

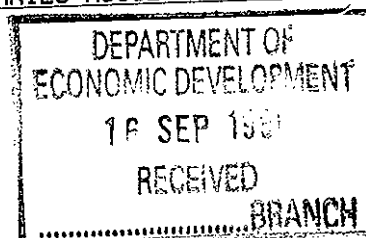
P&O Ferrymasters Limited

Directors' report and financial statements

31 December 1995

Registered number NI 4115

KPMG



P&O Ferrymasters Limited

Directors' report and financial statements

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P&O Ferrymasters Limited

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 1995.

Principal activities

The company is involved in international transport between Great Britain and the Continent of Europe. There has been no change in the company's activities during the year and no future changes are envisaged.

Business review

During the year a number of events affected the conduct of the company's business. The MV Norsky was sold at net book value to Pandoro Limited, a fellow group company. This resulted in a number of redundancies of both Seafarers and Drivers, as traffic previously moved through Ipswich was carried on third party shipping services using Northern UK Ports. Redundancy costs are stated within administrative expenses.

The company purchased the Belgium business of P&O Ferrymaster BV during March 1995. This has been the major factor behind the increase in turnover during the year.

The trading position of the company at the year end is as shown on page 6.

Proposed dividend and transfer to reserves

The directors recommended the payment of a dividend in the year of £1,200,000 (1994:£3,000,000). A transfer to reserves of the retained loss of £685,000 is shown in note 19.

Significant changes in fixed Assets

Details of fixed asset movements during the year are shown in note 11 to the financial statements.

Directors and directors' interests

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

JH Paton	(Chairman)
D Munt	(Retired 31 July 1995)
J Bradshaw	(Managing Director)
DJ Crowther	(Deputy Managing Director)
MT Monaghan	
J Van den Bos	
PJ Rogers	
B Gill	
U Holmblad	
MN Taylor	(Appointed 31 July 1995)

P&O Ferrymasters Limited

Directors' report

Directors and directors' interests (continued)

The directors who held office at the end of the financial year had the following interests in the ordinary shares of group companies, as recorded in the register of directors' share and debenture interests:

	The Peninsular and Oriental Steam Navigation Company		Deferred stock under options granted/(lapsed) during the year	Deferred stock under options exercised during the year
	£1 Deferred Ordinary Shares			
	At 31/12/95	At 31/12/94		
MT Monaghan	7,351	4,308	-	-
JH Paton	8,174	8,579	19,228	758
J Bradshaw	1,522	1,809	7,500	-
DJ Crowther	1,076	797	521	521
J Van den Bos	1,191	1,170	8,300	-
PJ Rogers	1,389	1,187	-	-
B Gill	474	219	1,800	-
U Holmblad	-	-	2,200	-
MN Taylor	2,515	2,280	5,000	-

The options are generally exercisable not later than May 2005 at prices between 305p and 717p.

No director had any material interest in any contract with the company except as disclosed in this report and financial statements.

Employees

The company recognises the need to keep employees informed and encourages identification with their employer. A company newsletter maintains regular contact with employees at all locations.

Internal training courses have been developed and induction training allows new employees to become familiar with the structure of the company and its procedures shortly after taking up employment with the company.

Briefings and notices are issued on a regular basis to employees enabling them to understand their role in the organisation more clearly.

P&O Ferrymasters Limited

Directors' report

Employment of disabled persons

Contacts are maintained with Disablement Resettlement Offices with a view to ensuring full and fair consideration of any disabled applicant for employment. The company endeavours to retain any existing employee who may become disabled, providing specialised training where appropriate. If modified or additional facilities are needed for a disabled employee, all reasonable steps are taken to provide them.

By order of the board



J Bradshaw
Director

12th June 1996

Peninsular House
Lower Brook Street
Ipswich
Suffolk

P&O Ferrymasters Limited

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.



St James' Square
Manchester M2 6DS

Report of the auditors to the members of P&O Ferrymasters Limited

We have audited the financial statements on pages 6 to 22.

