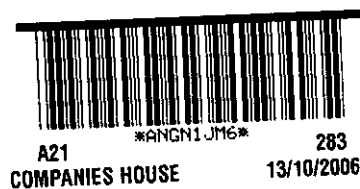


Expeditors International (UK) Limited

**Directors' report and financial
statements**

Registered number 1872622

31 December 2005



Contents

| | |
|---|---|
| Directors' report | 1 |
| Statement of directors' responsibilities in respect of the Directors' Report and the financial statements | 2 |
| Independent auditors' report to the members of Expeditors International (UK) Limited | 3 |
| Profit and loss account | 5 |
| Balance sheet | 6 |
| Notes | 7 |

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2005.

Principal activity

The principal activity of the company is air and sea freight export and import forwarding.

Business review

The company's results from operating activities for the year were satisfactory and the directors believe that this position will continue into the year ending 31 December 2006. Although there was a profit from operating activities, the loss before tax was a result of a £3.3 million currency translation loss on the USD denominated parent company loan.

Proposed dividend

The directors do not recommend the payment of a final dividend (2004: *£nil per share*). Interim dividends of £1,721,565 £260.84 per share (2004: *£nil per share*) were paid to the ordinary shareholders.

Directors and directors' interests

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

B L Baron
R C Saber
R J Gates
PJ Rose
J Anderson

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

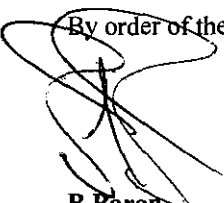
Employees

The company places considerable value on the involvement of its employees and has continued its previous practice of keeping them informed on matters affecting them as employees and on various factors affecting the performance of the group. This is achieved through formal and informal meetings. Employee representatives are consulted on a wide range of matters affecting their current and future interests.

Auditors

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

By order of the board



B Baron
Director

Unit 2
Polar Park
Bath Road
Harmondsworth
Middlesex
UB7 0DG

10 October 2006

Statement of directors' responsibilities in respect of the Directors' Report and the financial statements

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards.

The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.



KPMG LLP

Arlington Business Park
Theale
Reading
RG7 4SD
United Kingdom

Independent auditors' report to the members of Expeditors International (UK) Limited

We have audited the financial statements of Expeditors International (UK) Limited for the year ended 31 December 2005 which comprise the Profit and Loss Account, the Balance Sheet, and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities on page 2, the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Independent auditors' report to the members of Expeditors International (UK) Limited *(continued)*

Opinion

In our opinion the financial statements:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2005 and of its loss for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP

11 October 2006

KPMG LLP
Chartered Accountants
Registered Auditor

Profit and loss account
for the year ended 31 December 2005

| | <i>Note</i> | 2005 £000 | 2004 £000 |
|---|-------------|----------------------------|----------------------------|
| Turnover | | 66,258 | 62,352 |
| Cost of sales | | (42,574) | (38,848) |
| Gross profit | | 23,684 | 23,504 |
| Administrative expenses | | (19,242) | (17,849) |
| Operating profit | | 4,442 | 5,655 |
| Interest payable and similar charges | 6 | (4,721) | (831) |
| Other interest receivable and similar income | 7 | 136 | 2,275 |
| (Loss)/profit on ordinary activities before taxation | 3-5 | (143) | 7,099 |
| Tax on profit on ordinary activities | 8 | (481) | (2,576) |
| (Loss)/profit on ordinary activities after taxation | | (624) | 4,523 |

There were no recognised gains or losses in the current or preceding year other than those noted above. All figures relate to continuing activities.

