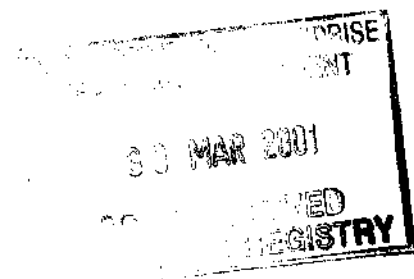


P&O Ferrymasters Limited

**Directors' report and financial
statements**

Registered number NI4115

31 December 1999



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Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 1999.

Principal activities

The company is involved in international transport between Great Britain, Ireland and the Continent of Europe.

During the year as part of a group reorganisation the company acquired the assets and business of P&O Ferrymasters BV in consideration for the issue of 2,300 ordinary shares. In addition the company acquired the business and assets of P&O Ferrymasters AB, P&O Ferrymasters AS (Norway), Pandoro Limited and Transcontinental (Rosslare) Limited.

Business review

Trading volumes have continued to show satisfactory growth, although revenues have been adversely affected by the strengthening of sterling.

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

Proposed dividend and transfer from reserves

The directors do not recommend the payment of a dividend in the year (1998: £Nil). Movements on reserves are shown in note 18.

Significant changes in fixed Assets

Details of fixed asset movements during the year are shown in note 10 of the financial statements.

Directors and directors' interests

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

J Bradshaw	Managing Director
J Van den Bos	
PJ Rogers	
B Gill	
U Holmblad	
MN Taylor	
CJ Rice	Chairman
G Dilley	
D Richmond	(resigned 1 December 1999)
G Osen	(resigned 6 October 1999)

Directors' report (continued)

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

	£1 Deferred Ordinary Shares		Deferred stock under options granted/(lapsed) during the year	Deferred stock under option exercised during the year		
	31.12.1999	31.12.1998		Number	Exercise price	Market price when exercised
J Bradshaw	1,285	1,334	4,900			
J Van den Bos	-	-	-			
PJ Rogers	2,087	1,928	3,600	1,274	305p	990p
				2,200	607p	990p
B Gill	534	698	2,700	-	-	-
U Holmblad	-	-	-	1,274	305p	910p
				2,200	580p	910p
MN Taylor	2,321	2,532	5,500	6,500	607p	926p
				5,000	580p	926p
CJ Rice	79	1,566	-	14,400	580p	902p
G Dilley	553	350	5,211	-	-	-

* From date of appointment

The options are generally exercisable not later than May 2008 at prices between 305p and 885p.

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.

Credit payment policy

The Company's policy is to pay suppliers in accordance with terms and conditions agreed when the order are placed. Where payment terms have not been specifically agreed, then invoices dated in one calendar month are paid close to the end of the following month. This policy is understood by the purchasing and finance departments. The company has procedures for dealing promptly with complaints and disputes. The company had 48 days' purchases outstanding at 31 December 1999 (1998: 43 days).

Directors' report *(continued)*

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.

Year 2000

The directors have taken steps to ensure that the company's systems are not adversely affected by the Year 2000 date change. No significant additional external costs have been incurred. The company has experienced no problems to date, with uneventful roll over at 31 December 1999 and at the 29 February 2000 leap day. The directors will continue to monitor the situation but do not anticipate any problems or additional costs to arise.

Implication of the Euro

The company has assessed the business effect of the introduction of the Euro. This has involved the training of staff and ensuring computer systems are suitably tested and modified where necessary. Nevertheless, it is anticipated that the effect on the company will be limited until the first issue of notes and coins in January 2002. The company has not incurred any significant costs to date and does not expect to incur significant costs in the future in relation to the introduction of the Euro

By order of the board


C Goates
Secretary

Peninsular House
Lower Brook Street
Ipswich
Suffolk

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
6 Lower Brook Street
Ipswich IP4 1AP
United Kingdom

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

We have audited the financial statements on pages 6 to 20.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 4, 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, 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 1999 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

*Chartered Accountants
Registered Auditor*

27 March 2001

Profit and loss account
for the year ended 31 December 1999

	<i>Note</i>	1999 Total £000	1998 Total £000
Turnover	2	324,497	146,158
Cost of sales		(287,749)	(124,155)
Gross profit		36,748	22,003
Administrative expenses		(37,144)	(19,038)
Operating profit on continuing operations		(396)	2,965
Other interest receivable and similar income	6	616	17
Interest payable and similar charges	7	(3,498)	(562)
Profit on the disposal of fixed assets		11	-
(Loss)/profit on ordinary activities before taxation	3	(3,267)	2,420
Tax on (loss)/profit on ordinary activities	8	1,689	(1,114)
(Loss)/profit on ordinary activities after taxation		(1,578)	1,306
Dividends paid and proposed		-	-
Retained (loss)/profit for the financial year	18	(1,578)	1,306

A statement of movements on reserves is given in note 18.