Respective responsibilities of directors and auditors

As described on page 4 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, of 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 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 1995 and of its profit for the year then ended and have been properly prepared in accordance with the Companies (Northern Ireland) Order 1986.

KPMG
Chartered Accountants
Registered Auditors

14 June 1996



P&O Ferrymasters Limited

Profit and loss account

for the year ended 31 December 1995

	<i>Note</i>	1995 £000	1994 £000
Turnover from continuing operations	2	75,889	65,468
Cost of sales		(65,372)	(55,536)
Gross profit on continuing operations		10,517	9,932
Administrative expenses		(10,758)	(9,540)
Operating loss/(profit) on continuing operations		(241)	392
Share of associates		(8)	-
Profit on sale of fixed assets	6	311	242
Other interest receivable and similar income	7	1,549	1,757
Interest payable and similar charges	8	(1,216)	(1,423)
Profit on ordinary activities before taxation	3	395	968
Tax on profit on ordinary activities	9	120	(419)
Profit on ordinary activities after taxation		515	549
Dividends paid and proposed	10	(1,200)	(3,000)
Retained loss for the financial year	19	(685)	(2,451)

A statement of movements on reserves is given in note 19.

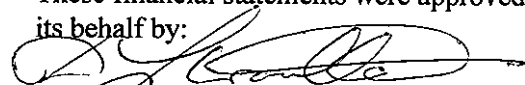
P&O Ferrymasters Limited

Balance sheet

at 31 December 1995

	Note	1995 £000	1994 £000
Fixed assets			
Tangible assets	11	20,936	20,434
Investments	12	-	-
		<u>20,936</u>	<u>20,434</u>
Current assets			
Stocks	13	496	856
Debtors	14	17,290	17,327
Cash at bank and in hand		354	28
		<u>18,140</u>	<u>18,211</u>
Creditors: amounts falling due within one year	15	(15,005)	(13,677)
		<u>3,135</u>	<u>4,534</u>
Net current assets			
		<u>24,071</u>	<u>24,968</u>
Total assets less current liabilities			
Creditors: amounts falling due after more than one year	16	(5,535)	(5,238)
Provisions for liabilities and charges	17	(2,024)	(2,533)
		<u>16,512</u>	<u>17,197</u>
Net assets			
Capital and reserves			
Called up share capital	18	12,000	12,000
Revaluation reserve	19	790	3,909
Profit and loss account	19	3,722	1,288
		<u>16,512</u>	<u>17,197</u>
Shareholders' funds			
		<u>16,512</u>	<u>17,197</u>

These financial statements were approved by the board of directors on 12th June 1996 and were signed on its behalf by:


DJ Crowther
 Director

P&O Ferrymasters Limited

Statement of total recognised gains and losses for the year ended 31 December 1995

	1995 £000	1994 £000
Profit for the financial year	515	549
Unrealised deficit on revaluation of properties	-	(25)
Total recognised gain relating to the financial year	515	524

Note of historical cost profits and losses for the year ended 31 December 1995

	1995 £000	1994 £000
Reported profit on ordinary activities before taxation	395	968
Realisation of revaluation reserve on transfer of ship	3,047	-
Depreciation on revalued amounts in excess of amounts charged on cost	136	630
Historical cost profit on ordinary activities before taxation	3,183	1,598
Historical cost profit/(loss) for the financial year retained after taxation and dividends	2,103	(1,821)

Reconciliation of movements in shareholders' funds for the year ended 31 December 1995

	1995 £000	1994 £000
Profit for the financial year	515	549
Dividends	(1,200)	(3,000)
	(685)	(2,451)
Unrealised deficit on revaluation of properties	-	(25)
Net reduction to shareholders' funds	(685)	(2,476)
Opening shareholders' funds	17,197	19,673
Closing shareholders' funds	16,512	17,197

P&O Ferrymasters Limited

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 assets.

Fixed assets and depreciation

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

Plant and machinery	- 4 to 12 years
Ships	- 20 years

No depreciation is provided on freehold land and buildings.

