

sc  
7173  
BENELUX

More SHARP shared-user IT across Europe

Europe generating 45% of sales

UNITED KINGDOM

Extending our reach...

Strong cash generation

SPAIN

Further strategic acquisitions

Coverage from Baltic to Mediterranean

FRANCE

PORTUGAL

Action to eliminate underperforming assets

ITALY

Training and development enhanced

...advancing our  
technology

GERMANY

Single brand identity rolling-out



SCT SPGIW4ET 0256  
COMPANIES HOUSE 26/09/01

# Who we are

**Christian Salvesen is a major European logistics business employing some 16,000 staff and operating in eight countries.**

**We specialise in managing outsourced supply chain operations for blue chip manufacturing and retail customers in the industrial, consumer and food sectors, working in partnership with them to optimise inventories and ensure that goods are available precisely when required. Increasingly, we are using e-business technologies as well as dedicated data links: our SHARP consignment management and ULTIMA inventory and warehouse management systems are now accessible through secure internet links.**

**We currently have 200 sites in the UK, Belgium, France, Germany, the Netherlands, Italy, Portugal and Spain. Some 45% of our annualised turnover is now generated in mainland Europe and we are expanding our dedicated and shared-user operations there through organic growth and acquisition.**

## **Contents**

<b>1</b>	Where we're heading
<b>2</b>	Chairman's statement
<b>4</b>	Expanding across Europe
<b>6</b>	Leading the market in IT capability
<b>8</b>	Making the most of our people
<b>10</b>	Growing quickly
<b>12</b>	Delivering what we promised
<b>14</b>	Chief Executive's operating review
<b>20</b>	Financial review
<b>24</b>	Board of directors
<b>26</b>	Corporate governance
<b>28</b>	Remuneration report
<b>32</b>	Directors' report
<b>34</b>	Directors' responsibilities
<b>35</b>	Auditors' report
<b>36</b>	Group profit and loss account
<b>37</b>	Balance sheets
<b>38</b>	Group cash flow statement
<b>39</b>	Statement of total recognised gains and losses
<b>39</b>	Reconciliation of movements in shareholders' funds
<b>40</b>	Accounting policies
<b>42</b>	Notes to the accounts
<b>58</b>	Five year review
<b>59</b>	Notice of annual general meeting
<b>60</b>	Shareholder information
	Financial calendar

A webcast of the presentation of the results to financial analysts in London on 5 June will be available until 5 July 2001 on (<http://www.salvesen.com>)

# WHERE WE'RE HEADING

# HOW WE WORK

# THE TECHNOLOGY WE USE

## Where we're heading

We aim to be recognised as Europe's leading provider of supply chain solutions by liberating all our potential to win in a fast-moving, networked world.

## How we work

We believe we can make Christian Salvesen *appreciably different* from its competitors by *working together to deliver what we promise*, act with integrity, respect and value our colleagues, look for constant improvement, *see the world through our customers' eyes* and reduce our impact on the environment.

Our *promise to customers* is that we will *listen* to them and *understand their needs*, continuously improve what we do and be *proactive, innovative and cost-conscious*. We will achieve this by maintaining a high-calibre account management team, bringing customers together with skills, technology and resources to create *mutually beneficial relationships*, and consistently achieving agreed service standards.

## The technology we use

We continue to operate conventional dedicated warehouses and vehicles for many customers. But a growing proportion of customers are switching to our *unique shared-user networks*, using specially developed IT systems to share facilities and vehicles. This enables them to deliver smaller consignments more frequently and flexibly, *cut costs*, and meet their targets for *just-in-time delivery and inventory reduction*. To ensure that everything runs smoothly, we have developed unique technology – including ULTIMA for inventory and warehouse management and SHARP consignment management. Customers can *book and track consignments via secure internet links* using SHARPnet. Shared-user operations now account for over 60% of our business.

# Chairman's statement

## Financial highlights

Total turnover (including joint ventures)
Profit before tax (pre exceptional items and goodwill amortisation)
Earnings per share (pre exceptional items and goodwill amortisation)
Dividends per share
Free cash flow (before dividends, acquisitions / sale of business)

2001	2000	Change
<b>£737.8m</b>	£687.1m	<b>+7.4%</b>
<b>£39.3m</b>	£40.3m	<b>-2.5%</b>
<b>10.92p</b>	10.81p	<b>+1.0%</b>
<b>6.6p</b>	6.3p	<b>+4.8%</b>
<b>£45.7m</b>	£35.6m	

**Jonathan Fry**  
Chairman

Although we faced a difficult year, we continued to make *good progress in developing our European strategy*. We made two important acquisitions, and continued to roll-out our shared-user technology and operations across Europe while restructuring underperforming parts of the business.

The disappointments were largely external. Across Europe we were hit by steep rises in fuel prices and periods when supplies were severely disrupted. Thanks to a magnificent effort by staff and managers we minimised the impact on customers. But profits were inevitably affected by price rises not only for fuel but also for subcontracted haulage services in Spain and Germany. We have acted quickly to minimise both these risks in the future.

## Financial results

We increased turnover by 7.4% to £737.8 million. We achieved good organic growth and made two acquisitions, which added sales of £35.3 million during the year. The sales from the acquisitions bring total annualised turnover up to £830 million.

Profit before tax, goodwill amortisation and exceptional items was £39.3 million, slightly below last year. Profits would have increased had it not been for the sharp increases in fuel costs, which did not abate until near the year end. The timelag in recovering these increases from customers, and in some cases the difficulty of doing so, effectively cut profits by £1.7 million. The Group margin decreased slightly to 6.8% but in some areas margins held up well, with the UK in particular demonstrating the quality of business we can achieve: margins of 8.2% in Food and Consumer and 9.7% in Industrial rank with the very best in the industry.

Return on capital employed for the Group was marginally lower at 14.4%. This still exceeds our average cost of capital by 3%. Earnings per share before exceptional items and goodwill amortisation rose by 1% from 10.81p to 10.92p.

The exceptional items, totalling £13.9 million, related mainly to rationalising the UK food network and food processing

business, reorganising our Benelux operations, and disposing of the German food logistics business. These exceptional costs were partially offset by £9.7 million profits from property disposals. Overall the exceptional items produced a net cash inflow of £4.2 million.

Capital spending was £31.0 million and in addition new assets of £10.6 million were leased. Major investments included a new shared-user frozen distribution centre near Lyon in France and substantial expansion of the Gerposa and Wohlfarth vehicle fleets to counter the high cost of subcontractors.

Close control of costs and working capital brought a further increase in cash generation to £45.7 million, before acquisitions and dividends and the sale of the business in Germany. This helped us maintain acceptable borrowing levels despite the year's acquisitions and disposals: net debt rose from £88.8 million to £124.6 million to give gearing of 83.2%. Our balance sheet remains in good shape and we have ample resources to fund further acquisitions in pursuit of our pan-European strategy.

The joint ventures in Spain and Italy traded well, with good growth in both turnover and operating profit.

## Dividend

The directors recommend a final dividend of 3.95p, making a total for the year of 6.6p – up 4.8% on the previous year. It will be paid on 14 August to shareholders on the register at 20 July.

## Strategy

### Acquisitions

In November 2000 we bought the remaining 60% of our German industrial logistics business, Wohlfarth, and two months later we acquired a French industrial logistics business, Darfeuille Associés. The total cost was £52.7 million including acquired debt.

Based at St Etienne near Lyon, Darfeuille operates an established network operation which fits well with our shared-user strategy and positions us to benefit from the strong growth in the French

logistics market. It has performed well and achieved its targets; and the process of integration into Salvesen is well underway.

The Wohlfarth deal gives us full control of a business with access to the logistics volumes generated by German industry and provides an important gateway to Central and Eastern Europe. In the past year the business has devoted considerable efforts to stabilising earnings and cashflows under a strengthened management team. Although operating at close to breakeven in November, it slipped back into loss as a result of the increases in the price of fuel. We are implementing further management and operational enhancements as we integrate Wohlfarth fully into the Group.

#### *Disposals and restructuring*

We continued our rigorous programme to 'fix or eliminate' underperforming businesses and assets.

In February 2001 we disposed of our German frozen food logistics business at a total cost of £7.8 million. In a difficult marketplace, losses in the business accelerated to over £2 million. We will continue to monitor the German food logistics industry and will only re-enter it if conditions improve.

After another poor vegetable growing season we restructured all our food manufacturing operations into a single business unit and reduced capacity by closing our Peterborough and Dundee processing and cold storage sites. This business together with the marketing arm, Tendafrost, has been rebranded as Christian Salvesen Foods and is successfully moving from commodity processing of vegetables into the development of innovative chilled and frozen food products.

Sainsbury's has given us notice of the termination of the contract for our dedicated warehouse operations for them at Droitwich. This follows a review of their supply chain requirements and the decision to manage their own national network of fulfilment centres. After a major review of strategy, Marks & Spencer has also advised us of its intention to transfer its chilled food operations from our Rugby site to elsewhere in its network early in 2002. This is part of a continuing trend, particularly in food retailing, and no reflection of the service we have provided over many years to these businesses. As we exit these more mature business areas, we are reinvesting and developing younger, faster-growing activities.

#### *IT*

The key to our successful implementation of shared-user operations across Europe is our strong in-house IT team and unique technology which delivers end-to-end visibility to customers. During the year we introduced our SHARP consignment management and tracking system into Benelux and the joint venture with Danone in Spain. This year we will bring it to our Food and Consumer operation in France. We are also introducing a satellite-based vehicle communication and tracking system giving realtime information, routing flexibility and better capacity management.

Our in-house team has developed an entirely new system, COMET, to manage and track our customers' equipment in the supply chain. This will enable further development of our rapidly expanding Support Services business.

#### *Marketing*

We are increasingly developing customer-led strategies with common and consistent service standards across every part of the organisation. Potential customers are often unaware of the scale of our operations because we have traded under a variety of different brands. We are now rolling-out a single brand and image across Europe; this is becoming increasingly visible as more and more vehicles are reliveried with messages in different European languages and images of our staff.

#### **Board and management**

Paul Carvell, Managing Director of the Industrial Division, resigned from the Board in January 2001. Our Chief Executive, Edward Roderick, has taken back direct responsibility for this area.

We are very pleased to have attracted some outstanding managers to strategically important positions in our European operations. We recognise that the success of our strategy will depend on attracting, retaining and motivating quality people at all levels. We launched a significant number of new initiatives during the year – including training programmes and new pension and all-employee share ownership schemes. We congratulate our House of Fraser national distribution centre in Milton Keynes on gaining Investors in People status in less than a year. The UK government has recognised our commitment to training by appointing our Chief Executive to chair the training sub-group of its Road Haulage Forum.

#### **Looking forward**

With economies expected to slow across Europe, we do not anticipate an easy trading environment. But our shared-user networks, supported by market-leading IT, have particular attractions when conditions are tough – their flexibility offers customers the opportunity to incur variable rather than fixed costs.

We have begun the current year well. We have an excellent pipeline of new business, including our largest-ever contract – a 10-year agreement with Tesco. With the Group in better shape than ever, we look forward to making progress in the current financial year in the knowledge that we have a real competitive edge.

Jonathan Fry  
Chairman

# Expanding across Europe

**We aim to be generating 50% of our turnover on the European mainland by 2003. In the past year we've raised the figure from 30% to 45% through a combination of organic growth and acquisitions that gave us a geographic footprint from the Baltic to the Mediterranean. As we extend our presence across Europe, we're introducing our SHARP and ULTIMA technology to develop new shared-user networks.**

## **Smart cabs**

We're equipping 600 of our UK vehicles with an in-cab information and tracking system incorporating satellite positioning technology. Linked to our SHARPnet technology, it will give customers virtually instantaneous tracking of their consignments – and also reduce fleet fuel consumption. We're extending it to the rest of the UK fleet next year, then across Europe.

## **Iberia**

Our joint venture with Danone opened a new highly automated warehouse for chilled foods in Madrid in February. Another even larger site opens near Valencia in summer 2001 and completes the reorganisation of the infrastructure in Spain.

## **France**

In January 2001 we acquired Industrial logistics business Darfeuille Associés, which added national coverage of France to our geographic footprint. Pictured here is the company's Managing Director, Didier Darfeuille.

**One company**

We've been rolling-out a single Christian Salvesen brand and livery across the whole of Europe for new contracts and as assets are replaced. Vehicle trailers carry a range of messages about the business in multiple European languages, with photographs of company employees.

**Shared-user**

We're installing our SHARP technology to create shared-user networks across Europe. We completed the Industrial network in Spain last year and are developing one in Germany. We've set up Food and Consumer networks in Spain and Benelux and are currently establishing one in France.

**Germany**

Our Industrial Division has owned 40% of Wohlfarth since 1995 and we completed the acquisition in November 2000. Wohlfarth and consortium partner Spedition 2000 have a network of depots across Germany and provide an important gateway to Central and Eastern Europe. Pictured is Edward Roderick, Salvesen's Chief Executive.

**Funding for growth**

We are actively seeking further acquisitions to advance our pan-European strategy. We have ample financial resources: to supplement our healthy balance sheet, in October 2000 we agreed a £300 million revolving credit facility. Pictured is Finance Director, Peter Aspden.

**Fuel prices**

Prices rose by an average 45% across Europe – and on the mainland, contracts rarely allow automatic recovery of costs. We're changing that: in Spain, we now have automatic recovery clauses covering 82% of our business, mirroring UK best practice.

# Leading the market in IT capability

**In an industry driven by the electronic exchange of information, we're passionate believers in applying technology to increase efficiency, cut costs and create new opportunities. Our 100-strong IT team has developed industry-leading technology such as SHARP and ULTIMA, our core systems. In the past year it has developed a totally new system called COMET to trace equipment through the supply chain, enabling us to compete in a particularly fast-growing area of business.**

## **In the warehouse**

We developed the ULTIMA warehouse management system to cope with the exceptional demands of our shared-user operations. Now in use in the UK, Germany, Belgium and Portugal, it is modular and easily tailored to customers' requirements. Users range from major chemical manufacturers to food manufacturers and retailers, and we have met their requirements with added management information systems for sophisticated data analysis.

## **Planning the supply chain**

Isochrone mapping plots the relationship of customers to depots. On this map of Darfeuille depots in France, lighter-shaded points show customers within an hour of a depot; darker ones are three hours away using the CAST planning system. Another important tool is Paragon, for planning network routes, which is linked into our core SHARP system to give total connectivity and visibility.



### **On the road**

In-cab computers are becoming commonplace – but we're taking the technology a step further. Our latest systems, currently being installed in the UK, have integrated satellite positioning. Vehicles can be re-routed and rescheduled online, and are linked into the internet-based SHARPnet consignment tracking system. We're also gaining cost and environmental benefits by reducing fuel consumption.

### **On the net**

SHARPnet gives our customers secure internet access to inventory and consignment details – including the exact location of any item. Some 60 major customers are currently using it. As well as viewing information on their own PCs, they can also give direct access to their own customers and suppliers. Smaller industrial businesses can order and pay online for ad hoc work via ([www.moveyourpallet.com](http://www.moveyourpallet.com)). Our STOCKnet warehouse management system, used by over 90 customers, offers the same high levels of information on inventory in the warehouse.

# Making the most of our people

**In many of our markets the competition for skilled employees at all levels has risen dramatically, intensified by historically low unemployment. Yet we have managed to reduce staff turnover and recruitment costs. How? By investing in our people: management at all sites are encouraged to attain the Investors in People award and to focus on attracting, retaining, developing and motivating their staff.**

## Tomorrow's managers

To grow the managers of tomorrow we're taking on 25 graduate trainees each year. Joana Ramalho is Portuguese and one of our newest recruits. She is currently working at an Industrial Division depot in Gloucester on our International Management Graduate Programme. Her next assignment will be in mainland Europe. She likes the programme's flexibility, 'giving you responsibility for your own progress'.

## Studying at Henley

Paul Selwood is one of 50 managers taking part in a 15-month training programme at the respected Henley Management College. He began his career in temperature-controlled operations, then moved into IT as a business analyst. He now implements technology projects for the Food and Consumer division. Paul sees the company's renewed emphasis on developing management in depth as 'a very positive signal'.

## Fine first line

Richard Cawston is depot manager of the BA perishable cargo centre at Heathrow, a time critical operation handling chilled food from all over the world. He is also working towards the new corporate diploma at Henley Management College. Importantly, he notes, we're building management skills at all levels: nine supervisors and first-line managers at his site are enrolled on courses to take national exams in *Supervisory Management* (NEBSM).

### **Developing loyalty**

Ton Arts took a job with us when he left school – and stayed. Now 35, he's a supervisor at our new Tilburg automated warehouse. He's stayed because of 'the great people I've worked with' and the freedom to 'solve problems creatively every day'. Good training has also been a factor: he's completed a 2½ year course on warehouse management, two years on transport management and shorter courses on communication and leadership.

### **Developing drivers**

Brett Jones joined us as a driver from the armed forces and soon moved into his current role as traffic operator. He is also a mentor on our innovative Young Drivers Scheme, devised with the Road Haulage and Distribution Training Council to attract and train new drivers. He likes the company's willingness to develop people: 'If you work hard, you get as many opportunities as you want'.