Turnover and operating profit entirely relate to continuing activities as defined by FRS 3.


There were no recognised gains or losses in 1999 and 1998, other than those recognised in the profit and loss accounts.

The notes on pages 9 to 20 form part of these financial statements.

Balance sheet

	Note	1999 £000	1998 £000	1998 £000
Fixed assets				
Intangible assets	9	4,013	4,077	
Tangible assets	10	35,601	15,385	
Investments	11	2,481	-	
			42,095	19,462
Current assets				
Stocks	12	735	775	
Debtors	13	93,002	33,847	
Cash at bank and in hand		-	2,543	
		93,737	37,165	
Creditors: amounts falling due within one year	14	(88,375)	(32,229)	
Net current assets			5,362	4,936
Total assets less current liabilities			47,457	24,398
Creditors: amounts falling due after more than one year	15	(30,540)	(9,827)	
Provisions for liabilities and charges	16	(3,118)	(1,494)	
Net assets			13,799	13,077
Capital and reserves				
Called up share capital	17	14,300	12,000	
Revaluation reserve	18	750	750	
Profit and loss account	18	(1,251)	327	
Shareholders' funds			13,799	13,077

These financial statements were approved by the board of directors on 22/2/01 and were signed on its behalf by:


J Bradshaw
Director

Note of historical cost profits and losses
for the year ended 31 December 1999

	1999 £000	1998 £000
Reported (loss)/profit on ordinary activities before taxation	(3,267)	2,420
Depreciation on revalued amounts in excess of amounts charged on cost	33	33
Historical cost (loss)/profit on ordinary activities before taxation	(3,234)	2,453
Historical cost (loss)/profit for the financial year retained after taxation and dividends	(1,545)	1,339

Reconciliation of movements in shareholders' funds
for the year ended 31 December 1999

	1999 £000	1998 £000
(Loss)/profit for the financial year	(1,578)	1,306
other recognised gains and losses relating to the year	-	-
Net (reduction)/additions to shareholders' funds	(1,578)	1,306
Opening shareholders' funds	13,077	11,771
Issued 2,300,000 ordinary shares of £1 each	2,300	-
Closing shareholders' funds	13,799	13,077

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.

Cash flow statement

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 a company established under the law of a member state of the European Community which publishes a consolidated cash flow statement for the group.

Goodwill

Goodwill acquired is included within intangible fixed assets and is stated at cost less accumulated amortisation. Amortisation is calculated to write off goodwill on a straight line basis over its expected useful life, normally 20 years.

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:

Owned and leased plant and machinery	-	2 to 12 years
Owned and leased ships	-	20 to 30 years, or if shorter the life of the lease
Fixtures and fittings	-	4 to 10 years

Freehold land and buildings

No depreciation is provided on freehold land and buildings where the directors are of the opinion that the buildings concerned are currently sufficiently well maintained to ensure that the residual values of such properties are not less than cost or valuation (based on prices prevailing at the time of acquisition or subsequent valuation) and accordingly annual depreciation or amortisation would be immaterial to the financial statements.

Leases

When 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 for the year in which they arise.

Notes (continued)

Accounting policies (continued)

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.

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.

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 schemes are carried out triennially by R Watson & Sons, consulting actuaries, the latest completed valuation being as at 1 April 1997. 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 2000. 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.

Some employees participate in a separate deferred contribution scheme. Contributions are charged to the profit and loss account in the period in which they are paid.