Leases

Where the company enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a 'finance lease'. The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated over its estimated useful life. Future instalments under such leases, net of finance charges, are included with creditors. Rentals payable are apportioned between the finance element, which is charged to the profit and loss account, and the capital element which reduces the outstanding obligation for future instalments.

All other leases are accounted for as 'operating leases' and the rental charges are charged to the profit and loss account in the year in which they arise.

Stocks

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

Foreign exchange

Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Exchange differences arising in the ordinary course of trading are included in operating profit and other exchange differences are taken to reserves.

P&O Ferrymasters Limited

Notes (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 an actual liability will crystallise.

Cash Flow

The company is exempt from the requirement to include a cash flow statement as it is a wholly owned subsidiary of The Peninsular and Oriental Steam Navigation Company which is established under the law of a member state of the European Community and publishes a consolidated cash flow statement for the group.

Turnover

Turnover represents the amounts (excluding value added tax) derived from transport revenue to customers during the year.

Pensions

The company participates in the main P&O group pension scheme which is a defined benefit scheme with assets held in a separate trustee administered fund.

Pension scheme contributions are calculated as a percentage, agreed on actuarial advice, of the pensionable salaries of employees. Contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives.

Formal actuarial valuations of the main P&O scheme are carried out triennially by R Watson & Sons, consulting actuaries, the latest completed valuation being as at 1 April 1994. Particulars of this actuarial valuation are contained in the accounts of The Peninsular and Oriental Steam Navigation Company. The next formal valuation is due to take place with an effective date of 1 April 1997. In the meanwhile, the charge for the year has been assessed in consultation with the scheme's actuaries, having regard to changes since the last valuation relating principally to investment conditions, UK taxation legislation and the sale of subsidiaries.

P&O Ferrymasters Limited

Notes (continued)

2 Analysis of turnover

The turnover and profit before tax of the company is derived primarily from transport activities.

Turnover can be analysed, by geographical market, as follows:

	1995 £000	1994 £000
United Kingdom	34,615	27,276
Continental Europe	25,192	24,236
Turnover to third parties	59,807	51,512
Sales to group companies	16,082	13,956
	75,889	65,468

3 Profit on ordinary activities before taxation

	1995 £000	1994 £000
<i>Profit on ordinary activities before taxation is stated after charging</i>		
Auditors' remuneration:		
Audit	32	31
Depreciation and other amounts written off tangible fixed assets:		
Owned	3,150	3,373
Leased	412	424
Exchange losses	92	50
Hire of plant and machinery - rentals payable under operating leases	15	9

The total amount charged to revenue for the hire of plant and machinery amounted to £427,000 (1994: £433,000). This comprises rentals payable under operating leases as well as depreciation on plant and machinery held under finance leases together with the related finance charges.

P&O Ferrymasters Limited

Notes (continued)

4 Remuneration of directors

	1995 £000	1994 £000
Directors' emoluments:		
Remuneration as executives	273	278

The emoluments, excluding pension contributions, of the highest paid director were £94,116 (1994:£71,845).

The emoluments, excluding pension contributions, of the directors (including the chairman and highest paid director) were within the following ranges

			Number of directors	
			1995	1994
£30,001	-	£35,000	1	-
£40,001	-	£45,000	1	2
£50,001	-	£55,000	2	1
£65,001	-	£70,000	-	1
£70,001	-	£75,000	-	1
£90,001	-	£95,000	1	-

Mr JH Paton and Mr D Munt were paid by P&O European Transport Services Limited, Mr U Holmblad was paid by P & O Ferrymasters AB, and MN Taylor was paid by P & O Distribution Limited, Dr MT Monaghan was paid by The Peninsular and Oriental Steam Navigation Company, without specific recharge. Accordingly, their emoluments are disclosed in the financial statements of these companies.

Information in respect of directors' options is given under directors' share interests in the directors' report.