### **Transferring skills**

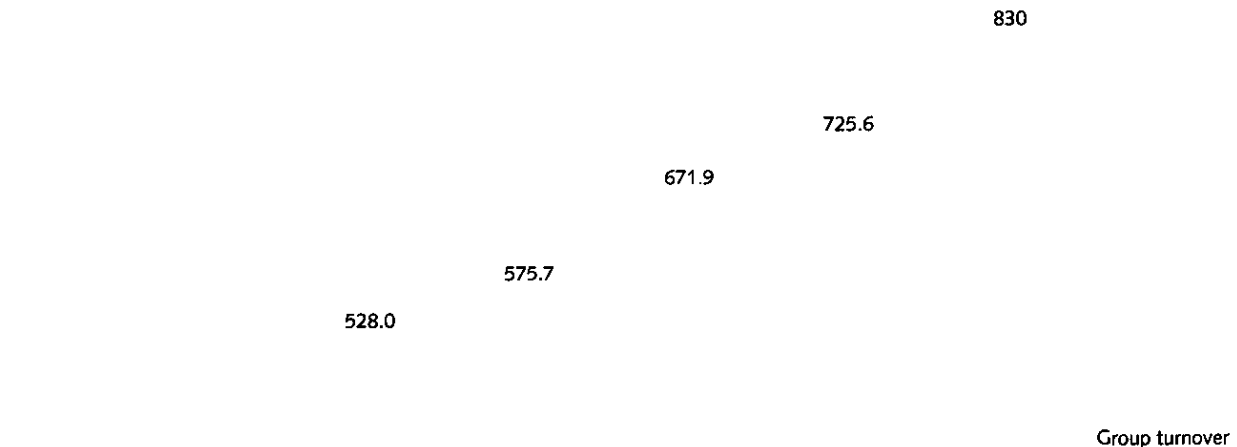
We believe in giving talented people room to grow. Ian Hicks joined us as a driver and progressed into depot management. After spells in Belgium and Spain, he's now on secondment in France as Development Manager, helping to transfer our technology skills into the newly-acquired Darfeuille business. He says Salvesen is developing 'a management team who can adapt to and work within a European business culture'.

### **International growth**

Sam Mackie joined us as a graduate trainee in 1990. She had a degree in modern languages and was attracted by the training programme and the breadth of career opportunities. Seven promotions later, she's UK Industrial's account director responsible for General Motors. She is enthusiastic about delivering exacting service levels for a large multinational customer. She's also enjoyed the chance to play 'a wide variety of roles in different areas of the business in the UK and Germany'.

# Growing quickly

Christian Salvesen emerged in its present form after the demerger of Aggreko in September 1997. We promised we'd grow it rapidly, through a combination of organic growth and acquisitions, to create a logistics business capable of meeting customers' logistics needs right across Europe. Since then we've raised sales dramatically, exited underperforming areas, moved from mature business areas into faster-growing ones that generate higher returns, and generated consistently strong cash flows – a total of £183 million so far.



## Turnover

£million excluding discontinued operations

Sales generated by the business including the joint ventures in Spain and Italy. Annualised turnover includes a pro rata full year's turnover from our latest acquisitions. This gives a more accurate impression of the Group's size going forward.

	1998	1999	2000	2001	Annualised	Joint venture turnover
	1.1	5.2	21.5	34.5	34.5	

## Employees

Annual average number excluding discontinued operations

The annualised number includes pro rata full year numbers from our latest acquisitions. This gives a more accurate impression of the Group's size going forward

	Annualised	UK	Overseas	
		10,648	4,650	15,298
2001		10,648	2,982	13,630
2000		11,156	2,383	13,539
1999		12,071	1,608	13,679
1998		11,073	1,582	12,655

**Dividends per share***Pence*

Dividends are paid to shareholders as a return on their investment.

2001	6.6
2000	6.3
1999	6.0
1998 pro forma	5.85

**Cash***£million before acquisitions, disposals and dividends*

This chart represents the cash generated by the business before it is allocated to shareholders as dividends or used to acquire new companies. Cash from the disposal of businesses is not included here.

2001	45.7
2000	35.6
1999	63.5
1998	39 (6 months)

**Acquisitions***Cumulative spend £million including acquired debt*

We have made acquisitions in the UK, Spain, France and Germany.

2001	128.8
2000	76.9

# Delivering what we promised

**We have a clear vision of the future.**

**We promised shareholders a Europe-wide logistics group with a distinctive IT-based proposition offering customers real financial and operational benefits. Here's how we delivered on that promise last year...**

**We said we'd expand on mainland Europe, making our Industrial networks a priority**

During the year we raised the proportion of our annualised turnover generated on the mainland from 30% to 45% and we will keep growing that proportion. After integrating acquisitions in France and Germany, our Industrial networks now extend from the Baltic to the Mediterranean. We retrenched in Germany, selling our loss-making Food business this year. Expansion will not be at the expense of profitability and we will only look at Germany again when the market improves.

**We said we'd integrate the group under a single brand**

Many customers have been unaware of the scale of our operations because we've traded under multiple brands. We've made good progress on rolling-out the new Christian Salvesen identity groupwide – on vehicles, warehouses and new uniforms. The identity is supported by new vision, customer and brand promise statements to ensure delivery of a consistent service to customers everywhere.

**We said we'd improve ROCE and keep operating margins above 7%**

Having risen to just over 7% in 1999/2000, margins slipped back slightly to 6.8% last year. This was due to unrecovered rises in the cost of fuel and subcontracted haulage in Spain and Germany. We've taken action to minimise our exposure to future rises of this kind. The Group's return on capital employed (ROCE) has fallen slightly from 14.6% to 14.4% but it still comfortably covers our weighted average cost of capital.

**We said we'd grow  
our distinctive shared-  
user proposition**

We've finished installing our web-enabled SHARP system to convert our Spanish Industrial network to shared-user; the French network is already well advanced in these operations and the German network is to follow. In Food and Consumer we've extended SHARP across the UK, Benelux and Spain with France next on the list. The technology supporting our networks has also developed and includes in-cab technology and web-enablement of our ULTIMA warehousing system.

**We said we'd get our  
Spanish and Italian  
joint ventures with  
Danone and Galbani  
into profit**

After delivering a modest profit in 1999/2000, both businesses achieved good top and bottom line growth last year and delivered nearly £1 million operating profit to our business. *A new Madrid site opened in February 2001 and the final site in the Iberian chill-food network, located near Valencia, starts to come onstream this summer.*

**We said we'd  
keep restructuring  
to eliminate  
underperforming  
assets**

As the year's exceptional charges for restructuring demonstrate, we've maintained our uncompromising 'fix or eliminate' policy. This meant rigorous restructuring in Benelux and Germany, the downsizing of Food Manufacturing and the disposal of our German Food business. This reorganisation of the business is largely cash neutral, funded by the sale and leaseback of properties in the UK and Spain together with the disposal of others that are surplus to requirements.

**We said we'd  
improve the quality  
of the business**

It's the people who make the business. So we've launched a massive programme of training at all levels. We've been upgrading the management team, appointing experienced new managing directors to several critical business units. And to provide the managers of the future we're taking on 25 graduate trainees a year.

# Chief Executive's operating review

We have won a second contract from IKEA, to add to our initial one at Thrapston. The new contract involves managing a warehouse at Peterborough, assembling and palletising orders for the company's home delivery service.

Each day, a typical large customer exchanges around 10,000 items of information with our IT systems

**Edward Roderick**  
Chief Executive

Chief Executive Edward Roderick was appointed by Transport Minister Lord Macdonald in November 2000 to chair the training sub-group of the Road Haulage Forum. He chairs two other logistics-related expert groups for government departments. In July he receives an honorary doctorate from De Montfort University.

## Food and Consumer Division

Food and Consumer Division – UK	2001	2000	Change
Turnover	<b>£295.0m</b>	£314.5m	<b>-6.2%</b>
Operating profit	<b>£24.2m</b>	£25.4m	<b>-4.7%</b>
Operating margin	<b>8.2%</b>	8.1%	

In the UK market conditions remained difficult, with hard-pressed food manufacturers squeezing logistics prices and reducing inventory levels in our cold stores. However, by reducing overheads and enhancing productivity we managed to increase margins from 8.1% to 8.2%. Sales and operating profit were both lower, largely due to the low volumes of green vegetables processed and stored and to our withdrawal from underperforming contracts.

The largest new contract win was a 10-year, £260 million extension of our existing relationship with Tesco to manage and further develop their network of recycling service units. Other wins included a five-year contract with BA to distribute uniforms to 46,000 employees worldwide. We began one of our largest fruit distribution deals – a two-year contract with Chiquita delivering over a million bananas a day. And we won new contracts with customers such as Brake Brothers, McCain and Marks & Spencer. We also gained a further IKEA contract, to manage a warehouse at Peterborough where we will assemble and palletise orders for the company's home delivery service.

Our Support Services business continues to grow rapidly, offering an ever wider range of services which now includes traywashing, packaging waste recovery and loose equipment control. We see great opportunity for further broadening the scope of this business area supported by a new web-based IT system, COMET, which has been specifically designed to track trays, loose equipment and other recyclable items.

We converted another three dedicated warehouses to shared-user operation during the year, bringing the UK temperature-controlled network to a total of 14 sites. This is a fast-growing area of business for us.

We have restructured our food processing and marketing operations into a single more agile business unit, Christian Salvesen Foods. Capacity has been reduced by the closure of the Peterborough and Dundee processing and cold storage sites after another poor vegetable processing season.

Our expanded marketing department, which has a pan-European brief to target multinational contracts, is now increasing the new business pipeline every month. We anticipate significant organic growth this year.



We developed ULTIMA as the state of the art in warehouse management IT systems. It allows total control of inventory and ensures the most efficient use of space through sophisticated mapping and stock allocation.

We'll wash around 1.8 billion trays for Tesco under a new 10-year contract

## Award

Technology  
Award  
*International  
Freighting  
Weekly*

Food and Consumer Division – Mainland Europe (excluding discontinued operations)			
	2001	2000	Change
Turnover	<b>£93.6m</b>	£97.3m	<b>-3.8%</b>
Operating profit	<b>£3.8m</b>	£4.2m	<b>-9.5%</b>
Operating margin	<b>4.1%</b>	4.3%	

Turnover was down slightly as we closed underperforming sites and operating profit before exceptional items fell 9.5% to £3.8 million. This was due largely to a disappointing performance in Benelux, where we have begun to see signs of improvement recently. Our joint ventures performed well, with our share of sales at £34.5 million and profits increased to £1 million.

Conditions in Benelux were particularly difficult – and in addition, high absenteeism rates hit productivity. We are now seeing some progress under a new management team led by Managing Director Danny Van Himste, who joined in December 2000.

We are introducing additional technology to the Tilburg warehouse in the Netherlands which opened in January 1999. The new systems, due onstream in September, will increase throughput from the existing building and we are seeking additional business to match the capacity.

In France, the previous year's restructuring contributed to further improvement in performance. Turnover, profits and

returns all continued to grow, with costs well contained despite rising fuel prices and the introduction of the 35 hour working week.

The development of the shared-user network is helping to increase sales ahead of market growth and the introduction of SHARP this year should increase efficiency and service levels. New business attracted by the network included storage contracts from manufacturers such as Rye Valley and retailers such as Le Mutant. We also increased our business with Go Sport.

In 2001/02 we will gain the full benefit from three major infrastructure projects completed during the past 12 months. The extension of the Strasbourg warehouse has given us a leading position in frozen food in Eastern France. Refurbishment at Châteauneuf has enabled us to handle all Unisabi volumes for the area. And a second site at Lyon is allowing us to develop chilled and frozen food business at a strategically important point on both French and European logistics routes.

Our joint venture with Danone in Iberia is now a leading provider of temperature controlled logistics in a fast-growing market where outsourcing is still at a relatively early stage of development. It now has a network of 10 distribution centres and 50 transit terminals, and some 1,000 staff. We are currently introducing SHARP technology to provide further differentiation from competitors. The integration of Danone's

# Chief Executive's operating review continued

Salvesen operations manager Jonathan Bromhall discusses aftermarket operations with Vauxhall customer service assistant Iris Harvey. We aim to enhance our customers' competitiveness by helping them to give outstanding service to their own customers.

We handle 2 billion glass jars a year

The quality of our service depends on well-maintained, modern vehicles. We have developed our own vehicle management and costing system, VCAS, which is wider in scope than proprietary engineering packages. We expect to complete implementation of VCAS across all divisions and countries this financial year.

operations is now virtually complete, following the opening of a new temperature-controlled warehouse in Madrid and an automated distribution centre in Barcelona. A final automated site is located near Valencia, alongside a new Danone production facility. This comes onstream from summer 2001.

In Italy, our three-way joint venture with Danone subsidiary Galbani is also performing well. This business is dedicated to distributing Danone and Galbani products throughout the country from a highly automated warehouse in Milan. We are currently integrating the network with common IT to bring further cost savings and quality improvements.

## Industrial Division

Across Europe, industrial logistics is growing about twice as fast as food logistics, driven by increased corporate outsourcing. Markets are highly fragmented and there is considerable opportunity for a quality operator to win market share. Against this background, we had a mixed year. The UK and newly-acquired French businesses performed strongly, while Gerposa's and Wohlfarth's results declined as subcontractors' rates and fuel prices rose.

Industrial Division UK	2001	2000	Change
Turnover	<b>£172.6m</b>	£159.6m	<b>+8.1%</b>
Operating profit	<b>£16.7m</b>	£14.1m	<b>+18.4%</b>
Operating margin	<b>9.7%</b>	8.8%	

The UK industrial business had a very good year, with sales up 8.1% and operating profits up 18.4%, and is now widely regarded as the leader in its field. Continuing work to improve efficiency and re-engineer underperforming operations has resulted in a 2.5% improvement in productivity and 10% uplift in vehicle utilisation.

Despite a reduction in UK manufacturing volumes, the business has continued to win new contracts while reducing costs. It renewed contracts worth a total of some £53 million with customers such as Multipart, Unipart, Agfa, Agco, Texaco and General Motors. New contract wins worth £25 million included Exxon Mobil, Pilkington Tiles, Clingtech, SVG, Kuwait Petroleum, Leoni Wiring Systems, PPG, Cannon, BP and Rockware. We began the new year with a very strong sales pipeline.

In the past, the business has had difficulty in attracting and retaining key staff, particularly drivers. We have active recruitment and training programmes and by introducing regional pay supplements and bonus schemes we have almost halved driver attrition and sharply reduced our reliance on agency staff.

We completed site refurbishments at Leigh and Coventry during the year, and relocated the Bovey Tracey facility to provide additional capacity. Work continues at Rowley and Gloucester, and this year we begin a £1.2 million project at Bury St Edmunds.

We developed SHARP as a state of the art, multilingual network consignment management and tracking system. It is still unmatched in the marketplace and we continue to roll it out across Europe. All information is processed through our Northampton IT centre, providing centralised management and quality control.

We handle 2.3 million hanging garments a week

## Award

Best European  
Logistics Supplier  
*General Motors*  
(Gerposa, Spain)

As the test bed for new technology, in October we began installing in-cab technology into the Industrial fleet. This links into our SHARP system and gives realtime information via GPS. It will increase productivity and load optimisation and reduce fuel costs as it is rolled out across the Group.

In September we launched moveyourpallet.com, an e-commerce venture aimed at firms wanting on-demand local or national delivery of small palletised consignments. Customers can book online and track their consignments using SHARPnet. Prices change dynamically to reflect the capacity available in our Industrial network. Further ahead, we see scope for introducing it throughout our European operations.

Spain and Portugal – Gerposa	2001	2000	Change
Turnover	<b>£94.6m</b>	£79.0m	<b>+19.7%</b>
Operating profit	<b>£3.6m</b>	£5.1m	<b>-29.4%</b>
Operating margin	<b>3.8%</b>	6.5%	

In Spain, Gerposa suffered particularly badly from fuel price increases and a national road haulage strike in October. In addition, there was a government-prompted 10% increase in subcontracted hauliers' rates. Few customer contracts allowed us to recover either of these price increases, and as a result operating profit fell back. This came against a backdrop of lower volumes from some of the major automotive manufacturers.

To reduce our dependence on subcontractors we have begun a substantial programme of fleet investment. Deliveries of new trailers and tractor units have already begun, and we are recruiting and training around 140 new drivers. We have also negotiated price increases and automatic cost recovery agreements with 82% of customers, significantly reducing our exposure to future fuel price rises.

Major business wins include work for Ipes Iberica and Chep, inbound and outbound delivery contracts for Mercedes, and additional work for Opel, Renault and Michelin.

We continue to build and develop the shared-user network, which now links nine depots and handles 30,000 tonnes of freight a month. SHARP is now operational at all sites and we will add the system's automotive module this summer. We are currently integrating Portugal into the network, which we expect to grow by over 25% in the next two years. We have also begun groupage services linking Spain with France and the UK.

Despite the difficulties of the past year, margins are beginning to improve. The business is gathering momentum and looks forward to good growth this year.

In France, Darfeuille has outperformed expectations – contributing £0.8 million of operating profit since acquisition in January. Some restructuring of the existing business and

# Chief Executive's operating review

continued

The combination of industry-leading IT systems and well-trained people gives us an increasingly effective competitive edge. We are stepping-up our investment in training – both in-house, like this IT course, and external – to sharpen our differentiation and competitiveness.