Related party transactions

The company has taken advantage of the exemption under Financial Reporting Standard 8 (FRS 8) not to provide details of dealings with other members of the group

Notes (continued)

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:

	1999 £000	1998 £000
United Kingdom	126,140	90,769
Continental Europe	183,403	39,875
Turnover to third parties	309,543	130,644
Sales to group companies	14,954	15,514
	<u>324,497</u>	<u>146,158</u>

3 Profit/ (loss) on ordinary activities before taxation

	1999 £000	1998 £000
<i>Profit/ (loss) on ordinary activities before taxation is stated after charging</i>		
Auditors' remuneration:		
Audit	108	66
Depreciation and other amount written off tangible fixed assets:		
Owned	3,560	2,634
Leased	51	82
Amortisation of goodwill	214	185
Exchange losses/ (gains)	223	84
Hire of plant and machinery - rentals payable under operating leases	2,049	1,303
	<u></u>	<u></u>

Notes (continued)

4 Remuneration of directors

	1999 £000	1998 £000
Directors' emoluments:		
Remuneration as executives	576	365

The emoluments, excluding pension contributions, of the highest paid director was £106,602 (1998: £91,263). This accrued pension at the year end was £42,878 (1998: £38,607).

The aggregate amount of pension contributions paid on behalf of the directors was £64,260 (1998: £40,168). The number of directors to whom retirement benefits are accruing is 5 (1998: 5) under the P&O deferred benefit Pension Scheme.

Mr MN Taylor was paid by P&O Trans European (Holdings) Limited, Dr MT Monaghan and Mr CJ Rice were paid by The Peninsular and Oriental Steam Navigation Company. Their emoluments have been disclosed in the accounts of P&O Trans European (Holdings) Limited and the Peninsular & Oriental Steam Navigation Company respectively. In addition to the remuneration received from the company Mr U Holmblad was also paid by P&O Ferrymasters AB.

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

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:

	1999	1998
Seafarers	-	38
Drivers	401	323
Maintenance and repair	244	197
Administrative & supervisory	667	537
	<u>1,312</u>	<u>1,095</u>

The aggregate payroll costs of these persons were as follows:

	1999 £000	1998 £000
Wages and salaries	25,791	15,386
Social security costs	2,250	1,252
Other pension costs	1,790	833
	<u>29,931</u>	<u>17,471</u>

Notes (continued)

6 Other interest receivable and similar income

	1999 £000	1998 £000
Group undertakings	-	13
Bank interest	616	4
	<u>616</u>	<u>17</u>

7 Interest payable and similar charges

	1999 £000	1998 £000
Group undertaking	1,004	-
Bank interest	2,494	562
	<u>3,498</u>	<u>562</u>

8 Taxation

	1999 £000	1998 £000
UK corporation tax (credit)/charge at 30% (1998: 31%)		
current	(859)	1,077
prior year	678	181
Deferred taxation		
current	(21)	(277)
prior year	(1,487)	84
change in tax rate	-	49
	<u>(1,689)</u>	<u>1,114</u>

Notes (continued)

9

Intangible fixed assets

Goodwill	1999
	£000
<i>Cost</i>	
At beginning of year	4,262
Additions	150
	<hr/>
At end of year	4,412
	<hr/>
<i>Amortisation</i>	
At beginning of year	(185)
Charge for the year	(214)
	<hr/>
At end of year	(399)
	<hr/>
<i>Net book value</i>	
At 31 December 1999	4,013
	<hr/>
At 31 December 1998	4,077
	<hr/>

Notes (continued)

10 Tangible fixed assets

	Owned ships	Leased ships	Freehold land and building	Long lease land and buildings	Plant and machinery leased	Plant and machinery owned	Fixtures fittings tools and equipment	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Cost or valuation								
At beginning of year	1,673	6,755	225	280	552	29,416	2,758	41,659
Additions	-	-	-	-	-	9,662	1,898	11,560
Intra-Group transfers	-	-	3,532	-	-	32,639	370	36,541
Reclassifications	-	-	-	-	-	(344)	-	(344)
Disposals	-	-	-	-	(473)	(3,332)	(161)	(3,966)
At end of year	1,673	6,755	3,757	280	79	68,041	4,865	85,450
Depreciation								
At beginning of year	(1,326)	(5,694)	-	-	(524)	(17,377)	(1,353)	(26,274)
Charge for the year	(38)	(77)	-	-	(1)	(5,438)	(547)	(6,101)
Intra group transfers	-	-	-	-	-	(19,860)	(230)	(20,090)
Reclassifications	-	-	-	-	-	-	-	-
Disposals	-	-	-	-	451	2,165	-	2,616
At end of year	(1,364)	(5,771)	-	-	(74)	(40,510)	(2,130)	(49,849)
Net book value								
At 31 December 1999	309	984	3,757	280	5	27,531	2,735	35,601
At 31 December 1998	347	1,061	225	280	28	12,039	1,405	15,385

Notes (continued)

Tangible fixed assets (continued)

Particulars relating to revalued assets are given below:

	1999		1998	
	Freehold land and building £000	Ships £000	Freehold land and building £000	Ships £000
Historical cost of revalued assets	330	7,507	330	7,507
Aggregate depreciation	-	(6,429)	-	(6,347)
Historical cost net book value	330	1,078	330	1,160

Ships were revalued at 1 July 1990. The freehold land and buildings of the company were revalued as at 31 December 1997 on the basis of the open market value by RA Knight FRICS, the Group Chief surveyor of The Peninsular and Oriental Steam Navigation Company. The valuations are in accordance with the RICS Appraisal and Valuation Manual.