P&O Ferrymasters Limited

Notes (continued)

5 Staff numbers and costs

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

	1995	1994
Seafarers	50	92
Drivers	165	197
Maintenance and repair	104	104
Clerical/supervisory	226	224
	<hr/>	<hr/>
	545	617
	<hr/>	<hr/>

The aggregate payroll costs of these persons were as follows:

	1995 £000	1994 £000
Wages and salaries	10,532	11,408
Social security costs	834	910
Other pension costs	458	518
	<hr/>	<hr/>
	11,824	12,836
	<hr/>	<hr/>

P&O Ferrymasters Limited

Notes (continued)

6 Profit on sale of fixed assets

1995	1994
£000	£000

Profit on sale of fixed assets	311	242
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7 Other interest receivable and similar income

1995	1994
£000	£000

From group undertakings	1,538	1,707
Bank interest	11	50

<u>1,549</u>	<u>1,757</u>
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8 Interest payable and similar charges

1995	1994
£000	£000

To group undertakings	1,005	1,209
Bank interest	211	214

<u>1,216</u>	<u>1,423</u>
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P&O Ferrymasters Limited

Notes *(continued)*

9 Taxation

	1995 £000	1994 £000
UK corporation tax at 33% (1994: 33%)		
- current	396	547
- prior year	(298)	-
Deferred taxation		
- current	(218)	(131)
- prior year	-	3
	<u>(120)</u>	<u>419</u>

10 Dividends

	1995 £000	1994 £000
Ordinary shares of £1 each	1,200	3,000

P&O Ferrymasters Limited

Notes (continued)

11 Tangible fixed assets

	Owne Ships £000	Lease Ships £000	Freehold Land and Building £000	Plant and machinery Leased £000	Plant and machinery Owned £000	Fixtures fittings tools and equipment £000	Total £000
Cost or valuation							
At beginning of year	13,417	6,755	165	2,616	24,529	2,396	49,878
Additions	75	-	-	-	6,584	130	6,789
Intra group transfers	(11,819)	-	-	-	1,753	6	(10,060)
Reclassifications	-	-	-	(52)	52	-	-
Disposals	-	-	-	(507)	(2,520)	(232)	(3,259)
Exchange adjustments	-	-	-	-	(18)	-	(18)
At end of year	1,673	6,755	165	2,057	30,380	2,300	43,330
Depreciation							
At beginning of year	(9,217)	(5,135)	-	(2,307)	(10,944)	(1,841)	(29,444)
Charge for year	(309)	(316)	-	(96)	(2,687)	(154)	(3,562)
Intra group transfers	8,313	-	-	-	(498)	(1)	7,814
Reclassifications	-	-	-	42	(42)	-	-
Disposals	-	-	-	472	2,092	225	2,789
Exchange adjustment	1	-	-	-	8	-	9
At end of year	(1,212)	(5,451)	-	(1,889)	(12,071)	(1,771)	(22,394)
Net book value							
At 31 December 1995	461	1,304	165	168	18,309	529	20,936
At 31 December 1994	4,200	1,620	165	309	13,585	555	20,434

P&O Ferrymasters Limited

Notes (continued)

11 Tangible fixed assets (continued)

Particulars relating to revalued assets are given below:

	1995		1994	
	Land and buildings £000	Ships £000	Land and buildings £000	Ships £000
Assets at revalued amounts	165	13,417	165	13,351
Transfers	-	(11,819)	-	-
Additions at cost	-	75	-	66
Aggregate depreciation thereon	-	(1,213)	-	(9,217)
Net book value	165	460	165	4,200
Historical cost of revalued assets	330	-	330	920
Aggregate depreciation thereon	-	-	-	(690)
Historical cost net book value	330	-	330	230

Ships were revalued at 1 July 1990. The freehold land and buildings of the company were revalued as at 31 December 1994 on the basis of the open market value by RA Knight FRICS, the chief surveyor of the Peninsular and Oriental Steam Navigation Company. The revaluation deficit and exchange movements relating to foreign currency denominated assets have been taken directly to reserves.

Other tangible fixed assets, including subsequent additions to land and buildings and ships, are included at cost.