We handle 6.7 million bananas  
a week for Chiquita

Environmental legislation is boosting our Support Services business, which recovers waste packaging and takes care of loose equipment such as supermarket delivery trays. Our new IT system, COMET, has been developed to track and manage customers' equipment through the supply chain and at traywashing facilities (left).

enhancement of the location and size of some depots is underway, alongside integration into Salvesen guided by a specialist post-acquisition team.

New business wins since the acquisition included a three-year contract with BP Lubricants and there is a good pipeline of potential new business. Darfeuille is in discussions with Gerposa on cross-border integration and will be examining possible new business in France with existing Salvesen customers in the UK, Germany and Spain.

This year we have relocated our Bordeaux depot to a much larger one close to Darfeuille's existing facility and this will support a regular groupage route with Gerposa. We are also relocating the Nancy depot to a larger site nearby.

In Germany we acquired the remaining 60% of Wohlfarth in November 2000. The business slipped back into loss in the remaining months of the year, having come close to breakeven by the date of acquisition. This resulted in an overall operating loss for the 12 months of £2.0 million. Like Gerposa, this business also suffered from inability to recover fuel price increases from customers and difficulties with subcontractors. We are now introducing our own fleet to reduce exposure to subcontractors. Wohlfarth has begun the current year with an increased order book after restructuring the sales team and focusing on larger, more profitable contracts.

## Health, safety and the environment

In July we adopted a revised corporate environmental policy in line with the principles of the ISO 14001 environmental management standard. We have similarly revised our UK environmental management system and are actively pursuing certification to ISO 14001 at a number of key sites. The Bellshill regional distribution centre that we operate for Safeway became the first site in either organisation to achieve this demanding international standard. We are also close to achieving certification at our Swindon and Coventry Industrial sites.

Sound operational management and the use of IT to monitor and control fleet mileage and emissions are part of Salvesen's day-to-day activities. But in the past, information on this aspect of the business has not been collated across the Group. This has now changed, with data collection improved and centralised, and this year we compile our first corporate environmental report.

Health and safety management systems have also been strengthened, with standards laid down in a Group manual. The team has been restructured and now works more closely with operational management on the introduction of best practice.

The Health, Safety and Environmental report will be published on our website ([www.salvesen.com](http://www.salvesen.com)).

The new Christian Salvesen brand and livery are helping us build a consistent organisation and service across Europe. We see ourselves as a truly European business: as well as putting multilingual messages on our vehicles, we're giving language training to staff and managers.

We handle 233 million litres of oil a year

## Award

European Depot of the Year  
*Ford – parts managers*  
(Alverca, Portugal)

### Community work

We are a founder member of the transport industry charity, TRANSAID, which helps to solve transport problems in developing countries. Depot engineer Tony Whitehouse became our first TRANSAID volunteer, joining a team of three logistics experts helping the Malawi government to improve its transport infrastructure.

We support a number of UK charities, both national and local to our Northampton base. In particular we raised money for Imperial Cancer research and provided sponsorship and donations during the year to the Northampton Association for the Blind and Home-Start, a national charity for families with young children.

Edward Roderick  
Chief Executive

# Financial review

**Peter Aspden**  
Finance Director

## Overview

Including sales from our successful joint ventures, turnover increased in the year by 7.4% to £737.8 million. However, profit before tax, goodwill and exceptional items fell by £1.0 million to £39.3 million, principally due to the fuel crisis. Helped by a lower tax charge, the Group's earnings per share before exceptional items and goodwill increased by 1% to 10.92p. The Group again generated a strong inflow of cash in the year which amounted to £45.7 million before acquisitions, disposals and dividends. Group interest cover remains strong at 7.3 times operating profits. The Group's return on capital at 14.4% exceeded the weighted average cost of capital by a margin of 3%.

In the year we have made significant progress towards our strategy of building a Europe-wide industrial shared-user network. In November 2000 the Group acquired the remainder of the German Industrial logistics business, Wohlfarth, and in January 2001 the French Industrial logistics business, Darfeuille. The total cost of these acquisitions was £52.7 million including debt of £33 million acquired with the businesses.

We are focused on improving the quality of the Group's earnings. Vigorous action is taken to address underperforming and loss-making businesses, while at the same time, we are moving from high turnover, mature or commodity sectors into value-added activities with growth and higher returns.

During the year we sold our German food business which was suffering from accelerating losses as food retailers in Germany took logistics activities in-house. In line with our policy on underperformance, we exited that market and sold the business to the management in February at a cost of £7.8 million. This, together with the costs of restructuring other underperforming assets, was the principal reason for the £13.9 million exceptional cost in the year. However, taking into account property sales, the net cash effect of exceptional items in the year was an inflow of £4.2 million.

The strong controls on capital expenditure and working capital contained Group net debt to £124.6 million at 31 March 2001, equivalent to 83.2% of shareholders funds.

## Turnover

In the year, total turnover grew from £687.1 million to £737.8 million. If the annual turnover of our new businesses is included, total turnover is presently at the rate of £830 million per annum. Since the demerger three years ago when the business had a turnover of £545 million, sales have increased by 52%.

## Operating profit

Total operating profit before exceptional items and goodwill amortisation fell by 1% from £47.6 million to £47.1 million in our ongoing operations. The two major factors which impacted the result were the substantial worldwide rise in the price of fuel, together with difficulties with subcontractors particularly in Iberia and Germany. Fuel prices continued their sharp increase after the first half and peaked in December 2000. We estimate that these factors cost the Group £1.7 million of operating profit in the year.

In Food and Consumer UK there has been a 4.7% decline in operating profit to £24.2 million, before exceptional items and goodwill amortisation. The decline was largely the result of a poor vegetable processing season and capacity in this area has been reduced with the closure of two factory sites. However, the division's margins have improved from 8.1% to 8.2% as the fast growing Support Services business and shared-user, temperature controlled network produce higher returns.

In Mainland Europe, our German Food business had losses running at over £2 million. The sale of the business immediately increases the European Food and Consumer Division's margin on sales from 2.1% to 4.1% and prevents a future drain on the Group.

**Free cash flow**

Since demerger the Group has generated £183 million of free cash flow which has funded the Group's acquisition strategy and the payment of dividends to shareholders.

	£m	£m
Free cash flow since demerger		183
Acquisitions		
Gerposa	(75)	
Darfeuille	(37)	
Wohlfarth	(11)	
Tinsley	(5)	
		(128)
Dividends to shareholders		(59)
German Food disposal		(9)
Debt 30 September 1997		(114)
Currency adjustment		2
Debt 31 March 2001		(125)

Our French operation is continuing to expand profitably and Benelux has a new management team who are actively improving the business.

The joint ventures in Spain, Italy and Holland have traded well with increased turnover. Operating profit reached £1 million in the year.

Our Industrial UK business has gone from strength to strength. Christian Salvesen originally bought Swift in October 1993 when it had sales of £70 million. In the seven years since the acquisition, the business has continued its success with turnover growing 150%.

Christian Salvesen's Industrial Division, in the UK, is the market leader in its sector with highly developed IT and management systems. It has an industry-leading margin of 9.7%, an increase of almost 1% over the previous year, which was achieved at a time when the cost of fuel was escalating. Not only did the margin increase but turnover also grew by 8% over the year.

Our aim is to replicate this business in Mainland Europe, where our main strategy is designed to establish a Europe-wide industrial shared-user network offering common standards of service.

In the year the three Mainland European Industrial businesses, Gerposa, Darfeuille and Wohlfarth made a combined profit of £2.5 million which is equivalent to a £5 million contribution in a full year. Their combined turnover was £130 million in the year which equates to annualised sales of £230 million. Our financial target in the short term is to carry the cost of establishing European wide networks and implementing our standard management and IT systems, while increasing profits over the next year. This will include reducing Wohlfarth's losses by cutting back the large volume of unprofitable business which is carried by the company's network and replacing it with group wide customers.

**Exceptional items**

The direct cost of reorganising the business in the year was £15.2 million, which is the cost of closing and restructuring sites and redundancies. Under accounting rules this is treated as an exceptional cost within operating profit. Below the line, the sale of the surplus sites generated from the restructuring and the sale and leaseback of properties in the UK and Spain has given a profit of nearly £10 million and a cash inflow of £24 million. The reorganisation has principally removed underperforming assets so that the cash raised can be reinvested in growing assets. During the year we closed the food manufacturing sites at Dundee and Peterborough, together with the surplus sites at Rotterdam and Swindon and the loss making Dortmund site. The redundancy cost of converting UK sites from dedicated to shared-user is also included.

The deficit on sale of discontinued operations of £7.8 million arose on the sale of the German food business. Surpluses arising from businesses sold in prior years totalled £2 million.

Not all of the Group's redundant properties were actually sold during the year. We anticipate that a further £10 million of cash will be received this year including the sale of the Droitwich site to Sainsbury's when that contract terminates.

The cost associated with the unsolicited approach from the Swedish group Custos during the year was £0.5 million.

The exceptional interest cost comprises two items. The Group is in dispute with a bank over a claim for £1.7 million in relation to the settlement of banking transactions which had previously been agreed. The Group disputes the amount and intends to defend the claim vigorously but in the interests of prudence, has made a provision for the full amount.

In October 2000, the Group refinanced its borrowings with a new five year facility. The unexpired prepaid fees of £0.6 million under the old facility were written off.

# Financial review continued

## Interest

The pre-exceptional interest charge of £6.2 million was in line with last year's figure following tight management of working capital and the sale of underperforming assets. Interest rates have been stable although they began to reduce towards the end of the year. Interest cover has remained close to last year's level at 7.3 times operating profit before exceptional items and goodwill amortisation.

## Taxation

This year the Group has achieved a 26.5% tax charge before exceptional items and goodwill amortisation. Next year the Group's accounting policy will change as we will adopt FRS 19 and fully provide for deferred tax. This will lead to a restatement of the past tax charge to make it comparable to the full provision basis. The best estimate of the future tax charge is that it will rise to 29% and not the full 30%. The Group will make profits in the continental businesses which should be offset against tax losses brought forward.

## Dividends

The Board has recommended a final dividend of 3.95p which, if approved by shareholders at the Annual General Meeting, will give a total dividend of 6.6p per share for the year and will represent an increase of 4.8 % over the previous year's total of 6.3p per share. The cost of dividends for the year will be £17.6 million. The dividend is covered 1.6 times by earnings before goodwill amortisation and exceptional items. It is the Board's objective to build cover to two times over the medium term.

## Accounting standards and policies

No new accounting standards have been adopted this year and there were no changes to the Group's accounting policies. Next year, however, the Group will be adopting FRS 19 for deferred taxation.

## Going concern

After making enquiries, the directors have a reasonable expectation that the Company and the Group have adequate

resources to continue in existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

## Treasury policies

The main financial risks faced by the Group are changes in interest and currency rates. The Group Treasury department manages these risks within a defined policy and its activities are subject to periodic, independent review by Group Internal Audit. Transactions of a speculative nature are not permitted. Credit risk is managed by limiting exposures to authorised banks with a pre-agreed credit rating.

## Funding and interest rate exposure

During the year the Group negotiated a new syndicated bank facility totalling £300 million to fund the ongoing business and for acquisitions. The facility consists of a £200 million revolving credit facility and a £100 million 364-day revolving credit facility with an extension option and the ability to convert into a term loan. The facility matures in October 2005. The Group's interest rate exposure is managed by the use of fixed and floating rate debt, together with interest rate hedging instruments. During the year, an interest rate cap was used to protect £100 million of the Group's borrowings.

No interest rate derivatives are undertaken for more than a five-year period.

## Foreign currency

The Group used the average exchange rate over the year for the translation of overseas trading results. The euro weakened against sterling by 4.3% compared to the previous year, reducing Group operating profit by £0.3 million.

The year-end closing exchange rate is used for the translation of the balance sheet. The net effect of translating overseas subsidiaries' net assets at year-end exchange rates was to reduce net worth by £0.9 million.



<b>Summary cash flow</b>	<b>2001 £m</b>	<b>2000 £m</b>
Group operating profit before exceptional items and goodwill amortisation	45.6	47.4
Depreciation	36.3	34.9
EBITDA	81.9	82.3
Working capital	(1.4)	(0.1)
Interest / tax paid	(15.5)	(12.6)
Exceptional costs / other	(11.9)	(5.0)
Funds generated from operations	53.1	64.6
Fixed asset receipts	27.5	6.5
Capital expenditure	(31.0)	(31.5)
Investments	(3.9)	(4.0)
Cash flow before acquisitions, business disposal and dividends	45.7	35.6
Acquisitions	(51.9)	(76.9)
Disposals	(9.7)	–
Dividends	(17.0)	(16.2)
Net cash flow	(32.9)	(57.5)
Opening debt	(88.8)	(37.8)
Currency / other	(2.9)	6.5
Closing debt	(124.6)	(88.8)

### Foreign exchange exposure

The fact that the Group has operations in several mainland European countries gives both translation and transaction exposure. Transaction exposure is hedged where it is deemed material and appropriate.

Translation exposure on overseas assets is partly hedged by matching the assets with borrowings in the relevant currency. All overseas subsidiaries are in participating EMU countries and therefore non-sterling Group borrowings are held in euro.

### The euro

The Group continues to adapt its commercial and financial processes so that its European subsidiaries can trade in the euro. Decisions are made locally, in advance of the January 2002 deadline, as to when a subsidiary will formally adopt the euro as its functional currency. The costs associated with the changes have been around £0.3 million in the year as we prepare for the changeover to the euro in mainland Europe. Steering committees are in place to plan, facilitate and monitor the process towards full euro implementation.

Overseas budgets are now in euro and the Food and Consumer businesses in France and the Benelux have successfully converted their local accounting systems to euro-based systems effective from the start of the 2001/02 financial year. The industrial businesses in mainland Europe will convert their systems before the end of this calendar year. We anticipate further costs of around £0.3 million in the 2001/02 financial year relating to conversion to the euro.

### Cash flow

The Group has again demonstrated its ability to generate a strong cash inflow with £45.7 million generated this year before acquisitions, business disposals and dividends. In the year total debt has increased from £88.8 million to £124.6 million following the payment of £51.9 million for acquisitions.

Since demerger in September 1997, a total of £183 million of free cash flow has been generated which is equivalent to 68p per share and an average of £52 million a year. This strong cash generation has enabled the business to pay dividends of £59 million to shareholders and spend £128 million acquiring new business to deliver the Group's strategy. Without these acquisitions, the Group would be in a net cash position.

### Capital expenditure

Total capital expenditure for the year amounted to £31.0 million which is 85% of the depreciation charge. When leased assets, which totalled £10.6 million, are included, the Group invested 115% of the depreciation charge in the year. Major areas of expenditure included a new shared-user frozen distribution centre near Lyon in France and the purchase of new vehicles in both Gerposa and Wohlfarth. The Group has continued its policy of only investing in new projects which satisfy our targets for risk and return.

### Return on capital employed

In the year the Group's return on capital was 14.4%, which exceeded its weighted average cost of capital by 3%.

Our goal is to increase the Group's return on capital. This is achieved by tight control of working capital and only investing in new projects which meet the Group's stringent return requirement; we also continually review underperforming assets to ensure that they either improve or are placed on the disposal list for sale. The sale proceeds are then reinvested in new growing areas of the business.

Peter Aspden  
Finance Director

**Jonathan Fry MA \* + #**

Chairman since July 1997. Appointed a non-executive director in 1995 and Deputy Chairman in 1996. Non-executive Chairman of Elementis and Control Risks Group; Deputy Chairman of Northern Foods. Age 63.

**Edward Roderick FILM CMAgt #**

Chief Executive since September 1997. Joined as Managing Director of the Industrial Division in 1996. Previously held senior positions and directorships with Hays, Bell Lines, United Transport (BET) and Alexandra Molyneux Haulage. A member of the Executive Board of the FTA and Chairman of the Road Haulage Forum's Training Sub-Group. A director of the Northern Ballet Theatre. Age 48.

**Peter Aspden FCA**

Finance Director since July 1998. Appointed a Director in May 1998. Previously Finance Director of Ibstock PLC from 1991 to 1998. Age 49.

**Peter Cawdron FCA \* + #**

Non-executive director from September 1997. Non-executive directorships also include Compass Group, Capita Group, Johnston Press, ARM Holdings, Express Dairies and Capital Radio. Previously at Grand Metropolitan 1983-1997, becoming a director in 1993. Spent six years in the US with a major advertising agency preceded by seven years in merchant banking at UBS Warburg. Age 57.

**Dr Antonie Edelman \* + #**

Non-executive director from February 1998. Former Chairman of vLm, the Logistics Management Association in the Netherlands and a visiting fellow at Cranfield University School of Management. Previously with Unilever for 35 years where as a member of its international Food Executive he was responsible for supply chain management until 1996. He is on the boards of a healthcare institution and an international charity. Age 65.

**Robin Salvesen DL \* + #**

Non-executive director since 1987. Executive director with responsibility for the Shipping division 1970-1987. Chairman of the Scottish Council, King George's Fund for Sailors and the Lights Advisory Committee. Age 66.

