance with the provisions of the Standard.

Turnover

Turnover (excluding value added tax) principally comprises income from the carrying of passengers, passenger and freight vehicles, and on board sales. Traffic revenue is recognised on departure of the relevant sailing.

Tangible fixed assets and depreciation

Depreciation is provided to write off cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful lives as follows:

Improvements to freehold buildings	-	over 5 years
Plant, machinery, fixtures and fittings	-	4 to 10 years from acquisition

Ships' refits

The cost of refitting each ship is recorded as a prepayment and amortised in equal instalments over the period up to the next scheduled refit for the ship.

Charter hire

Charter hire costs are charged to the profit and loss account over the charter period.

Investments

Investments held as fixed assets are stated at cost less provisions for any permanent diminution of value. Dividends received and receivable are credited to the profit and loss account to the extent that they represent a realised profit for the company.

Notes (continued)

1 Accounting policies (continued)

Stocks

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

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.

Taxation

Until 31 December 2000 the charge for taxation was based on the profit for the year taking into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision was made for deferred tax only to the extent that it was probable that an actual liability would crystallise.

During 2001 the Company elected for its qualifying activities to enter the UK tonnage tax regime with effect from 1 January 2001. Under the tonnage tax regime qualifying activities are taxed by reference to the tonnage of ships owned or operated rather than by reference to profits earned.

2 Turnover and profit on ordinary activities before taxation

Turnover and profit on ordinary activities before taxation are primarily derived from operating the P&OSL Canterbury and the P&OSL Provence vessels on the ferry routes between Great Britain and Continental Europe. These vessels are chartered from fellow group companies.

The profit on ordinary activities before taxation is stated after charging the following:

	2001 £000	2000 £000
Rentals under operating leases:		
Hire of ships on charter	10,950	10,980
Depreciation and other amounts written off tangible fixed assets:		
Owned assets	284	305

Auditors' fees are borne by another group company.

Notes (continued)

3 Interest payable

	2001 £000	2000 £000
To group undertakings	-	748
	<u> </u>	<u> </u>

The interest payment in 2000 arose on £10,000,000 unsecured loan notes issued by P&O Stena Line (Holdings) Limited, which were repaid on 31 December 2000.

4 Staff numbers and costs

The company does not employ any personnel directly, but draws on the resources of the employees of P&O Stena Line Limited, the costs of which are borne directly by that company. A recharge is made to P&O Stena Line (Short Sea) Limited by P&O Stena Line Limited to reflect this, and the staff numbers and aggregate payroll costs for all employees are disclosed within the financial statements of P&O Stena Line Limited.

The directors received no emoluments for services provided to the company (2000:nil).

5 Taxation on profit on ordinary activities

Tax on profit on ordinary activities is as follows :-

	2001 £000	2000 £000
UK corporation tax	10	-
Taxation recoverable from group shareholders	(10)	-
	<u> </u>	<u> </u>
	-	-
	<u> </u>	<u> </u>

The Company's activities are qualifying activities for the purpose of the UK tonnage tax regime and the Company pays corporation tax on these activities by reference to the tonnage of the ships owned or operated.

The amounts provided for deferred taxation and the amounts not provided are set out below:

	2001		2000
	Provided	Unprovided	Provided
	£000	£000	£000
Difference between accumulated depreciation and capital allowances	-	-	(549)
Losses	-	-	(7,127)
	<u> </u>	<u> </u>	<u> </u>
	-	-	(7,676)
	<u> </u>	<u> </u>	<u> </u>

Notes *(continued)*

5 Taxation on profit on ordinary activities *(continued)*

During 2001 the Company elected to enter the UK tonnage tax regime which eliminated future potential tax liabilities on its activities' profits.

6 Tangible fixed assets

	Freehold land and buildings	Plant, machinery, fixtures and fittings	Total
	£000	£000	£000
Cost			
At beginning and end of year	2,799	10,897	13,696
	<hr/>	<hr/>	<hr/>
Depreciation			
At beginning of year	2,725	10,360	13,085
Charge for year	33	251	284
	<hr/>	<hr/>	<hr/>
At end of year	2,758	10,611	13,369
	<hr/>	<hr/>	<hr/>
Net book value			
At 31 December 2001	41	286	327
	<hr/>	<hr/>	<hr/>
At 31 December 2000	74	537	611
	<hr/>	<hr/>	<hr/>

Notes (continued)

7 Fixed asset investments

	Shares in subsidiary undertakings £000
<i>Cost and net book value</i>	
At beginning of year	489
Share capital repayment	(2)
	<hr/>
At end of year	487
	<hr/>

Investments in shares in subsidiary undertakings comprise:

	% of issued shares held at year end	Principal activity	Country of incorporation
P&O Stena Line (ALA) SARL	100	Freight forwarding agent	France

The shareholding represents ordinary shares.

8 Stocks

	2001 £000	2000 £000
Raw materials and consumables	83	75
Finished goods and goods for resale	1,310	1,321
	<hr/>	<hr/>
	1,393	1,396
	<hr/>	<hr/>

9 Debtors

	2001 £000	2000 £000
Falling due within one year		
Prepayments and accrued income	3,360	2,887
	<hr/>	<hr/>

Notes (continued)

10 Creditors: amounts falling due within one year

	2001 £000	2000 £000
Amounts owed to group undertakings	13,458	20,086

11 Capital and Reserves

(a) Called up share capital

	2001 £000	2000 £000
<i>Authorised, allotted, called up and fully paid</i>		
<i>Equity</i>		
Ordinary shares of £1 each	15,000	15,000

(b) Reconciliation of movements in equity shareholder's funds

	Profit and loss account £000	Share Capital £000	Total £000
At beginning of year	(29,702)	15,000	(14,702)
Profit for the year	6,812	-	6,812
At end of year	(22,890)	15,000	(7,890)

12 Related party disclosures

Under Financial Reporting Standard 8, the company is exempted from reporting transactions with its parent and fellow subsidiary undertakings, as 90 per cent or more of the voting rights of the company are controlled within the group.

P&O and Stena Line Scandinavia AB have entered into non-exclusive, royalty-free trademark licence agreements with the company's parent company, allowing the Company and its fellow subsidiaries to use the P&O name and logo and the Stena Line name respectively. These licence agreements can be terminated by the respective licensor in certain circumstances.

13 Ultimate parent and controlling company

The company's immediate controlling party and parent undertaking is P&O Stena Line (Holdings) Limited, incorporated in Great Britain and registered in England and Wales. The consolidated financial statements of P&O Stena Line (Holdings) Limited are available to the public and may be obtained from The Registrar of Companies, Companies House, Crown Way, Cardiff, CF4 3HZ.

P&O Stena Line (Holdings) Limited is jointly controlled by The Peninsular and Oriental Steam Navigation Company and Stena Line (UK) Limited.