P&O Ferrymasters Limited

Notes (continued)

12 Fixed asset investments

	Associated undertaking £000
<i>Cost</i>	
At beginning	33
Disposed in the year	(33)
	<hr/>
At the end of the year	-
<i>Provisions</i>	
At beginning of year	(33)
Released in the year	33
	<hr/>
At end of year	-
<i>Net book value</i>	
At 31 December 1995	-
	<hr/>
At 31 December 1994	-
	<hr/>

13 Stocks

	1995 £000	1994 £000
Raw materials and consumables	480	837
Work in progress	16	19
	<hr/>	<hr/>
	496	856
	<hr/>	<hr/>

P&O Ferrymasters Limited

Notes (continued)

14 Debtors

	1995	1994
	£000	£000
Trade debtors	7,241	4,577
Amounts owed by parent and fellow subsidiary undertakings	8,026	11,067
Other debtors	237	518
Prepayments and accrued income	1,786	1,165
	<u>17,290</u>	<u>17,327</u>

15 Creditors: amounts falling due within one year

	1995		1994	
	£000	£000	£000	£000
Bank loans and overdrafts		2,382		1,413
Trade creditors		6,048		6,061
Other creditors including taxation and social security:				
Corporation tax	396		961	
Other taxes and social security	236		320	
Pensions	402		-	
	<u> </u>	1,034	<u> </u>	1,281
Accruals and deferred income		5,541		4,922
		<u>15,005</u>		<u>13,677</u>

Bank loans and overdrafts are secured by a guarantee from The Peninsular and Oriental Steam Navigation Company.

P&O Ferrymasters Limited

Notes (continued)

16 Creditors: amounts falling due after more than one year

	1995 £000	1994 £000
Amounts owed to parent and fellow subsidiary undertakings	5,535	5,238

17 Provisions for liabilities and charges

	Provision against associated company £000	Legal provision £000	Dry dock provision £000	Deferred taxation £000	Total £000
At beginning of year	33	200	351	1,949	2,533
Decrease in provision in the year	(33)	-	(258)	(218)	(509)
At end of year	-	200	93	1,731	2,024

The amounts provided for deferred taxation are set out below:

	Amounts provided and full potential liability	
	1995 £000	1994 £000
Accelerated capital allowances	2,308	2,555
Short term timing differences	(577)	(606)
	1,731	1,949

P&O Ferrymasters Limited

Notes (continued)

18 Called up share capital

	1995 £000	1994 £000
Authorised 15,000,000 ordinary shares of £1 each	15,000	15,000
Alotted, called up and fully paid 12,000,000 ordinary shares of £1 each	12,000	12,000

19 Reserves

	Revaluation reserve £000	Profit and loss account £000	Total £000
At beginning of year	3,909	1,288	5,197
Realisation of revaluation on transfer of ship	(3,047)	3,047	-
Retained loss for the year	-	(685)	(685)
Transfer of depreciation on the difference between revalued amount and historical cost	(72)	72	-
At end of year	790	3,722	4,512

20 Contingent liabilities

The company had no contingent liabilities at 31 December 1995 (1994: £Nil).

21 Commitments

- (i) Capital commitments at the end of the financial year for which no provision has been made:

	1995 £000	1994 £000
Contracted	1,015	1,440

P&O Ferrymasters Limited

Notes (continued)

21 Commitments (continued)

- (ii) Annual commitments under non-cancellable operating leases are as follows:

	1995		1994	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Operating leases which expire:				
Within one year	43	1	-	28
In the second to fifth years inclusive	41	1,089	116	907
Over five years	332	-	332	1
	<u>416</u>	<u>1,090</u>	<u>448</u>	<u>936</u>

22 Ultimate parent company and parent undertaking of larger group of which the company is a member

The company is a subsidiary undertaking of P&O European Transport Services Limited, which is incorporated in Great Britain.

The ultimate parent company is The Peninsular and Oriental Steam Navigation Company, which is also incorporated in Great Britain.

Copies of the group accounts are available to the public and may be obtained from:

The Registrar of Companies
Companies House
Crown Way
Cardiff
CF4 3HZ.