**Jim Lavelle FCCA**

Company Secretary

\* Member of the Remuneration Committee

† Member of the Audit Committee

# Member of the Nomination Committee

# Corporate governance

## Introduction

The Company remains committed to high standards of corporate governance and supports the principles laid down in the Combined Code for Corporate Governance ('the Code') appended to the Financial Services Authority Listing Rules. This statement describes how the principles identified in the Code are applied and reports on the Company's compliance with the Code's provisions.

## The Board

The Board currently comprises two executive directors and four non-executive directors and their biographical details are set out on page 25. The Chairman and the other non-executive directors bring a wide range of experience to the Company and are considered by the Board to be independent. Mr P E B Cawdron has been nominated by the Board as the senior independent director. Mr R S Salvesen was previously an executive director of the Company with responsibility for the Shipping division but has not held an executive office with the Group since 1987.

The Board is responsible to shareholders for the proper management of the Group. It has a formal schedule of matters reserved for its decision. Amongst the matters reserved for decision by the full Board are strategic policy, acquisitions and disposals, capital projects over a defined limit, annual budgets, new Group borrowing facilities and significant changes to employee benefits. The Board regularly considers a review of trading performance and other financial statements. There is a clear division of responsibilities between the non-executive Chairman and the Chief Executive.

Directors have access to the advice and services of the Company Secretary and the Board has established a procedure for any director, if necessary, to take independent professional advice at the Company's expense.

The Board has delegated a degree of authority to the Chief Executive for him to exercise with the advice of the Executive Committee.

## Appointments to the Board

Any director who is appointed by the Board during the year is required to retire at the next Annual General Meeting ('AGM') and seek election by the shareholders. One-third of the members of the Board must retire by rotation each year and offer themselves for re-election, if eligible. In addition any director shall retire by rotation at the third AGM after his last appointment or reappointment.

## Standing Committees

The Board has standing Audit, Remuneration and Nomination Committees, the membership of which is detailed on page 25. Each Committee has terms of reference approved by the Board as a whole and the minutes of the meetings are circulated to and reviewed by the Board.

The Audit Committee is non-executive and normally meets four times a year under the chairmanship of Mr P E B Cawdron. Although they are not members, the Group Finance Director and the external auditors will normally attend these meetings. The Group Business Services Department Manager, whose responsibilities include internal audit, attends as required.

Both the internal and external audit functions have direct access to the Committee chairman at all times. The nature and scope of the audit are discussed with the external auditors in advance and any matters arising from their work and the financial statements are reviewed. The Committee also aims to ensure that the internal audit function is adequately resourced and has appropriate standing within the Group, reflecting the determination of the Board to ensure that internal control procedures are of a high standard. Written and verbal reports from the Group Business Services Department Manager are received by the Committee on a regular basis.

The Remuneration Committee is also non-executive and meets at least twice a year under the chairmanship of Mr J M Fry. Its primary function is to determine the Company's policy on Board remuneration and to approve the specific terms and conditions of employment of the executive directors and senior managers including the basis on which performance related awards are calculated. The Committee also determines the terms on which employee share schemes and invitations to participate are to be offered. *The fees payable to non-executive directors are established by the full Board.*

A separate report on Directors' remuneration is included on pages 28 to 31 and forms part of the Company's corporate governance statement.

The Nomination Committee consists of the non-executive directors and the Chief Executive, under the chairmanship of Mr J M Fry. Its responsibilities are to assist the full Board with succession planning and with the selection process for the appointment of a new director or chairman.

In addition there is an Executive Committee, chaired by the Chief Executive, consisting of senior executives of the Company, which is responsible for the operational management of the Group.

**Relations with shareholders**

The Company is committed to maintaining good communications with shareholders. Institutional shareholders, analysts and private shareholders with large holdings are invited to briefings by the Company in the period following the announcement of interim and full year results. The same briefings are made to members of the press and selected material is displayed on the Company's website so as to be available to all shareholders. Periodically visits are arranged for analysts to operating facilities of the Group to help to promote a better understanding.

The AGM presents an opportunity for all shareholders to meet and question the directors. Shareholders have always been invited to raise questions.

**Internal control**

The directors are responsible for the Group's system of internal control and for reviewing its effectiveness. The Group's system cannot entirely eliminate risk but should provide reasonable assurance that problems are identified on a timely basis.

Following the publication of guidance for directors on internal control (the Turnbull Guidance), the Board confirmed, in last year's accounts, that there was a process for identification, evaluation and management of significant risks to the achievement of the Group's strategic objectives. This process has been in place throughout the financial year ended 31 March 2001 and up to the date of approval of these accounts and accords with the Turnbull Guidance.

The significant risk areas and appropriate control measures and procedures have been identified and recorded in a risk framework. The monitoring measures and procedures incorporated in this framework together comprise a wide range of controls embracing financial, operational and compliance aspects. Operation of the Group's control procedures is reviewed and tested, on a regular basis, by the Internal Audit Department who discuss their findings with the Audit Committee. Issues raised are subsequently discussed by the Board.

The Audit Committee has reviewed the effectiveness of the system of internal control during the period covered by this report and has reported to the directors on the result of this review. Accordingly, the directors are satisfied that the Group continues to have an effective system of internal control.

**Pensions**

The assets of the UK pension fund are held by trustees separately from the assets of the Company, and invested by independent fund managers. The assets are allocated to these managers, each one of whom has a separate objective, namely a managed fund, an index-tracking fund, and a specialist equity fund. The fund cannot be invested directly in the Company. The board of trustees is constituted such that two thirds of their number are nominated by the Company and one third are member-nominated. Trustees' meetings are chaired by Mr J M Fry

**Compliance**

The directors consider that, save where identified in the Remuneration Report, the Company was in compliance with the provisions of the Code throughout the financial year ended 31 March 2001.

# Remuneration report

The directors confirm that this report has been drawn up in accordance with Schedule B of the Combined Code.

## **Remuneration Committee: composition, responsibilities and operation**

The membership of the Remuneration Committee is entirely non-executive and the members are listed on page 25. Each has no personal financial interest other than as shareholders in the matters to be decided, no potential conflicts of interest arising from cross-directorships and no day-to-day responsibility for running individual businesses of the Group. The Committee's principal function is to determine the Company's policy on remuneration for its most senior executives and to approve the specific remuneration of the executive directors and the secretary, including their service contracts. Its remit therefore includes, but it is not restricted to, basic salary, benefits in kind, performance related awards, share options and share awards, long term incentive schemes, pension rights, and any other compensation or termination payments. In exercising its responsibilities, the Committee has access to professional advice both inside and outside the Company and consults with the Chief Executive about its proposals.

## **Remuneration policy**

The Company's policy is to attract, retain and motivate high quality senior managers with a competitive package of salary, short and long term incentives linked to performance and the interests of shareholders. Market rates will determine the range of remuneration levels for a particular job, and an individual's position in that range will reflect the overall contribution to business performance. The principal components of remuneration packages are:

### *Salary*

In arriving at the basic salary element the evaluation of an executive's responsibilities is based on a well established external assessment system which takes into account the know-how required to do the job, the problem solving and decision-making involved and the overall impact on the business. This assessment enables comparison to be made with the salary levels in over 400 companies in the industrial and service sector in the UK. The salary levels suggested by this primary data source are also checked against a number of specialist functional and industry sector surveys. When setting salary levels, account is taken of the impact of salary on other elements of remuneration, particularly pensions.

### *Short term incentives*

Executive directors and senior executives participate in an annual performance award scheme. The scheme enables a maximum performance award of up to 50% of salary to be paid to executive directors, which is not pensionable, for superior performance against pre-determined targets based upon an increase in earnings per share before exceptional items ('EPS'). There were no payments for 2000/01 in respect of the EPS scheme. The criteria on which the scheme for certain senior executives is based also incorporates an element of performance against individual objectives.

### *Longer term incentives*

The Company believes that employee share schemes encourage the matching of interests between employees and shareholders.

Executive directors and senior executives are able to participate in an Executive Share Option Scheme at the discretion of the Remuneration Committee.

The base award for new participants in the Executive Share Option Scheme comprises options with a market value, at the date of grant, of £30,000; they would not normally be awarded options until they have been employed for at least 12 months. The frequency of subsequent grants is limited to intervals of two years unless an individual has had a significant increase in job responsibility. Ongoing allocations of executive share options are based on salary multiples which reflect the value of the role in the organisation. The maximum multiple of four times salary is applicable to executive directors.

UK participants in the Executive Share Option Scheme receive part of their entitlement under the scheme which has received Inland Revenue approval. The Treasury limit for outstanding options under the approved scheme is currently £30,000 for each participant, with the balance of any award being held under an unapproved scheme.

The executive options granted during the financial year were subject to performance conditions based on both total shareholder return ('TSR') and growth in normalised earnings per share ('EPS'). TSR is calculated by reference to the increase in the Company's share price assuming reinvestment of dividends paid.

At the time when the individual wishes to exercise the option (which can only normally occur after three years have elapsed since grant), the Company's TSR since the date of grant of the option is compared to that of the FTSE Mid 250 Index (excluding investment trusts). If the Company's TSR matches or exceeds that index and the Company's EPS growth, over a period of three consecutive years, matches or exceeds the growth in the Retail Prices Index by 9%, the option is capable of exercise.

The Remuneration Committee will regularly review the suitability of the performance conditions for future grants of options. The conditions imposed from time to time at the date of grant of options will be disclosed to shareholders each year in the Company's Annual Report and Accounts.

#### *Retirement benefits*

UK executive directors are eligible for the executive scale of benefits of the Christian Salvesen Pension Scheme ('the Scheme'), which is a fully funded, final salary scheme approved by the Inland Revenue. Subject to Inland Revenue regulations and limits, its key elements are:

- a normal retirement age of 60;
- a maximum benefits accrual rate of 1/30th for each year's service up to a maximum of two thirds of final pensionable salary;
- an employee contribution rate of 5% of pensionable salary;
- a lump sum death in service benefit of four times salary;
- spouse's pension on death; and
- early retirement pension based on a 3% simple reduction factor.

Where directors are subject to the Earnings Cap, it is the Company's current policy to pay over to such members, by way of compensation, the equivalent of what it would have cost the Company to fund the benefits, based on basic salary, beyond the cap. Further, where Inland Revenue limits may restrict the accrual of Scheme benefits for any executive director to less than 1/30th of the Earnings Cap for each year of service, the director can agree to take a lower benefit from the Scheme. The Company has paid additional compensation in respect of this further reduction in benefit.

#### **Directors' emoluments excluding pension contributions and payments in lieu thereof**

	Note	Salary £'000	Fees £'000	Taxable benefits £'000	Cash bonus £'000	Other taxable pay £'000	2001 Total £'000	2000 Total £'000
Chairman								
J M Fry		73	25	–	–	–	98	90
Executive directors								
E J Roderick		331	–	17	–	3	351	345
P G Aspden		193	–	14	–	1	208	221
Former director								
P D Carvell	(i)	125	–	12	–	4	141	26
Non-executive directors								
P E B Cawdron		–	25	–	–	–	25	22
Dr A Edelman		–	25	–	–	–	25	22
R S Salvesen		–	25	–	–	–	25	22
Other former director								
A M Callaghan		–	–	–	–	–	–	94
		722	100	43	–	8	873	842

**Note:**

(i) Emoluments in respect of the period to 31 January 2001, the date of resignation. Other taxable pay includes outstanding holiday pay paid on termination of his employment.

## Remuneration report continued

### Pensions

Executive Directors during the year who were members of the Scheme are as follows:

	Note	increase in accrued pension £	Accrued pension at 31 March 2001 £	Transfer value of increase in accrued pension £	Notional cost of death in service benefits £
E J Roderick	(i)	1,870	10,710	15,600	2,400
P G Aspden	(ii)	1,480	4,340	12,100	1,720
P D Carvell	(iii)	3,825	4,580	—	1,140

#### Notes:

- (i) The benefits for Mr Roderick are accruing at a rate of 1/45th for each year of service. His accrued pension at 31 March 2000 was £8,560.
- (ii) The benefits for Mr Aspden are accruing at a rate of 1/60th for each year of service.
- (iii) For Mr Carvell the pension figures shown relate to the increase in, and total return of, contributions while a director through to the date of his resignation, 31 January 2001.

The pension arrangements of Mr Roderick, Mr Aspden and Mr Carvell were based upon membership of the Scheme. However, they are all subject to the Earnings Cap and received payments based on the amount that it would otherwise have cost the Company to fund their pension benefits. Death in service benefit cover was also provided, outside the Scheme arrangements, on salary above the Cap. In addition to the emoluments shown above in respect of the period they were directors of the Company during the year they received the following payments/benefits:

	Payments in lieu of pension benefits		Cost of death in service cover	
	2001 £	2000 £	2001 £	2000 £
E J Roderick	83,473	56,227	2,240	3,806
P G Aspden	49,854	34,815	1,040	1,659
P D Carvell	20,423	2,876	510	173

### Service contracts and notice periods

The executive directors have service agreements that require one year's notice from the individual and two years' notice from the Company. The Remuneration Committee notes and has reviewed the provision of the Code concerning notice periods. Cognisance has also been taken of the Board's wish to attract and retain people of high calibre and of the incidence of notice periods in excess of one year among comparable companies. The view remains that it is in the interests of both the Company and the executive directors to maintain notice periods of two years.

In the event of early termination, the Remuneration Committee will give careful consideration to what compensation should be paid taking into account the circumstances for the particular case and the responsibility of the individual to mitigate.

The Company has entered into fixed term letters of appointment with Mr Fry, dated 7 October 1999, Mr Cawdron, dated 29 September 2000, Dr Edelman, dated 18 January 2001, and Mr Salvesen, dated 2 October 1999, who are respectively engaged as the non-executive directors of Christian Salvesen PLC. The letters of appointment expire as follows: Mr Fry at the end of the Annual General Meeting ("AGM") in 2003, Mr Cawdron on 30 September 2003, Dr Edelman at the end of the AGM in 2003 and Mr Salvesen at the end of the AGM in 2002.

## Share interests

### Share options

The interests of persons who were directors during the year in the Company's share option schemes were as follows:

	Number of options			31 March 2001	Option price	Date from which exercisable
	1 April 2000	Granted during year	Exercised during year			
<b>Executive</b>						
E J Roderick	740,741	–	–	740,741	108p	2.10.2000
E J Roderick	208,264	–	–	208,264	121p	1.12.2002
E J Roderick	–	32,764	–	32,764	146.5p	7.06.2003
P G Aspden	472,573	–	–	472,573	118.5p	9.06.2001
P G Aspden	–	81,911	–	81,911	146.5p	7.06.2003
<b>Savings-related</b>						
E J Roderick	3,266	–	–	3,266	80p	1.04.2001
E J Roderick	4,070	–	–	4,070	99p	1.04.2003
P G Aspden	4,070	–	–	4,070	99p	1.04.2003

The options under the Executive Share Option Schemes are normally only exercisable providing performance conditions are met, once three years have elapsed from date of grant. They lapse after ten years.

The market price of the shares at 31 March 2001 was 118.5p and the range during the financial year was 117p to 187p.

At 1 April 2000 Mr P D Carvell held executive share options over 265,486 shares at an option price of 113p, all rights over which lapsed following his resignation during the year.

### Shares

The interests of persons who were directors at the end of the year in the share capital of the Company were as follows:

	31 March 2001		1 April 2000
	Beneficial	As trustee	As trustee
J M Fry	19,444	–	–
E J Roderick	120,000	–	–
P G Aspden	65,198	–	–
P E B Cawdron	20,000	–	–
Dr A Edelman	22,000	–	–
R S Salvesen	2,886,600	712,833	712,833

At 31 March 2001 the trustees of the Christian Salvesen PLC Qualifying Employee Share Ownership Trust (the "QUEST") held 1,030,393 shares of the Company. Mr E J Roderick and Mr P G Aspden are deemed to have an interest in these shares as potential beneficiaries.

No director was interested in any shares of subsidiary companies at any time during the year.

There have been the following changes in directors' interests in shares between the end of the financial year and the date of this report:

- the beneficial holding of Mr E J Roderick increased by 3,266 shares acquired on exercise of an SAYE option on 2 April 2001.
- the beneficial holding of Mr P G Aspden increased by 2,000 shares purchased on 4 April 2001 and by 130 shares from reinvestment of dividends within PEPs on 2 April 2001.
- the deemed interest of Mr Roderick and Mr Aspden in shares held by the QUEST, decreased by 766,151 shares on 2 April 2001, by 94,698 shares on 12 April 2001 and by 36,650 shares on 11 May 2001 following transfers to participants in the Savings-Related Share Option Scheme, on exercise of their options.



# Directors' report

## **Profit and dividends**

The profit for the financial year after taxation was £15.2 million.

An interim dividend of 2.65 pence per ordinary share was paid on 13 February 2001 and the directors now recommend a final dividend of 3.95 pence per ordinary share payable on 14 August 2001 making a total for the year of 6.6 pence per ordinary share (2000 6.3 pence). The total cost of these dividends amounts to £17.6 million.

The adverse balance of £2.4 million has been transferred from reserves (2000 £10.4 million transferred to reserves).

## **Share capital**

Details of the changes in issued share capital over the year are given on page 52.