Balance sheet
at 31 December 2005

| | <i>Note</i> | 2005 | 2004 |
|--|-------------|-----------------|-----------------|
| | | £000 | £000 |
| Fixed assets | | | |
| Tangible assets | 9 | 40,934 | 42,230 |
| Current assets | | | |
| Debtors | 10 | 24,511 | 23,262 |
| Cash at bank and in hand | | 1,147 | 5,648 |
| | | <u>25,658</u> | <u>28,310</u> |
| Creditors: amounts falling due within one year | 11 | <u>(22,165)</u> | <u>(27,021)</u> |
| Net current assets | | 3,493 | 1,289 |
| Total assets less current liabilities | | 44,427 | 43,519 |
| Creditors: amounts falling due after more than one year | 12 | (31,529) | (28,275) |
| Net assets | | 12,898 | 15,244 |
| Capital and reserves | | | |
| Called up share capital | 14 | 7 | 7 |
| Profit and loss account | | 12,891 | 15,237 |
| | 15 | <u>12,898</u> | <u>15,244</u> |

These financial statements were approved by the board of directors on 10 October 2006 and were signed on its behalf by:

B Baron
Director

Notes

(forming part of the financial statements)

1 Accounting policies

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

Basis of preparation

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

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

As the company is a wholly owned subsidiary of Expeditors International of Washington Inc, the company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group.

Fixed assets and depreciation

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

| | |
|--|------------------------------|
| Land | not depreciated |
| Freehold Buildings | 4 years |
| Leasehold improvements | life of lease |
| Office furniture, fittings and equipment | 33 $\frac{1}{3}$ % per annum |
| Warehouse equipment | 20% per annum |
| Computer equipment | 33 $\frac{1}{3}$ % per annum |
| Motor cars | 33 $\frac{1}{3}$ % per annum |
| Motor vans | 25% per annum |

Foreign currencies

Assets and liabilities denominated in foreign currencies are translated into sterling using the rate of exchange ruling at the balance sheet date. Exchange differences arising from normal trading operations and settled transactions are included in trading profit

Leases

Operating lease rental charges are charged to the profit and loss account on a straight line basis over the life of the lease.

Pension costs

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The amount charged against profits represents the contributions payable to the scheme in respect of the accounting period.

Taxation

The charge for taxation is based on the (loss)/ profit for the year and takes into account taxation deferred because of timing differences between the treatment for taxation and accounting purposes.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Notes (continued)

1 Accounting policies (continued)

Turnover

Turnover represents charges made to customers for freight services carried out during the year, after deduction of credit notes, VAT and haulage costs.

2 Analysis of turnover

The whole of the turnover is attributable to the one principal activity of the company.

| | 2005 £000 | 2004 £000 |
|-------------------------------|--------------|--------------|
| <i>By geographical market</i> | | |
| United Kingdom | 48,713 | 44,712 |
| Rest of European Union | 843 | 1,454 |
| Rest of World | 16,702 | 16,186 |
| Total | 66,258 | 62,352 |

3 Profit on ordinary activities before taxation

| | 2005 £000 | 2004 £000 |
|---|--------------|--------------|
| <i>Profit on ordinary activities before taxation is stated after charging/(crediting)</i> | | |
| Auditors' remuneration: Audit | 9 | 8 |
| Depreciation of tangible fixed assets | 2,227 | 1,737 |
| Operating lease rentals | 2,378 | 1,734 |
| Foreign exchange (gains)/losses | 3,302 | (2,132) |
| Profit on sale of fixed assets | 2 | - |

4 Remuneration of directors

| | 2005 £000 | 2004 £000 |
|-----------------------|--------------|--------------|
| Emoluments | 210 | 230 |
| Pension contributions | 16 | 12 |
| | 226 | 242 |

The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid director was £209,697 (2004:£229,684) and company pension contributions of £15,627 (2004:£12,018) were paid to a defined contribution scheme on his behalf.

Retirement benefits are accruing to 1 director (2004: 1) under money purchase schemes.

Share options were exercised by 4 directors in 2005.