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.

11 Investments

	Unlisted investments £000	Total £000
Cost or valuation		
At beginning of year	-	-
Additions	2,481	2,481
Intra-group transfers	-	-
Disposals	-	-
At end of year	2,481	2,481

Notes (continued)

12 Stocks

	1999 £000	1998 £000
Raw materials and consumables	735	756
Work in progress	-	19
	<u>735</u>	<u>775</u>

13 Debtors

	1999 £000	1998 £000
Trade debtors	68,503	21,568
Amounts owed by group undertakings:		
Parent company	-	149
Fellow subsidiaries	13,206	6,160
Corporation tax	1,919	80
Other tax and social security	1,694	-
Other debtors	325	2,722
Prepayments and accrued income	7,355	3,168
	<u>93,002</u>	<u>33,847</u>

14 Creditors: amounts falling due within one year

	1999 £000	1998 £000
Bank loans and overdrafts	24,314	-
Trade creditors	44,823	17,057
Other creditors including taxation and social security:		
Corporation tax	-	1,077
Other taxes and social security	596	3,337
Pensions	650	568
Other creditors	3,539	1,186
	<u>4,785</u>	<u>6,168</u>
Accruals and deferred income	14,453	9,004
	<u>88,375</u>	<u>32,229</u>

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

Notes (continued)

15 Creditors: amounts falling due after more than one year

	1999 £000	1998 £000
Amounts owed to group undertakings:		
Parent company	1,767	4,721
Fellow subsidiaries	28,773	5,106
	<u>30,540</u>	<u>9,827</u>

16 Provisions for liabilities and charges

	Deferred Taxation £000
At beginning of year	1,494
Change in corporation tax rate	-
Decrease in provision in the year	(1,500)
Arising on acquisition	3,124
	<u>3,118</u>
At end of year	<u>3,118</u>

The amounts provided for deferred taxation are set out below:

	Amounts provided and full potential liability	
	1999 £000	1998 £000
Accelerated capital allowances	3,439	2,342
Short term timing differences	(321)	(848)
	<u>3,118</u>	<u>1,494</u>

17 Called up share capital

	1999 £000	1998 £000
Authorised 15,000,000 ordinary shares of £1 each	<u>15,000</u>	<u>15,000</u>
Allotted, called up and fully paid 12,000,000 ordinary shares of £1 each	<u>12,000</u>	<u>12,000</u>
Issued 2,300,000 ordinary shares of £1 each	<u>2,300</u>	<u>-</u>

Notes (continued)

18 Reserves

	Revaluation reserve £000	Profit and loss account £000	Total £000
At beginning of year	750	327	1,077
Retained (loss)/profit for the year		(1,578)	(1,578)
At end of year	750	(1,251)	(501)

19 Commitments

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

	Land and buildings £000	1999 Other £000	Land and buildings £000	1998 Other £000
Operating leases which expire:				
Within one year	357	2,530	-	2,695
In the second to fifth years inclusive	577	5,289	763	3,166
Over five years	707	2,703	192	543
	1,641	10,522	955	6,404

Notes (continued)

20 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, a company incorporated in England and Wales. This company does not prepare consolidated accounts.

The ultimate parent company is The Peninsular and Orient Steam Navigation Company, a public company incorporated in England and Wales.

The largest group into which the results of the company are consolidated is that headed by The Peninsular and Oriental Steam Navigation Company.

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

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

21 Post balance sheet events

After the year end the following events occurred.

On the 16 March 2000 the company purchased the business and assets of Portbridge Transport International Limited and since acquisition the business has traded satisfactorily.

On 4 August 2000 the company sold the Irish Refrigeration business and assets to McBurney Transport Limited.

On 22 December 2000 the company sold the fixed assets in relation to the Scandinavian business to DFDS Transport.