## **Principal activities**

The principal activities of the Group, significant changes in those activities and an indication of likely future developments are described in the chairman's statement on pages 2 and 3 and in the operating and financial review on pages 14 to 23.

Principal subsidiary and associated undertakings are listed on page 47.

## **Directors**

The present directors of the Company are listed on pages 24 and 25. Mr P D Carvell was a director until 31 January 2001 when he resigned from the Board. The directors retiring by rotation this year are Dr A Edelman and Mr E J Roderick, both of whom are eligible and offer themselves for re-election. Biographical details of all directors are shown on page 25.

Mr E J Roderick and Mr P G Aspden have service agreements, each of which require one year's notice from the director and two year's notice from the Company. No other contract with the Company, or any subsidiary undertaking of the Company, in which any director was materially interested subsisted during or at the end of the financial year.

A statement of directors' interests in the share capital of the Company at the end of the financial year is given on page 31.

## **Donations**

During the year the Group donated £50,000 (2000 £41,000) to registered UK charities.

No political donations were made during the year (2000 £nil).

## **Environmental policy**

*The Group recognises its responsibility to minimise the environmental impact of its operations. This area is addressed further on page 18.*

## **Employees**

Team briefings continue to be operated throughout the business to keep employees informed of developments and plans both in their own operations and in the Group as a whole. The Company news magazine is published three times a year and the annual and interim results are publicised extensively throughout the business.

A substantial number of employees have shareholding interests, built up through SAYE and other schemes. At the end of the financial year 2,745 employees (2000 3,272) held share options through the SAYE share option scheme.

The Company's policies for recruitment, training, career development and promotion of employees are based on the suitability of the individual and give those who are disabled equal treatment with the able bodied. Where appropriate, employees disabled after joining the Company are given suitable training for employment with the Company or elsewhere.

In the area of health and safety, each business unit is required to follow the best relevant industrial practice. The Group policy statement approved by the directors provides a framework setting out the objectives for management. Individual businesses monitor their procedures and safety records regularly, and submit reports to the Executive Committee on a regular basis.

**Supplier payment policy**

It is the Company's policy to settle the terms and conditions of payment with suppliers when agreeing each transaction, to ensure that suppliers are made aware of these terms, and in practice, providing the supplier meets its contractual obligations, to abide by them. At the balance sheet date £0.2 million (2000 £0.3 million) was due by the Company to trade creditors which represented 12 days (2000 19 days).

The policies and practices of each of the major UK operating subsidiaries are disclosed in the accounts of those companies.

**Special business**

The following resolutions will be proposed for approval at the Annual General Meeting:

Resolution 6 proposes as a special resolution, on the same basis as last year, to disapply the statutory pre-emption rights of shareholders on allotment of equity securities for cash up to a limit equal to 5% of the issued ordinary share capital, or a total of 13,320,000 ordinary shares. The resolution also disapplies these rights to the extent necessary to facilitate rights issues. The authority under this resolution would expire on the date of the Annual General Meeting in 2002 or on 12 October 2002, whichever is the earlier.

The second and final item of special business is the directors' recommendation that shareholders renew the authority of the Company to purchase its own ordinary shares as permitted under its Articles of Association. Accordingly, Resolution 7 will be proposed as a special resolution seeking authority to make such purchases in the market. The directors have no immediate intention of using such authority and would do so only when they consider it to be in the best interests of shareholders generally and an improvement in earnings per share would result. Any ordinary shares purchased under this authority will be cancelled and the number of ordinary shares in issue will be reduced accordingly.

Resolution 7 specifies the maximum number of ordinary shares which may be purchased (representing approximately 10% of the Company's existing issued ordinary share capital) and the minimum and maximum prices at which they may be bought, reflecting the requirements of the Companies Act 1985 and the Financial Services Authority. The directors intend to seek renewal of this power at subsequent Annual General Meetings.

**Notifiable interests**

As at 11 May 2001 the Company has been advised of the following interests in its issued ordinary share capital:

Name of shareholder	Number of shares	%
A E H Salvesen*	15,263,333	5.7
Aktiebolaget Custos	27,090,000	10.2
Legal & General	9,075,394	3.4

\*including immediate family and trustee interests

**Auditors**

A resolution re-appointing PricewaterhouseCoopers as the Company's auditors will be proposed at the Annual General Meeting.

By order of the Board

J W Lavelle, Secretary  
5 June 2001



## 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 the Group 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 and the Group 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 the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors confirm that these financial statements comply with the foregoing requirements.

# Independent auditors' report to the members of Christian Salvesen PLC

We have audited the financial statements which comprise the profit and loss account, the balance sheet, the cash flow statement, the statement of total recognised gains and losses and related notes.

## **Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of director's responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards issued by the Auditing Practices Board and the Listing Rules of the Financial Services Authority.

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 or the Listing Rules regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report, the chairman's statement, the operating and financial review, the corporate governance statement and the remuneration report.

We review whether the corporate governance statement reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Financial Services Authority and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Company's or the Group's corporate governance procedures or its risk and control procedures.

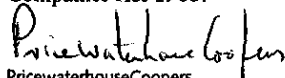
## **Basis of audit opinion**

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 their preparation of financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, 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 affairs of the Company and the Group at 31 March 2001 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers  
Chartered Accountants  
and Registered Auditors  
Nottingham

5 June 2001

## Group profit and loss account For the year ended 31 March 2001

	Notes	Before goodwill amortisation and exceptional items 2001 £m	Goodwill amortisation and exceptional items 2001 £m	Total 2001 £m	Before goodwill amortisation and exceptional items 2000 £m	Goodwill amortisation and exceptional items 2000 £m	Total 2000 £m
<b>Turnover (group and share of joint ventures)</b>							
Continuing operations		690.3	–	690.3	671.9	–	671.9
Acquisitions – Wohlfarth		16.0	–	16.0	–	–	–
– Darfeuille		19.3	–	19.3	–	–	–
Discontinued operations		12.2	–	12.2	15.2	–	15.2
<b>Total turnover</b>		737.8	–	737.8	687.1	–	687.1
Less: share of joint ventures' turnover		(34.5)	–	(34.5)	(21.5)	–	(21.5)
<b>Group turnover</b>	1	703.3	–	703.3	665.6	–	665.6
<b>Operating costs – goodwill amortisation</b>							
– other		(657.7)	(15.2)	(672.9)	(618.2)	(1.1)	(619.3)
<b>Operating profit</b>							
Continuing operations		47.3	(15.9)	31.4	48.5	(3.5)	45.0
Acquisitions – Wohlfarth		(0.9)	(0.6)	(1.5)	–	–	–
– Darfeuille		0.8	(0.2)	0.6	–	–	–
Discontinued operations		(1.6)	(1.9)	(3.5)	(1.1)	–	(1.1)
<b>Group operating profit</b>		45.6	(18.6)	27.0	47.4	(3.5)	43.9
Share of operating profit in							
Joint ventures		1.0	–	1.0	0.3	–	0.3
Associates		(1.1)	(0.3)	(1.4)	(1.2)	(0.3)	(1.5)
<b>Total operating profit</b>	1	45.5	(18.9)	26.6	46.5	(3.8)	42.7
<b>Exceptional items</b>							
Continuing operations:							
Gains/(losses) on disposal of fixed assets		–	9.7	9.7	–	1.2	1.2
Discontinued operations:							
Surpluses in respect of businesses sold in prior years		–	2.0	2.0	–	0.9	0.9
Deficit on sale of discontinued operations	26	–	(7.8)	(7.8)	–	–	–
<b>Profit on ordinary activities before interest</b>		45.5	(15.0)	30.5	46.5	(1.7)	44.8
Net interest payable	2	(6.2)	(2.3)	(8.5)	(6.2)	–	(6.2)
<b>Profit on ordinary activities before taxation</b>		39.3	(17.3)	22.0	40.3	(1.7)	38.6
Tax on profit on ordinary activities	4	(10.4)	3.6	(6.8)	(11.7)	0.2	(11.5)
<b>Profit for the financial year</b>		28.9	(13.7)	15.2	28.6	(1.5)	27.1
Dividends on ordinary shares	6	(17.6)	–	(17.6)	(16.7)	–	(16.7)
<b>Transfer to/(from) reserves for the financial year</b>	23	11.3	(13.7)	(2.4)	11.9	(1.5)	10.4
<b>Earnings per share</b>							
Excluding exceptional items and goodwill amortisation	7			10.92p			10.81p
Basic				5.74p			10.24p
Diluted				5.67p			10.16p
Dividends per ordinary share	6			6.60p			6.30p

## Balance sheets As at 31 March 2001

	Notes	Group 2001 £m	Group 2000 £m	Company 2001 £m	Company 2000 £m
<b>Fixed assets</b>					
Intangible assets	9	85.6	57.2	—	—
Tangible assets	10	236.2	225.7	2.2	3.3
Investments in subsidiaries	11	—	—	343.3	309.8
Investments in joint ventures	12				
Share of gross assets		9.0	7.2	—	—
Share of gross liabilities		(6.8)	(5.5)	—	—
		2.2	1.7	—	—
Investment in associated undertakings	13	0.7	3.5	—	—
Investment in own shares	14	1.5	0.7	1.5	0.7
		326.2	288.8	347.0	313.8
<b>Current assets</b>					
Stocks	15	14.6	17.3	—	—
Debtors	16	133.9	114.9	25.7	30.0
Investments	17	0.3	0.1	0.1	0.1
Cash at bank and in hand		32.8	27.9	1.5	10.7
		181.6	160.2	27.3	40.8
<b>Current liabilities</b>					
Creditors: amounts falling due within one year					
Borrowings	18	(18.3)	(53.5)	(4.5)	(45.3)
Corporation tax		(12.7)	(17.9)	(1.8)	(0.3)
Proposed ordinary dividend		(10.5)	(9.9)	(10.5)	(9.9)
Other creditors	19	(163.6)	(136.0)	(3.0)	(1.8)
		(205.1)	(217.3)	(19.8)	(57.3)
<b>Net current (liabilities) assets</b>		(23.5)	(57.1)	7.5	(16.5)
<b>Total assets less current liabilities</b>		302.7	231.7	354.5	297.3
<b>Long term liabilities</b>					
Creditors: amounts falling due beyond one year					
Borrowings	18	(139.4)	(63.3)	(123.4)	(63.0)
Other creditors	19	(6.8)	(7.2)	—	(0.9)
<b>Provisions for liabilities and charges</b>	20	(6.7)	(9.0)	(4.0)	(3.9)
<b>Total net assets</b>		149.8	152.2	227.1	229.5
<b>Capital and reserves</b>					
Called up share capital	21	74.9	74.6	74.9	74.6
Share premium account	23	43.8	42.8	43.8	42.8
Capital redemption reserve	23	3.5	3.5	3.5	3.5
Revaluation reserve	23	—	—	4.3	3.2
Profit and loss account	23	27.6	31.3	100.6	105.4
<b>Equity shareholders' funds</b>		149.8	152.2	227.1	229.5

Approved by the Board of directors on 5 June 2001 and signed on its behalf by:

Directors:  
Jonathan Fry  
Peter Aspden

*Jonathan Fry*  
*P. Aspden*

## Group cash flow statement For the year ended 31 March 2001

	Notes	£m	2001 £m	£m	2000 £m
<b>Net cash inflow from operating activities</b>	24		68.6		77.2
<b>Returns on investments and servicing of finance</b>					
Interest received		2.5		1.0	
Interest paid		(6.8)		(5.5)	
Issue costs of new bank facility		(0.7)		(0.7)	
<b>Net cash outflow from returns on investments and servicing of finance</b>			(5.0)		(5.2)
<b>Taxation</b>					
UK corporation tax paid		(8.1)		(5.2)	
Overseas tax paid		(2.4)		(2.2)	
<b>Tax paid</b>			(10.5)		(7.4)
<b>Funds generated from operations</b>			53.1		64.6
<b>Capital expenditure and financial investment</b>					
Purchase of tangible fixed assets		(31.0)		(31.5)	
Purchase of own shares		(1.2)		–	
Investment in joint ventures	12	(0.1)		–	
Investment in associated undertakings	13	(2.6)		(4.0)	
Proceeds on disposal of tangible fixed assets		27.5		6.5	
<b>Net cash outflow for capital expenditure and financial investment</b>			(7.4)		(29.0)
<b>Funds generated before acquisitions and disposals</b>			45.7		35.6
<b>Acquisitions and disposals</b>					
Acquisitions of businesses	25	(18.9)		(69.0)	
Cash acquired with subsidiary undertakings	25	1.2		–	
Overdrafts acquired with subsidiary undertakings	25	(1.3)		(7.9)	
Cash disposed of with subsidiary undertakings	26	(9.2)		–	
Sale of business	26	(0.5)		–	
<b>Net cash outflow for acquisitions and disposals</b>			(28.7)		(76.9)
<b>Equity dividends paid</b>			(17.0)		(16.2)
<b>Cash outflow before use of liquid resources and financing</b>			–		(57.5)
<b>Management of liquid resources</b>					
Decrease/(increase) in short term deposits	27	0.9		(6.5)	
Increase in current asset investments	27	–		(0.1)	
<b>Net cash inflow/(outflow) from management of liquid resources</b>			0.9		(6.6)
<b>Financing</b>					
Issue of ordinary share capital		1.3		–	
(Decrease)/increase in debt due within one year	27	(43.9)		16.9	
Increase in debt due after one year	27	51.3		45.8	
<b>Net cash inflow from financing</b>			8.7		62.7
<b>Increase/(decrease) in cash in the year</b>			9.6		(1.4)

## Group cash flow statement continued

	2001 £m	2000 £m
<b>Reconciliation of net cash flow to movement in net debt</b>		
Increase/(decrease) in cash	9.6	(1.4)
Cash inflow from increase in debt	(7.4)	(62.7)
Cash (inflow)/outflow from(decrease)/increase in liquid resources	(0.9)	6.6
Changes in net debt resulting from cash flows	1.3	(57.5)
Loans and finance leases acquired with subsidiary undertakings	(33.1)	–
Investments acquired with subsidiary undertakings	0.2	–
Translation difference	(4.2)	6.5
Movement in net debt in the year	(35.8)	(51.0)
Opening net debt	(88.8)	(37.8)
Closing net debt	(124.6)	(88.8)

## Statement of total recognised gains and losses

	2001 £m	2000 £m
<b>Profit for the financial year</b>	15.2	27.1
Exchange translation effect on foreign currency net investments	(2.2)	(4.3)
Taxation on foreign currency exchange differences	1.3	(1.8)
<b>Total recognised gains and losses for the year</b>	14.3	21.0

## Reconciliation of movements in shareholders' funds

	2001 £m	2000 £m
<b>Profit for the financial year</b>	15.2	27.1
Dividends	(17.6)	(16.7)
	(2.4)	10.4
Exchange translation effect on foreign currency net investments	(2.2)	(4.3)
Taxation on foreign currency exchange differences	1.3	(1.8)
Contribution to QUEST (note 14)	(0.4)	–
Shares issued (note 21)	1.3	–
Net (decrease)/increase in shareholders' funds for the year	(2.4)	4.3
Shareholders' funds at start of year	152.2	147.9
<b>Shareholders' funds at end of year</b>	149.8	152.2



## Accounting policies

### Accounts

The accounts are prepared in accordance with the historical cost convention as modified, in the case of the Company, by the revaluation of investments in subsidiaries and in accordance with applicable accounting standards.

### Consolidation

The Group accounts consolidate the accounts of the parent company and all its subsidiaries for the year ended 31 March 2001. The results of subsidiaries acquired are included from the date of acquisition and the results of subsidiaries disposed of are included up to the date of disposal.

The Group's share of the results and of the post-acquisition profits and reserves of associated undertakings and joint ventures is included in the Group accounts.

### Foreign currency

Profits and losses of overseas subsidiaries are translated at average rates and the difference in relation to year end rates is carried directly to reserves.

*In the Group balance sheet, assets and liabilities of overseas subsidiaries are translated at year end rates of exchange and any gain or loss arising is carried directly to reserves.*

In the Company balance sheet the investments in subsidiaries and borrowings denominated in foreign currency are translated at year end rates of exchange with any exchange translation differences carried directly to reserves.

The exchange rates used for the translation of euro into sterling were:

	euro 2001	euro 2000
Average rate	1.633	1.562
Year end rate	1.608	1.667

### Turnover

The turnover of the Group comprises the amounts receivable from external customers for services provided and goods sold excluding value added tax.

Certain distribution contracts oblige the Group to purchase goods from third parties and sell them to the customer at cost. The Group is rewarded for the physical distribution service provided but as the sale and purchase of the goods have no impact on the operating profit they are excluded from turnover and cost of sales. Stocks, debtors and creditors relating to such transactions are included in the consolidated balance sheet.

### Goodwill

Goodwill represents the difference between the fair value of the purchase consideration on an acquisition, and the fair value of the net assets acquired.

Goodwill on acquisitions prior to 31 March 1998 was charged to profit and loss reserves in the year of purchase. On a disposal or closure or, in the opinion of the directors, a permanent diminution in value, purchased goodwill previously eliminated against reserves is added back and charged in the profit and loss account. Following the introduction of Financial Reporting Standard 10, "Goodwill and Intangible Assets," goodwill arising on acquisitions after 31 March 1998 is capitalised and is amortised over 20 years or its useful economic life if less.