Notes (continued)

5 Staff numbers and costs

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

| | Number of employees | |
|----------------------------|---------------------|------------|
| | 2005 | 2004 |
| Operations | 280 | 295 |
| Administration and finance | 33 | 25 |
| Sales | 47 | 43 |
| | <u>360</u> | <u>363</u> |

The aggregate payroll costs of these persons were as follows:

| | 2005 £000 | 2004 £000 |
|-----------------------------------|---------------|---------------|
| Wages and salaries | 9,490 | 9,318 |
| Social security costs | 1,193 | 1,158 |
| Other pension costs (see note 17) | 287 | 261 |
| | <u>10,970</u> | <u>10,737</u> |

6 Interest payable and similar charges

| | 2005 £000 | 2004 £000 |
|--------------------------------------|--------------|--------------|
| Payable to group undertakings | 1,418 | 818 |
| Loss on foreign currency translation | 3,303 | - |
| On bank loans and overdrafts | - | 13 |
| | <u>4,721</u> | <u>831</u> |

7 Other interest receivable and similar income

| | 2005 £000 | 2004 £000 |
|--------------------------------------|--------------|--------------|
| Other | 136 | 143 |
| Gain on foreign currency translation | - | 2,132 |
| | <u>136</u> | <u>2,275</u> |

Notes (continued)

8 Taxation

| | 2005 £000 | 2005 £000 | 2004 £000 | 2004 £000 |
|--|--------------|--------------|--------------|--------------|
| <i>UK corporation tax</i> | | | | |
| Current tax on income for the period | 345 | | 2,506 | |
| Adjustments in respect of prior periods | (77) | | 19 | |
| | <hr/> | | <hr/> | |
| Total current tax | | 268 | | 2,525 |
| <i>Deferred tax</i> | | | | |
| Origination/reversal of timing differences | 147 | | 51 | |
| Adjustment in respect of previous years | 66 | | - | |
| | <hr/> | | <hr/> | |
| Total deferred tax | | 213 | | 51 |
| | | <hr/> | | <hr/> |
| Tax on profit on ordinary activities | | 481 | | 2,576 |
| | | <hr/> | | <hr/> |

Factors affecting the tax charge for the current period

The current tax charge for the period is higher (2004: higher) than the standard rate of corporation tax in the UK (30%). The differences are explained below:

| | 2005 £000 | 2004 £000 |
|---|--------------|--------------|
| <i>Current tax reconciliation</i> | | |
| Loss/(profit) on ordinary activities before tax | (143) | 7,099 |
| | <hr/> | <hr/> |
| Current tax at 30 % (2004: 30%) | (43) | 2,130 |
| <i>Effects of:</i> | | |
| Expenses not deductible for tax purposes | 56 | 55 |
| Depreciation for period in excess of capital allowances | 323 | 312 |
| Short term timing differences | 9 | 9 |
| Adjustment in respect of prior years | (77) | 19 |
| | <hr/> | <hr/> |
| Total current tax charge (see above) | 268 | 2,525 |
| | <hr/> | <hr/> |

Notes (continued)

9 Tangible fixed assets

| | Freehold buildings £000 | Land £000 | Leasehold improvements £000 | Office furniture fittings & equipment £000 | Warehouse equipment and motor vehicles £000 | Computer equipment £000 | Total £000 |
|-----------------------|-------------------------------|--------------|-----------------------------------|--|---|-------------------------------|---------------|
| Cost | | | | | | | |
| At beginning of year | 3,898 | 35,145 | 5,200 | 1,346 | 895 | 3,133 | 49,617 |
| Additions | - | - | 361 | 71 | 214 | 290 | 936 |
| Disposals | - | - | (861) | (487) | (183) | (1,549) | (3,080) |
| At end of year | 3,898 | 35,145 | 4,700 | 930 | 926 | 1,874 | 47,473 |
| Depreciation | | | | | | | |
| At beginning of year | 1,949 | - | 1,264 | 919 | 689 | 2,566 | 7,387 |
| Charge for year | 974 | - | 682 | 115 | 92 | 364 | 2,227 |
| On disposals | - | - | (861) | (487) | (180) | (1,547) | (3,075) |
| At end of year | 2,923 | - | 1,085 | 547 | 601 | 1,383 | 6,539 |
| Net book value | | | | | | | |
| At 31 December 2005 | 975 | 35,145 | 3,615 | 383 | 325 | 491 | 40,934 |
| At 31 December 2004 | 1,949 | 35,145 | 3,936 | 427 | 206 | 567 | 42,230 |