**Depreciation**

(a) Freehold and long leasehold buildings (with 50 years or more to run) are depreciated at 2% or 4% per annum straight line. Certain specialised buildings are depreciated at 4% per annum straight line for 15 years, and thereafter at 2% per annum straight line for 20 years.

(b) Short leaseholds are depreciated in equal annual instalments over the term of each lease.

(c) Other fixed assets are depreciated on a straight line basis at annual rates, estimated to write off each asset over its useful life. The principal annual rates of depreciation used are as follows:

	%
Commercial vehicles	15
Trailers	10
Other plant and machinery	6.67-20

**Capitalisation of interest**

The cost of financing major capital projects prior to generating revenues is included in the cost of the project and capitalised. The interest rate applied is specific to the actual rate payable in the country where the investment is made.

**Deferred tax**

Deferred taxation is provided in respect of significant timing differences if such taxation is expected to become payable in the foreseeable future.

**Pensions**

The Group operates various pension schemes which are established in accordance with local conditions and practices in the countries concerned. The cost of providing pensions is charged against profits on a systematic basis.

**Stocks**

Stocks and work in progress are valued at the lower of cost to the Group and net realisable value. Cost includes an appropriate proportion of overheads.

**Leased assets**

Fixed assets acquired under finance leases are capitalised and the related leasing obligations included in borrowings.

Rentals under operating leases are charged against trading profit on a straight line basis over the term of the lease.

**Financial derivatives**

The Group uses various derivative financial instruments to reduce exposure to foreign exchange risks. These include forward currency contracts and currency options. The Group also uses interest rate cap derivatives to manage its interest rate exposure.

*Forward currency contracts*

Forward currency contracts used to hedge transaction exposures are revalued to balance sheet rates with the net unrealised gain/loss being shown as trade receivables/payables. Realised gains and losses on forward contracts are recognised in trading profit.

*Currency options*

Option premia are recognised at their historic cost in the Group balance sheet as other receivables. At maturity, the option premia net of any realised gains on exercise, are taken to the profit and loss account.

*Interest rate caps*

The option premia are recognised at their historic cost in the Group balance sheet as other receivables. The option premia, net of any realised gains on individual caplets, are taken to net interest payable spread over the lifetime of the cap.

## Notes to the accounts

### Note 1 Turnover, profit and operating costs

Segmental analysis	Turnover 2001 £m	Turnover 2000 £m	Operating profit 2001 £m	Operating profit 2000 £m	Net operating assets 2001 £m	Net operating assets 2000 £m
<b>By geographical area and by class of business:</b>						
<b>Continuing operations and acquisitions</b>						
Food and Consumer						
– United Kingdom	295.0	314.5	24.2	25.4	84.4	88.6
– Mainland Europe	93.6	97.3	3.8	4.2	35.2	24.6
<b>Total Food and Consumer</b>	<b>388.6</b>	<b>411.8</b>	<b>28.0</b>	<b>29.6</b>	<b>119.6</b>	<b>113.2</b>
Industrial						
– United Kingdom	172.6	159.6	16.7	14.1	50.2	54.2
– Mainland Europe	129.9	79.0	2.4	3.9	104.9	67.6
<b>Total Industrial</b>	<b>302.5</b>	<b>238.6</b>	<b>19.1</b>	<b>18.0</b>	<b>155.1</b>	<b>121.8</b>
	<b>691.1</b>	<b>650.4</b>	<b>47.1</b>	<b>47.6</b>	<b>274.7</b>	<b>235.0</b>
<b>Discontinued operations</b>						
Food and Consumer – Mainland Europe	12.2	15.2	(1.6)	(1.1)	–	6.1
	<b>703.3</b>	<b>665.6</b>	<b>45.5</b>	<b>46.5</b>	<b>274.7</b>	<b>241.1</b>
<b>Goodwill amortisation</b>						
Food and Consumer – United Kingdom	–	–	(0.2)	–	–	–
Industrial – Mainland Europe	–	–	(3.2)	(2.4)	–	–
	<b>703.3</b>	<b>665.6</b>	<b>42.1</b>	<b>44.1</b>	<b>274.7</b>	<b>241.1</b>
<b>Exceptional items</b>						
Food and Consumer – United Kingdom	–	–	(5.8)	–	–	–
– Mainland Europe	–	–	(8.4)	(1.1)	–	–
Industrial – Mainland Europe	–	–	(1.3)	(0.3)	–	–
	<b>703.3</b>	<b>665.6</b>	<b>26.6</b>	<b>42.7</b>	<b>274.7</b>	<b>241.1</b>

Turnover excludes sales of £114.9 million (2000 £146 million) where the Group is obliged under certain logistics contracts to purchase goods on customers' behalf and sell them on at cost.

Turnover by geographical market and turnover by geographical origin are not materially different.

Net operating assets represent net assets excluding net borrowings.

Analysis of operating costs	Discontinued operations £m	Acquisitions £m	Continuing operations £m	2001 Total £m	Discontinued Operations £m	Continuing Operations £m	2000 Total £m
Cost of sales	12.4	33.7	577.3	623.4	13.5	572.5	586.0
Administrative expenses excluding exceptional items and goodwill amortisation	1.4	1.8	31.3	34.5	2.8	30.1	32.9
Goodwill amortisation	–	0.4	3.0	3.4	–	2.4	2.4
Exceptional items	1.9	0.4	12.9	15.2	–	1.1	1.1
Administrative expenses	3.3	2.6	47.2	53.1	2.8	33.6	36.4
Other operating income	–	(0.1)	(0.1)	(0.2)	–	(0.7)	(0.7)

**Note 2 Net interest payable**

	2001 £m	2000 £m
<b>Interest payable on loans and overdrafts</b>		
Bank loans and overdrafts	8.3	6.8
Interest payable on finance leases	0.8	0.1
	<b>9.1</b>	<b>6.9</b>
Interest receivable	(3.6)	(1.4)
<b>Group interest</b>	<b>5.5</b>	<b>5.5</b>
Share of joint venture's interest	0.2	–
Share of associate's interest	0.5	0.7
	<b>6.2</b>	<b>6.2</b>

No interest was capitalised during the year (2000 £ nil).

The interest disclosed in this note is on a pre-exceptional basis. The exceptional interest charge of £2.3 million is detailed in the financial review on page 21.

**Note 3 Profit on ordinary activities before taxation**

	2001 £m	2000 £m
<b>Profit on ordinary activities before taxation is stated after charging/(crediting):</b>		
Depreciation of tangible fixed assets including £0.4 million (2000 £0.2 million) on leased assets	36.3	34.9
Goodwill amortisation	3.4	2.4
Operating leases – vehicles, plant and machinery	13.1	6.6
– land and buildings	16.0	16.3
Revenue from rents	(1.7)	(2.0)
Auditors' remuneration – audit fees	0.4	0.3

Audit fees for the parent company included above, amount to £0.1 million (2000 £0.1 million). Fees and expenses invoiced by the auditors of the Company and its subsidiaries for non-audit services amounted to £0.5 million (2000 £0.4 million) of which £0.4 million has been capitalised as a cost of acquisition.

	2001 £m	Attributable tax 2001 £m	2000 £m	Attributable tax 2000 £m
<b>Analysis of goodwill amortisation and exceptional items</b>				
<b>Exceptional items – trading</b>				
Restructuring costs	8.2	(2.5)	–	–
Site closure costs	5.1	(1.0)	–	–
Bid defence costs	0.5	–	–	–
Impairment of fixed assets	1.4	(0.4)	–	–
Project start up costs	–	–	1.1	(0.3)
	<b>15.2</b>	<b>(3.9)</b>	<b>1.1</b>	<b>(0.3)</b>
Share of associates' exceptional items	0.3	–	0.3	–
	<b>15.5</b>	<b>(3.9)</b>	<b>1.4</b>	<b>(0.3)</b>
Exceptional interest charge	2.3	(0.7)	–	–
	<b>17.8</b>	<b>(4.6)</b>	<b>1.4</b>	<b>(0.3)</b>
<b>Non-trading exceptional items</b>				
Gains on disposal of fixed assets	(9.7)	1.5	(1.2)	–
Surpluses in respect of businesses sold in prior years	(2.0)	–	(0.9)	0.3
Deficit on sale of discontinued operations	7.8	–	–	–
	<b>(3.9)</b>	<b>1.5</b>	<b>(2.1)</b>	<b>0.3</b>
	<b>13.9</b>	<b>(3.1)</b>	<b>(0.7)</b>	<b>–</b>
<b>Goodwill amortisation</b>	<b>3.4</b>	<b>(0.5)</b>	<b>2.4</b>	<b>(0.2)</b>
	<b>17.3</b>	<b>(3.6)</b>	<b>1.7</b>	<b>(0.2)</b>

Further details of the exceptional items are set out in the financial review on page 21.

## Notes to the accounts continued

### Note 4 Tax on profit on ordinary activities

	2001 £m	2000 £m
On the profit for the year		
UK corporation tax at 30% (2000 30%)	11.7	7.5
Overseas tax	2.5	4.3
Share of joint ventures' tax	0.5	–
	14.7	11.8
Deferred tax		
UK deferred tax at 30% (2000 30%)	(2.1)	(0.5)
Overseas deferred tax	(2.2)	0.4
	(4.3)	(0.1)
	10.4	11.7
Tax attributable to exceptional items and goodwill amortisation:		
UK corporation tax	(2.1)	0.3
Overseas tax	(2.2)	(0.5)
Deferred tax:		
UK deferred tax	(0.5)	–
Overseas deferred tax	1.2	–
	(3.6)	(0.2)
	6.8	11.5

Included in 2001 is a corporation tax credit of £0.9 million in respect of prior years.

### Note 5 Employees

	2001 £m	2000 £m
<b>Employment costs during the year</b>		
Wages and salaries	245.5	236.8
Social security costs	28.9	25.6
Other pension costs	6.3	8.4
	280.7	270.8
<b>Average number of employees</b>	<b>Number</b>	<b>Number</b>
United Kingdom	10,648	11,156
Overseas	3,258	2,732
	13,906	13,888

Details of directors' remuneration and directors' share options for the year are set out in the remuneration report on pages 28-31.

### Note 6 Dividends on ordinary shares

	2001 £m	2000 £m
Interim paid 2.65p per share (2000 2.55p)	7.1	6.8
Final proposed 3.95p per share (2000 3.75p)	10.5	9.9
Total 6.60p per share (2000 6.30p)	17.6	16.7

## Note 7 Earnings per share

	Pence per share 2001 p	Earnings 2001 £m	Pence per share 2000 p	Earnings 2000 £m
<b>Adjusted earnings</b>				
Profit for the financial year attributable to ordinary shareholders	5.74	15.2	10.24	27.1
Adjustment for exceptional items net of tax	4.08	10.8	(0.26)	(0.7)
Adjustment for goodwill amortisation net of tax	1.10	2.9	0.83	2.2
Adjusted earnings before exceptional items and goodwill amortisation	10.92	28.9	10.81	28.6

The adjusted numbers have been provided in order that the effects of goodwill amortisation and exceptional items on reported results can be fully appreciated.

	2001 '000	2000 '000
<b>Average number of shares</b>		
Weighted average ordinary shares in issue during the year	265,310	265,204
Shares owned by the Christian Salvesen Employee Share Trust	(556)	(556)
Weighted average ordinary shares used in basic earnings per share calculation	264,754	264,648

Fully diluted earnings per share is the basic and adjusted earnings per share after allowing for the effect of all outstanding share options which are dilutive potential ordinary shares. The number of additional shares used for the fully diluted calculation is 3,334,319 shares (2000 2,214,607 shares).

## Note 8 Profit of parent company

	2001 £m	2000 £m
The amount of the consolidated profit for the financial year dealt with in the accounts of the parent company is	11.9	25.2
Dividends	(17.6)	(16.7)
Transfer (from)/to reserves for the year	(5.7)	8.5

As permitted by section 230 of the Companies Act 1985, no profit and loss account is presented for Christian Salvesen PLC.

## Note 9 Intangible assets: goodwill

	Group £m
<b>Cost</b>	
<b>At 31 March 2000</b>	59.5
Goodwill purchased during year (note 25)	30.2
Exchange differences	1.6
<b>At 31 March 2001</b>	91.3
<b>Amortisation</b>	
<b>At 31 March 2000</b>	2.3
Charge for the year	3.4
Exchange differences	—
<b>At 31 March 2001</b>	5.7
<b>Net book value at 31 March 2001</b>	85.6
Net book value at 31 March 2000	57.2

# Notes to the accounts continued

## Note 10 Tangible fixed assets

	Land and buildings £m	Vehicles plant and machinery £m	Assets in course of construction £m	Group Total £m	Company Vehicles plant and machinery £m
<b>Cost</b>					
At 31 March 2000	155.3	334.9	0.3	490.5	17.9
Exchange differences	1.8	2.7	–	4.5	–
Additions	1.2	32.7	0.9	34.8	0.1
Acquisitions	25.3	26.6	–	51.9	–
Undertakings sold during the year	(1.5)	(6.2)	–	(7.7)	–
Disposals	(14.2)	(30.7)	–	(44.9)	(5.1)
Transfers	0.1	–	(0.1)	–	–
<b>At 31 March 2001</b>	<b>168.0</b>	<b>360.0</b>	<b>1.1</b>	<b>529.1</b>	<b>12.9</b>
<b>Depreciation</b>					
At 31 March 2000	61.1	203.7	–	264.8	14.6
Exchange differences	0.8	1.6	–	2.4	–
Acquisitions	6.2	17.4	–	23.6	–
Undertakings sold during the year	(1.0)	(4.3)	–	(5.3)	–
Disposals	(4.5)	(24.4)	–	(28.9)	(5.1)
Charge for the year	4.9	31.4	–	36.3	1.2
<b>At 31 March 2001</b>	<b>67.5</b>	<b>225.4</b>	<b>–</b>	<b>292.9</b>	<b>10.7</b>
<b>Net book value at 31 March 2001</b>	<b>100.5</b>	<b>134.6</b>	<b>1.1</b>	<b>236.2</b>	<b>2.2</b>
Net book value at 31 March 2000	94.2	131.2	0.3	225.7	3.3
Net book value of assets held under finance leases					
<b>At 31 March 2001</b>	<b>17.2</b>	<b>4.3</b>	<b>–</b>	<b>21.5</b>	<b>–</b>
At 31 March 2000	–	0.8	–	0.8	–
Net book value of capitalised interest					
<b>At 31 March 2001</b>	<b>1.1</b>	<b>0.1</b>	<b>–</b>	<b>1.2</b>	<b>–</b>
At 31 March 2000	1.2	0.2	–	1.4	–

2001  
£m

2000  
£m

Analysis of the net book value of land and buildings		
Freehold properties	84.0	84.4
Leasehold properties with 50 years or more to run	1.7	1.7
Leasehold properties with less than 50 years to run	14.8	8.1
	<b>100.5</b>	<b>94.2</b>

## Note 11 Investments in subsidiaries

	2001 £m	2000 £m
At 31 March 2000	167.4	165.3
Net movements during the year	(18.7)	2.1
<b>At 31 March 2001</b>	<b>148.7</b>	<b>167.4</b>
Amounts owing from subsidiary undertakings	306.3	251.9
Amounts owing to subsidiary undertakings	(111.7)	(109.5)
	<b>343.3</b>	<b>309.8</b>

## Note 11 Investments in subsidiaries continued

### Principal subsidiary undertakings

The subsidiary undertakings whose results or financial position, in the opinion of the directors, principally affected the figures shown in these accounts and the main countries in which they operate are shown below.

All companies are wholly owned and incorporated in the UK or in the principal country of operation (where this is outside the UK).

Salvesen Logistics Limited	UK	Christian Salvesen Gerposa SA	Spain
Christian Salvesen SA	France	Tenda Frost Frozen Foods Limited	UK
Christian Salvesen (Belgium) NV	Belgium	Inverleith Insurance Co Ltd*	Isle of Man
Christian Salvesen Nederland BV	Netherlands	Wohlfarth GmbH & Co. Spedition	Germany
Agro Handelsgesellschaft mbH†*	Germany	Darfeuille Associates SA	France

\*Direct subsidiaries of the parent company

†Disposal during the year

All shareholdings in the above are of ordinary shares or other equity capital.

## Note 12 Investments in joint ventures

	Unlisted equity £m	Share of reserves £m	Total £m
<b>Group</b>			
At 31 March 2000	1.7	–	1.7
Additions	0.1	–	0.1
Share of profit after tax	–	0.3	0.3
Exchange movement	0.1	–	0.1
<b>At 31 March 2001</b>	<b>1.9</b>	<b>0.3</b>	<b>2.2</b>

The balance at 31 March 2001 reflects the Group's 33 1/3% investment in Salvesen Cavalieri Logistica SpA, incorporated in Italy, a joint venture with SpA Egidio Galbani and Cavalieri Trasporti SpA, its 50% investment in Salvesen Bostel bv, incorporated in the Netherlands, a joint venture with Dumeco bv and its 50% investment in Salvesen Logistica SL, incorporated in Spain, a joint venture with Danone SA. All joint venture companies supply logistics services to European businesses. During the year the Group supplied services to the Italian joint venture in the sum of £0.4 million (2000 £0.6 million), services to the Dutch joint venture in the sum of £0.5 million and to the Spanish joint venture in the sum of £0.3 million (2000 £0.1 million).

## Note 13 Investment in associated undertakings

	Unlisted equity £m	Share of reserves £m	Loans £m	Total £m
<b>Group</b>				
At 31 March 2000	(1.0)	(1.7)	6.2	3.5
Additions	–	–	2.6	2.6
Share of loss after taxation	–	(1.9)	–	(1.9)
Wohlfarth transfer to 100% ownership (note 25)	1.5	3.8	(8.8)	(3.5)
Exchange movement	–	–	–	–
<b>At 31 March 2001</b>	<b>0.5</b>	<b>0.2</b>	<b>–</b>	<b>0.7</b>

The Group's investments in associated undertakings are accounted for on the equity method and comprise a 48.98% holding in the issued share capital of Aicondo France SA, a supplier of French logistics services and a 25% holding in the issued share capital of Centro Logistico del Automovil, S.A, a Spanish logistics management company. Aicondo France has supplied services to the Group in the sum of £2.7 million (2000 £2.3 million) during the year.

On 27 November 2000, the Group acquired the remaining issued share capital of Wohlfarth Swift Holding GmbH. Until then it owned 40% and hence accounted for its investment as an associated undertaking under the equity method (see note 25). During the period prior to acquisition, the Group supplied services to Wohlfarth in the sum of £0.5 million (2000 £0.3 million) and charged interest on loans in the sum of £0.7 million (2000 £0.3 million).



## Notes to the accounts continued

### Note 14 Investment in own shares

	Number of shares '000s	£m
<b>Group and Company</b>		
At 31 March 2000	556	0.7
Additions	1,030	0.8
<b>At 31 March 2001</b>	<b>1,586</b>	<b>1.5</b>

The investment in own shares includes 555,868 (2000 555,868) ordinary shares of the Company held by the Christian Salvesen Employee Share Trust. These shares are held in trust until such time as they may be transferred to employees in accordance with employee share schemes.

The investment in own shares held also includes £0.8 million relating to 1,030,393 shares held by the Group's QUEST, established by the Company during the year, to acquire shares in the Company. On 30 March 2001, the Company provided £0.8 million for this purpose by way of a loan and subsidiary companies provided gifts totalling £0.4 million. On the same date, the QUEST subscribed at market value for 1,030,393 of the Company's 28<sup>1</sup>/<sub>8</sub> p ordinary shares. The shares rank pari passu in all respects with the existing ordinary shares. They will be allocated to employees, including directors to satisfy the exercise of options granted under the Company's Save As You Earn Option Schemes. The cost of the gift has been transferred by the Group directly to the profit and loss account reserve. The excess of the subscription price over the nominal value of the shares issued, which amounts to £0.9 million, has been taken to the share premium account.

The shares held by the QUEST at 31 March 2001 have been included in the Group balance sheet as investments in own shares, at a value of £0.8 million, which is equivalent to the amounts receivable from employees on exercise of their options.

The market value of the shares at 31 March 2001 was £1.9 million (2000 £0.7 million).

Under the terms of the trust deeds dividends have been waived on shares held by both the Employee Share Trust and the QUEST.

### Note 15 Stocks

	Group 2001 £m	Group 2000 £m
Raw materials and consumables	4.5	8.6
Work in progress	3.5	4.6
Goods for resale and finished goods	6.6	4.1
	<b>14.6</b>	<b>17.3</b>

## Note 16 Debtors

	Group 2001 £m	Group 2000 £m	Company 2001 £m	Company 2000 £m
Amounts falling due within one year:				
Trade debtors	115.7	96.7	–	–
Dividend due from subsidiary undertaking	–	–	23.0	26.0
Amounts owed by participating interests	–	0.5	–	–
Advance corporation tax recoverable	–	2.4	–	2.4
Other debtors	9.4	7.1	1.1	1.3
Prepayments and accrued income	7.3	7.0	0.7	0.3
Net investment in assets leased to associated undertaking	–	0.2	–	–
	132.4	113.9	24.8	30.0
Amounts falling due after one year:				
Other debtors	0.6	0.2	–	–
Prepayments	0.9	–	0.9	–
Net investment in assets leased to associated undertaking	–	0.8	–	–
	133.9	114.9	25.7	30.0

Group other debtors due within one year include an amount of £0.8 million in respect of the disposal of fixed assets (2000 £2.4 million).

## Note 17 Current asset investments

	Group 2001 £m	Group 2000 £m	Company 2001 £m	Company 2000 £m
At lower of cost and net market value				
Unlisted	0.3	0.1	0.1	0.1

## Note 18 Borrowings

	Group 2001 £m	Group 2000 £m	Company 2001 £m	Company 2000 £m
Bank loans and overdrafts	139.5	115.7	127.9	108.3
Finance leases – secured	18.2	1.1	–	–
	157.7	116.8	127.9	108.3
<b>Maturity profile</b>				
Short term:				
Bank loan and overdrafts	15.7	52.7	4.5	45.3
Finance leases	2.6	0.8	–	–
Borrowings included in creditors due within one year	18.3	53.5	4.5	45.3
Medium term:				
Loans repayable between two and five years	123.8	63.0	123.4	63.0
Finance leases	6.7	0.3	–	–
Long term:				
Finance leases repayable after five years	8.9	–	–	–
Borrowings included in creditors due after one year	139.4	63.3	123.4	63.0
Total borrowings	157.7	116.8	127.9	108.3
Less: Cash at bank and in hand	(32.8)	(27.9)	(1.5)	(10.7)
Net borrowings	124.9	88.9	126.4	97.6

## Notes to the accounts continued

### Note 18 Borrowings continued

Group borrowing facilities comprise:

	2001 £m	2000 £m
<b>Undrawn facilities</b>		
Unutilised committed facilities – expiring within one year	100.0	–
– expiring after four years	76.6	98.2

### Interest rate and currency profile of financial assets and liabilities

Short term debtors and creditors have been excluded from the information below.

Translation exposure on foreign currency assets and liabilities is partly hedged where deemed material and appropriate. Transactions in foreign currencies are hedged using forward exchange contracts where significant exposures exist. The Group's interest rate exposure is managed by the use of floating and fixed rate debt and interest rate swaps. The Group's borrowings, denominated in Sterling and Euros, bear interest at fixed and floating rates.

The currency and interest rate exposure of the financial assets and liabilities of the Group, after taking account of interest rate swaps, as at 31 March 2001 was as follows:

	Floating rate £m	Fixed rate £m	Non interest bearing £m	2001 Total £m	Floating rate £m	Fixed rate £m	Non interest bearing £m	2000 Total £m
<b>Cash:</b>								
Sterling	19.1	–	–	19.1	11.9	–	–	11.9
Euro currencies	13.7	–	–	13.7	15.4	–	–	15.4
US Dollar	–	–	–	–	0.6	–	–	0.6
<b>Long term debtors:</b>								
Euro currencies	–	–	0.6	0.6	–	–	1.0	1.0
<b>Investments:</b>								
Sterling	–	–	0.1	0.1	–	–	0.1	0.1
Euro currencies	–	–	0.2	0.2	–	–	–	–
<b>Gross financial assets</b>	<b>32.8</b>	<b>–</b>	<b>0.9</b>	<b>33.7</b>	<b>27.9</b>	<b>–</b>	<b>1.1</b>	<b>29.0</b>
<b>Borrowings:</b>								
Sterling	20.1	–	0.1	20.2	–	0.1	0.7	0.8
Euro currencies	31.3	99.5	–	130.8	48.0	60.3	–	108.3
<b>Overdrafts:</b>								
Sterling	–	–	–	–	0.7	–	–	0.7
Euro currencies	6.7	–	–	6.7	7.0	–	–	7.0
<b>Long term creditors:</b>								
Sterling	–	–	4.0	4.0	–	–	4.0	4.0
Euro currencies	–	–	2.8	2.8	–	–	2.3	2.3
<b>Provisions:</b>								
Sterling	–	–	1.7	1.7	–	–	–	–
<b>Gross financial liabilities</b>	<b>58.1</b>	<b>99.5</b>	<b>8.6</b>	<b>166.2</b>	<b>55.7</b>	<b>60.4</b>	<b>7.0</b>	<b>123.1</b>

The sterling floating rate borrowings comprise bank borrowings bearing money market rates of interest. £103.4 million of the Euro floating rate borrowings are based on LIBOR rates of interest which are fixed in advance for periods ranging from one month to one year. The interest rate exposure on these borrowings has been protected by the use of three interest rate swap agreements. These have a total notional value of Euro 160 million (£99.5 million) and have a weighted average interest payable of 4.78% and a weighted average period to maturity of 1.3 years. Interest receivable is determined by the prevalent rate of three month Euribor. The remainder of the floating rate Euro borrowings comprises mainly finance leases.

The weighted average period until maturity of the financial liabilities on which no interest is paid is 0.3 years (2000 0.7 years).

The sterling and Euro overdrafts are repayable on demand and bear interest at the local base rate plus 1%.

There is no material exposure arising from financial assets and liabilities being in the different currencies to that of their currency of operation.

**Note 18 Borrowings** continued

**Fair values of financial instruments**

Set out below is an analysis of the fair and book values of the Group's financial instruments as at 31 March 2001. Market values have been used to determine fair values.

Assets/(liabilities)	Gross contract amount £m	Book value £m	2001		2000
			Fair value £m	Book value £m	Fair value £m
<b>Derivatives</b>					
Interest rate swaps	99.5	–	0.9	–	1.8
<b>Other liabilities</b>					
Short term borrowings	–	(18.3)	(18.3)	(53.5)	(53.5)
Long term borrowings	–	(139.4)	(139.4)	(63.3)	(62.0)
Trade and other creditors payable after one year	–	(6.8)	(6.8)	(6.3)	(6.3)
Provisions	–	(1.7)	(1.7)	–	–
<b>Other assets</b>					
Trade and other debtors receivable after one year	–	0.6	0.6	1.0	1.0
Investments	–	0.3	0.3	0.1	0.1
Cash at bank and in hand	–	32.8	32.8	27.9	27.9

The fair values of interest rate swaps represents the mark to market value of the contracts at the balance sheet date.

For all other items, the book value approximates to the fair value because of the short maturity of the instruments or their nature.

There were no material unrecognised gains and losses on derivative transactions at 31 March 2001 or 31 March 2000 and no material gains or losses were recognised during the year.

The Group's treasury policy is set out in the financial review on page 22.

**Note 19 Other creditors**

	Group 2001 £m	Group 2000 £m	Company 2001 £m	Company 2000 £m
Amounts falling due within one year:				
Trade creditors	47.7	38.5	0.2	0.3
Bills of exchange payable	10.8	5.5	–	–
Other taxation and social security payable	21.7	21.5	–	–
Other creditors	21.2	18.1	–	–
Accruals and deferred income	62.2	52.4	2.8	1.5
	163.6	136.0	3.0	1.8
Amounts falling due beyond one year:				
Other creditors	6.3	5.7	–	–
Accruals and deferred income	0.5	1.5	–	0.9
	6.8	7.2	–	0.9

## Notes to the accounts continued

### Note 20 Provisions for liabilities and charges

	Group			Company		
	Deferred taxation £m	Interest provision £m	Total £m	Deferred taxation £m	Interest provision £m	Total £m
At 31 March 2000	9.0	~	9.0	3.9	–	3.9
Acquisitions	(0.4)	~	(0.4)	–	–	–
Charged in the year	(3.6)	1.7	(1.9)	(1.6)	1.7	0.1
<b>At 31 March 2001</b>	<b>5.0</b>	<b>1.7</b>	<b>6.7</b>	<b>2.3</b>	<b>1.7</b>	<b>4.0</b>

The interest provision relates to a claim from a bank regarding the settlement of banking transactions which had previously been agreed (see exceptional items detail set out in the financial review on page 21).

	Group 2001 £m	Group 2000 £m	Company 2001 £m	Company 2000 £m
Deferred taxation amount provided				
Fixed asset timing differences	6.1	8.1	1.6	1.9
Other timing differences	(1.1)	0.9	0.7	2.0
	5.0	9.0	2.3	3.9
Potential amount of taxation not provided in respect of fixed asset timing differences	7.9	7.9	–	–

### Note 21 Called up share capital

	2001 £m	2000 £m
<b>Authorised</b>		
320,000,000 ordinary shares of 28½p each	90.0	90.0
<b>Allotted called up and fully paid</b>		
265,244,650 ordinary shares of 28½p each at 1 April 2000	74.6	74.6
138,174 ordinary shares issued during the year	–	–
1,030,393 ordinary shares issued to QUEST on 30 March 2001	0.3	–
266,413,217 ordinary shares of 28½p each at 31 March 2001	74.9	74.6

During the year 1,168,567 ordinary shares of 28½p were issued and allotted in accordance with the terms of the Christian Salvesen Savings-Related Share Option Scheme 1997, as follows:

- (i) On exercise of options during the year on 123,991 shares at 80p each and 14,183 shares at 99p each.
- (ii) 1,030,393 which were subscribed for by the Trustees of the Christian Salvesen PLC Qualifying Share Ownership Trust (the “QUEST”) at 118p per share in anticipation of options maturing on 1 April 2001.

The aggregate nominal value of these shares is £328,659 and the aggregate cash consideration received was £1,329,098.

## Note 22 Employee share schemes

### Christian Salvesen Savings-related Share Option Scheme 1997

There were no options granted under the scheme during the financial year. At 31 March 2001 options granted under the scheme were held over a total of 6,363,512 (2000 7,442,555) ordinary shares of 28<sup>1</sup>/<sub>8</sub>p as follows:

Employees number	Total shares number	At a price per share of	Normally exercisable from
849	1,048,135	80p	April 2001
781	1,920,409	80p	April 2003
2,152	3,394,968	99p	April 2003
	6,363,512		

### Executive share option schemes

Options were granted under the schemes applying in the UK and overseas to 20 employees (including two executive directors) at 146.5p per share in June 2000 and to 14 employees at 132.5p per share in December 2000.

At 31 March 2001 options were outstanding in respect of 5,836,660 (2000 6,119,336) ordinary shares of 28<sup>1</sup>/<sub>8</sub>p as follows:

Employees number	Total shares number	Exercisable at a price per share of	Normally exercisable from
22	3,146,320	108p	April 2001-2007
2	533,332	118.5p	June 2001-2008
4	442,523	125.5p	June 2002-2009
17	892,759	121p	December 2002-2009
19	474,563	146.5p	June 2003-2010
13	347,163	132.5p	December 2003-2010
	5,836,660		

## Note 23 Reserves

	Share premium account £m	Capital redemption reserve £m	Profit and loss account £m
<b>Group</b>			
At 31 March 2000	42.8	3.5	31.3
Transfer from profit and loss account for year	-	-	(2.4)
Contribution to QUEST (note 14)	-	-	(0.4)
Premium on issue of new shares	1.0	-	-
Exchange translation differences net of taxation	-	-	(0.9)
<b>At 31 March 2001</b>	<b>43.8</b>	<b>3.5</b>	<b>27.6</b>

The cumulative amount of goodwill eliminated against reserves at 31 March 2001 amounted to £77.3 million (2000 £77.3 million).

	Share premium account £m	Capital redemption reserve £m	Revaluation reserve £m	Profit and loss account £m
<b>Company</b>				
At 31 March 2000	42.8	3.5	3.2	105.4
Transfer from profit and loss account for year	-	-	-	(5.7)
Exchange translation differences net of taxation	-	-	-	0.9
Premium on issue of new shares	1.0	-	-	-
Adjustment on restatement of investments in subsidiaries at 31 March 2001	-	-	1.1	-
<b>At 31 March 2001</b>	<b>43.8</b>	<b>3.5</b>	<b>4.3</b>	<b>100.6</b>

The company's investments in subsidiaries are stated at its share of the net asset value at 31 March 2001.

**Note 24 Reconciliation of operating profit to net cash inflow from operating activities**

	2001 £m	2000 £m
Group operating profit excluding exceptional items and goodwill amortisation	45.6	47.4
Depreciation charges	36.3	34.9
EBITDA	81.9	82.3
Decrease in stocks	2.5	2.8
Decrease in debtors	12.2	4.5
Decrease in creditors	(16.1)	(7.4)
Exceptional items	(10.3)	(5.4)
Other items not involving the movement of cash	(1.6)	0.4
Net cash inflow from operating activities	68.6	77.2

During the year, exceptional trading costs of £15.5 million were incurred of which £10.3 million has been paid and is reflected as exceptional items above. The sum of £3.1 million remains unpaid at 31 March 2001 and is included in accruals and deferred income due within one year. The remaining £2.1 million represents non cash items.

**Note 25 Acquisitions**

On 27 November 2000 the Group acquired the remaining equity share capital of the German industrial logistics and transport business Wohlfarth Swift Holding GmbH for a total consideration, including acquisition costs, of £0.7 million. The Group had previously owned 40% of Wohlfarth (note 13) and had accounted for it under the equity method. At the date of the acquisition of the remainder of Wohlfarth, the Group held its existing investment at a value of £3.5 million.

The Group also acquired on 16 January 2001 the French industrial logistics and transport business, Darfeuille Associes SA, for a total consideration of £19.0 million.