10 Debtors

| | 2005 £000 | 2004 £000 |
|---|---------------|---------------|
| Trade debtors | 20,615 | 19,312 |
| Amounts owed by parent and fellow subsidiary undertakings | 2,184 | 2,219 |
| Deferred tax (see Note 13) | 71 | 284 |
| Other debtors | 449 | 895 |
| Prepayments and accrued income | 621 | 552 |
| Prepaid tax | 571 | - |
| | 24,511 | 23,262 |

Notes (continued)

11 Creditors: amounts falling due within one year

| | 2005 £000 | 2005 £000 | 2004 £000 | 2004 £000 |
|---|--------------|---------------|--------------|---------------|
| Trade creditors | | 15,409 | | 17,273 |
| Amounts owed to parent and fellow subsidiary undertakings | | 4,232 | | 4,925 |
| Other creditors including taxation and social security: | | | | |
| Corporation tax | - | | 1,260 | |
| Other taxes and social security | 650 | | 652 | |
| | <u>650</u> | | <u>1,912</u> | |
| Other creditors | 103 | | 105 | |
| | | <u>753</u> | | <u>2,017</u> |
| Accruals | | 1,771 | | 2,806 |
| | | <u>22,165</u> | | <u>27,021</u> |

12 Creditors: amounts falling due after more than one year

| | 2005 £000 | 2004 £000 |
|----------------------------------|---------------|---------------|
| Amount owed to group undertaking | <u>31,529</u> | <u>28,275</u> |

Interest is payable at LIBOR +1%.

The loan is denominated in USD and is repayable on demand. Management however have agreed with their parent undertaking that they will not seek repayment of the loan in the next twelve months and therefore it is included above.

13 Deferred tax assets

The elements of deferred taxation are as follows:

| | 2005 £000 | 2004 £000 |
|---|--------------|--------------|
| Difference between accumulated depreciation and amortisation and capital allowances | (74) | 147 |
| Other timing differences | 145 | 137 |
| | <u>71</u> | <u>284</u> |
| | | £000 |
| At the start of the year | | 284 |
| Deferred tax charge in the profit and loss account | | (213) |
| At the end of the year | | <u>71</u> |

Notes (continued)

14 Called up share capital

| | 2005 £000 | 2004 £000 |
|--|--------------|--------------|
| <i>Authorised</i> | | |
| Ordinary shares of £1 each | 7 | 7 |
| 7.5% cumulative preference shares of £1 each | 1,000 | 1,000 |
| | <hr/> 1,007 | <hr/> 1,007 |
| <i>Allotted, called up and fully paid</i> | | |
| Ordinary shares of £1 each | 7 | 7 |
| | <hr/> 7 | <hr/> 7 |

15 Reconciliation of movements in shareholders' funds

| | 2005 £000 | 2004 £000 |
|-----------------------------|--------------|--------------|
| Opening shareholders' funds | 15,244 | 16,721 |
| Profit for the year | (624) | 4,523 |
| Dividends paid | (1,722) | - |
| | <hr/> 12,898 | <hr/> 15,244 |

16 Commitments

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

| | 2005 Land and Buildings £000 | 2004 Land and buildings £000 |
|--------------------------------|---------------------------------------|---------------------------------------|
| Operating leases which expire: | | |
| Within one year | 43 | 12 |
| 2-5 years | 1,412 | 1,290 |
| Over 5 years | 558 | 558 |
| | <hr/> 2,013 | <hr/> 1,860 |

17 Pension scheme

The company operates a defined contribution pension scheme. The pension cost charge for the year represents contributions payable by the company to the scheme and amounted to £286,767 (2004: £260,509).

Notes *(continued)*

18 Ultimate holding company

The company is a subsidiary undertaking of Expeditors International of Washington Incorporated, incorporated in the state of Washington, United States of America.

The largest and smallest group in which the results of the company are consolidated is that headed by Expeditors International of Washington Incorporated. The consolidated financial statements are available to the public and may be obtained from:

Expeditors International of Washington Incorporated
1015 Third Avenue
12th Floor
Seattle, WA 98104
United States of America