Both acquisitions have been accounted for using acquisition accounting principles and the goodwill arising from both acquisitions is being amortised over 20 years.

The fair values which were equivalent to book value, subject to the note below, were as follows:

	Darfeuille £m	Wohlfarth £m	Total £m
Tangible assets	13.9	14.4	28.3
Current assets	25.7	12.4	38.1
Cash at bank and in hand	1.2	–	1.2
Overdrafts	–	(1.3)	(1.3)
Other creditors	(21.4)	(18.8)	(40.2)
Loans and finance leases	(23.4)	(9.7)	(33.1)
Net liabilities acquired	(4.0)	(3.0)	(7.0)
Goodwill capitalised	23.0	7.2	30.2
	19.0	4.2	23.2
Consideration			
Cash (including acquisition costs)	15.1	0.7	15.8
Equity basis including loans at point of acquisition (see note 13)	–	3.5	3.5
Deferred consideration	3.9	–	3.9
	19.0	4.2	23.2

Minor fair value adjustments amounting to a net amount of £0.4 million have been reflected in the Darfeuille figures above.

**Note 25 Acquisitions** continued

During its financial year ended 31 December 2000, the Darfeuille group made a profit after taxation of FF16.6 million (£1.5 million at an exchange rate of 10.71 FF/£1). In the period to acquisition the Darfeuille group made a loss before taxation of FF0.7 million (£0.1 million) on turnover of FF38.9 million (£3.6 million). It incurred no taxation charge. There were no other recognised gains and losses during these periods.

During its financial year ended 31 December 1999, the Wohlfarth group made a loss after taxation of DM 13.2 million (£4.1 million at an exchange rate of 3.2DM/£1). In the period to acquisition the Wohlfarth group made a loss before taxation of DM 17.5 million (£5.5 million) on turnover of DM 152.2 million (£47.6 million). It incurred no taxation charge. There were no other recognised gains and losses during these periods.

In the period from acquisition to 31 March 2001 acquisitions contributed £1.6 million to operating cash flows, paid £0.7 million in respect of interest, £0.1 million in respect of taxation, £2.2 million in respect of capital expenditure and increased borrowings by £1.4 million.

The fair values above are provisional figures being the best estimates currently available. Adjustments to goodwill may be necessary when additional information is available.

£2.0 million is still payable as deferred consideration from the acquisition of Gerposa in 1999 and this is payable after the settlement of all taxation and social security issues in respect of the period prior to acquisition. £3.1 million was paid during the year in relation to the deferred consideration on the Gerposa acquisition. The deferred consideration on the Darfeuille acquisition of £3.9 million was paid on 31 May 2001.

**Note 26 Disposals**

On 23 February 2001 the Group completed the sale of its German frozen food business Agro Handelsgesellschaft GmbH, for a nominal consideration, to Headlog Holding GmbH, a company controlled by the former Managing Director of Agro and his family.

The book value of the business at the point of disposal was as follows:

	<i>£m</i>
Tangible assets	2.4
Working capital	(3.2)
Cash at bank and in hand	9.2
Taxation	(1.1)
Net assets disposed of	7.3
Consideration	—
Costs of sale	0.5
Loss on disposal	7.8

The business in the year produced a cash outflow from operating activities of £2.0 million, received £1.8 million in respect of interest, paid £0.6 million in respect of tax and £0.1 million in respect of capital expenditure.



# Notes to the accounts continued

## Note 27 Analysis of net debt

	At 1 April 2000 £m	Cash flow £m	Acquisitions £m	Exchange movements £m	At 31 March 2001 £m
<b>Cash</b>					
Cash at bank and in hand	10.7	8.6	–	(2.8)	16.5
Overdrafts	(7.7)	1.0	–	–	(6.7)
	3.0	9.6	–	(2.8)	9.8
<b>Liquid resources</b>					
Short term deposits	17.2	(0.9)	–	–	16.3
Current asset investments	0.1	–	0.2	–	0.3
	17.3	(0.9)	0.2	–	16.6
<b>Financing</b>					
Debt due within one year	(45.8)	43.9	(12.5)	2.8	(11.6)
Debt due after one year	(63.3)	(51.3)	(20.6)	(4.2)	(139.4)
	(109.1)	(7.4)	(33.1)	(1.4)	(151.0)
Total net debt	(88.8)	1.3	(32.9)	(4.2)	(124.6)

## Note 28 Analysis of net debt as shown in the balance sheet

	2001 £m	2000 £m	Change in year £m
Current asset investments	0.3	0.1	0.2
Cash at bank and in hand	32.8	27.9	4.9
Borrowings falling due within one year	(18.3)	(53.5)	35.2
Borrowings falling due after more than one year	(139.4)	(63.3)	(76.1)
	(124.6)	(88.8)	35.8

## Note 29 Future commitments

	Group 2001 £m	Group 2000 £m	Company 2001 £m	Company 2000 £m
Contracts for capital expenditure	1.3	2.8	–	–

At 31 March the Group had annual commitments under operating leases as follows:

	Land and buildings 2001 £m	Land and buildings 2000 £m	Other 2001 £m	Other 2000 £m
Expiring within one year	4.2	2.9	11.6	6.0
Expiring between two and five years	11.0	10.2	10.8	4.3
Expiring beyond five years	6.9	4.7	–	–
	22.1	17.8	22.4	10.3

**Note 30 Pension commitments**

The Group operates a number of pension schemes throughout the world. The total pension cost for the Group was £6.3 million (2000 £8.4 million) of which £4.0 million (2000 £6.6 million) relates to the UK schemes. The assets of the schemes are held in separate trustee administered funds. Where the scheme is internally funded the amount set aside is included in creditors.

In the UK, in the main, the schemes are of the defined benefit type and pension costs are assessed with the advice of qualified actuaries, usually using the projected unit method. The latest actuarial valuation of the principal Christian Salvesen Scheme was at 1 January 1999. In this valuation in arriving at the pension costs the assumptions made were that the investment return would be 6% per annum, the salary increases would average 3.5% per annum and that present and future pensions would increase at an average rate of 2.5% per annum. The market value of the assets at the time of the valuation was £135.5 million.

The last valuation indicates that the actuarial value of the assets was sufficient to cover 113% of the benefit that had accrued to members allowing for future increases in earnings. The surplus is being amortised over the anticipated average remaining service lives of members.

Overseas schemes reflect best practice and regulation in each particular country in which the Group operates. The charge against profit is normally the amount of contribution payable to the pension scheme in respect of the accounting period.

A net prepayment of £0.9 million (2000 creditor £0.9 million) is included in the accounts representing the excess of the contributions paid over the cumulative pension cost in respect of the UK schemes.

## Five year review

		2001 £m	2000 £m	1999 £m	1998 £m	1997 £m
<b>Profit and loss account</b>						
Turnover:						
Continuing operations		655.8	650.4	570.5	526.9	515.6
Acquisitions		35.3	—	—	—	—
Discontinued operations		12.2	15.2	20.1	109.1	232.2
<b>Total turnover</b>		<b>703.3</b>	<b>665.6</b>	<b>590.6</b>	<b>636.0</b>	<b>747.8</b>
<b>Operating profit before exceptional items and goodwill amortisation</b>						
Continuing operations		47.2	47.6	39.3	44.1	46.4
Acquisitions		(0.1)	—	—	—	—
Discontinued operations		(1.6)	(1.1)	(0.6)	24.4	43.7
		45.5	46.5	38.7	68.5	90.1
Goodwill amortisation		(3.4)	(2.4)	—	—	—
Exceptional items:						
Continuing operations		(6.2)	(0.2)	(13.5)	1.7	(3.3)
Discontinued operations		(7.7)	0.9	—	6.2	5.8
Profit on ordinary activities before interest		28.2	44.8	25.2	76.4	92.6
Net interest payable		(6.2)	(6.2)	(6.4)	(12.6)	(6.7)
Profit on ordinary activities before taxation		22.0	38.6	18.8	63.8	85.9
Tax on profit on ordinary activities		(6.8)	(11.5)	(6.4)	(24.2)	(29.3)
<b>Profit for the financial year</b>		<b>15.2</b>	<b>27.1</b>	<b>12.4</b>	<b>39.6</b>	<b>56.6</b>
<b>Balance sheet</b>						
Intangible assets		85.6	57.2	—	—	—
Tangible assets		236.2	225.7	236.6	254.7	444.2
Investments		4.7	6.0	3.6	1.3	2.1
Working capital (excluding debt)		(21.9)	(11.0)	(20.4)	8.2	54.4
Tax and dividends		(23.2)	(27.8)	(25.0)	(24.0)	(63.2)
Provisions for liabilities and charges		(6.7)	(9.0)	(9.1)	(6.4)	(17.4)
		274.7	241.1	185.7	233.8	420.1
Shareholders' funds and minority interests		149.8	152.2	147.9	146.9	201.2
Borrowings (net)		124.9	88.9	37.8	86.9	218.9
		274.7	241.1	185.7	233.8	420.1
<b>Operating ratios (excluding exceptional items and goodwill amortisation)</b>						
Operating profits on operating assets	%	16.6	19.3	20.8	18.8†	21.4
Operating profits on turnover#	%	6.8	7.3	6.9	8.4	9.0
<b>Financial ratios (excluding exceptional items and goodwill amortisation)</b>						
Gearing	%	83.2	58.3	25.6	59.1	108.8
Interest covered by operating profit	times	7.3	7.5	6.0	5.4	13.4
<b>Share information</b>						
Dividends per ordinary share*	p	6.6	6.3	6.0	7.3	9.15
Basic earnings per share on published earnings excluding exceptional items and goodwill amortisation	p	5.7	10.2	4.7	15.1	19.4
	p	10.9	10.8	8.4	14.7	19.8

\* 1997 excludes special dividends on 51p per share. The 1998 dividends include 1.45p per share which was deemed to be in respect of Aggreko (demerged September 1997).

# Operating profit on turnover ratio is based on continuing operations and acquisitions only.

† 1998 operating profit on operating assets ratio is based on operating profits exclusive of Aggreko profits up to the September 1997 demerger.

# Notice of Annual General Meeting

**Notice is hereby given that the ninety-second Annual General Meeting of Christian Salvesen PLC will be held at the Sheraton Grand Hotel, 1 Festival Square, Edinburgh on Thursday 12 July 2001 at 11 am.**

## Agenda

### Routine business

1. To receive the reports of the directors and auditors and to adopt the Company's accounts for the year ended 31 March 2001.
2. To declare a final dividend on the ordinary shares.
3. To re-elect Dr A Edelman.
4. To re-elect Mr E J Roderick.
5. To re-appoint PricewaterhouseCoopers as auditors of the Company and to authorise the directors to fix their remuneration.

### Special business

To consider and, if thought fit, pass the following as special resolutions:

6. That the directors be and are hereby empowered pursuant to section 95 of the Companies Act 1985 (the "Act") to allot and to make offers or agreements to allot equity securities (within the meaning of Section 94(2) of the Act) for cash pursuant to the authority conferred by Resolution 5 passed at the Annual General Meeting of the Company held on 10 July 1997 as if Section 89(1) of the Act did not apply to any such allotment, save that this authority is limited to:

- (i) the allotment of equity securities in connection with a rights issue in favour of ordinary shareholders where the equity securities respectively attributable to the interests of all ordinary shareholders are proportionate (as nearly as may be) to the respective numbers of ordinary shares held by them (notwithstanding that by reason of such exclusions or other arrangements as the directors may deem necessary or expedient in relation to fractional entitlements or legal or practical problems under the laws of any territory of the requirements of any regulatory body or stock exchange or otherwise howsoever, the equity securities to be issued are not offered to all such shareholders in proportion to the number of ordinary shares held by each of them); and
  - (ii) the allotment (otherwise than pursuant to sub-paragraph (i) above) for cash to any person or persons of equity securities up to an aggregate maximum nominal amount of £3,746,000; and shall expire on the date of the Annual General Meeting in 2002 or on 12 October 2002, whichever is the earlier, save that the Company may before the expiry of this authority make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such an offer or agreement as if the power conferred hereby had not expired.
7. That, in accordance with the Company's Articles of Association and Section 166 of the Companies Act 1985, the Company be and it is hereby generally and unconditionally authorised to make one or more market purchases (within the meaning of Section 163(3) of that Act) of ordinary shares of 28½p each in the Company, provided that:
    - (i) the maximum aggregate number of ordinary shares hereby authorised to be purchased is 26,640,000, representing approximately 10% of the issued ordinary share capital of the Company;

- (ii) the minimum price which may be paid for such ordinary shares is 28½p per share and the maximum price which may be paid for an ordinary share shall not be more than 5% above the average of the middle market quotations for an ordinary share, as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the ordinary share is purchased, in each case exclusive of expenses; and
- (iii) the authority hereby conferred shall expire, unless previously renewed, varied or revoked, at the conclusion of the next Annual General Meeting of the Company after the passing of this Resolution, save the Company may, before such expiry, make any contract of purchase which will or may be executed wholly or partly after such expiry, and may make a purchase of ordinary shares in pursuance of any such contract as if the authority hereby conferred had not expired.

By order of the Board

J W Lavelle, Secretary  
12 June 2001

Any member entitled to attend and vote at this meeting may appoint one or more proxies (who need not be shareholders of the Company) to attend and, on a poll, vote on his behalf. To be effective, the enclosed form of proxy, together with any power of attorney of other authority under which it is signed or a notarially certificated copy thereof, should be lodged at the office of the Company's Registrars not later than 48 hours before the time of the meeting. *Appointment of a proxy will not prevent a member from attending the meeting and voting in person.*

In order to attend and vote at the meeting, a member must be entered on the Company's register of members at 6 pm on Tuesday 10 July 2001. A member will only be entitled to vote in respect of those shares registered in his or her name at that time. This time has been specified pursuant to Regulation 34 of the Uncertificated Securities Regulations 1995. Changes to entries on the Company's register of members after that time will be disregarded in determining the rights of any person to attend or vote at the meeting.

The following documents will be available for inspection at the registered office of the Company during business hours from the date of this notice until the date of the Annual General Meeting and on that day at the Sheraton Grand Hotel, 1 Festival Square, Edinburgh from 10.45 am until the conclusion of the meeting.

1. The register of all transactions of directors (and of their family interests) in the share capital of the Company during the year.
2. Copies of all contracts of service under which directors are employed by the Company or any of its subsidiary undertakings.

## Shareholder information

### Shareholder enquiries

If you have any queries about the administration of shareholdings such as change of address, transfer of ownership, dividend mandate forms or dividend payments please contact the Registrar:

Capita IRG plc  
Balfour House  
390/398 High Road  
Ilford  
Essex  
IG1 1NQ  
Tel: 020 8639 2000

### Share price information

Prices are published in most newspapers and also on Ceefax and Teletext in the UK. The current share price is updated every 15 minutes on the Company's website [www.salvesen.com](http://www.salvesen.com).

### Shareholder analysis

By size	Number of accounts	% of issued shares	By type of holder	Number of accounts	% of issued shares
1 – 1,000 shares	6,987	1.2	Individuals	9,335	38.9
1,001 – 10,000 shares	2,866	3.4	Banks and nominees	921	9.2
10,001 – 100,000 shares	455	5.5	Insurance companies	22	3.0
100,001 – 1,000,000 shares	184	24.5	Pension funds	46	18.3
1,000,001 – 5,000,000 shares	44	33.5	Investment trusts and unit trusts	59	16.3
5,000,001 shares and over	8	31.9	Other institutions and corporate bodies	161	14.3
	10,544	100.0		10,544	100.0

### Low-cost share dealing service

Hoare Govett Limited provide a low-cost share dealing service in Christian Salvesen PLC ordinary shares which enables investors to buy or sell for a brokerage fee of 1% (plus 0.5% stamp duty on purchases), with a minimum charge of £10. Details may be obtained by telephoning Hoare Govett on 020 7678 8300.

### Payment of dividends

The best way to ensure that dividends are received as quickly as possible is to instruct the Registrars to pay them directly into your bank account; tax vouchers are then posted to you separately. A dividend mandate form will accompany the dividend warrant and tax voucher in August or alternatively you can contact the Registrars at the address shown above.

### Registered office

11 Walker Street  
Edinburgh EH3 7NE  
Registered No.7173

### Corporate office

500 Pavilion Drive  
Northampton  
NN4 7YJ

### Company Secretary

J W Lavelle FCCA

### Advisors

Auditors  
PricewaterhouseCoopers (Nottingham)

Merchant bankers  
UBS Warburg

Stockbrokers  
Cazenove & Co Ltd  
Hoare Govett Limited

## Financial calendar

Annual General Meeting	12 July 2001
Shares trade ex-dividend	18 July 2001
Record date for final dividend*	20 July 2001
Final dividend paid	14 August 2001
Interim results and dividend announced	Early December 2001
Shares trade ex-dividend	Early January 2002
Record date for interim dividend*	Early January 2002
Interim dividend paid	Late January 2002
Preliminary announcement of full year results	Early June 2002

\*Shareholders on the register at this date will receive the dividend

*Designed and produced by*

Copy by Lang Communications  
Board photography by Rick Cordell  
Location photography by Martin Black  
Still life photography by Ed Hill  
Printed by CTD Capita