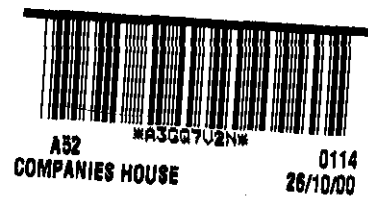


P&O Stena Fantasia (FL) Limited

Directors' report and financial statements

31 December 1999

Registered number 2471819



Directors' report and financial statements

Contents

Directors' report	1
Statement of directors' responsibilities	3
Report of the auditors to the members of P&O Stena Fantasia (FL) Limited	4
Profit and loss account	5
Balance sheet	6
Notes	7

Directors' report

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

Principal activities and business review

The activity of the company is that of a ship charterer. The company leases the vessel P&OSL Canterbury and charters it to P&O Stena Line (Short Sea) Ltd.

The profit for the year after tax and dividends amounted to £621,000 (1998: £17,352,000 loss).

Year 2000

Information in respect of the issues surrounding the Year 2000 is given in note 17.

Charitable and political donations

During the period the company made no charitable or political donations (1998: £nil).

Future prospects

The directors expect that the company will continue to trade as a ship charterer.

Directors

The directors on the Board of P&O Stena Fantasia (FL) Limited who held office during the year were:

R D Peters
H Deeble
M J Ridley

According to the register of directors' interests, none of the directors who held office at the end of the financial year had any interest in the shares of Group companies, nor were any rights to subscribe for shares in Group companies granted to, or exercised by, any of these directors.

Dividends

The directors do not recommend the payment of a dividend (1998: £nil).

Employees

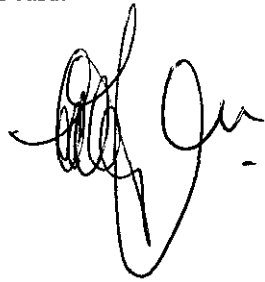
The company does not employ any personnel directly, but draws on the resources of other group undertakings for its business requirements.

Directors' report *(continued)*

Auditors

KPMG Audit Plc have been appointed as auditors to the Company. By an Elective Resolution passed on 9 March 1998, and in accordance with Section 386 of the Companies Act 1985, the company has dispensed with the obligation to appoint auditors annually and KPMG Audit Plc therefore continue in office for the forthcoming year.

By order of the Board.



JG Langford
Secretary

Channel House
Channel View Road
Dover
Kent
CT17 9TJ

23rd October 2000

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss for that period. In preparing those financial statements, the directors are required to:

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

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



KPMG Audit Plc

PO Box 695
8 Salisbury Square
London EC4Y 8BB
United Kingdom

Report of the auditors to the members of P&O Stena Fantasia (FL) Limited

We have audited the financial statements on pages 5 to 12.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 3, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 1999 and of its profit for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

A handwritten signature in dark ink, appearing to read 'R. G. Anderson', written over a horizontal line.

KPMG Audit Plc
Chartered Accountants
Registered Auditor

25 October 2000

Profit and loss account
for the year ended 31 December 1999

	<i>Note</i>	Total	Total
		1999	1998
		£000	£000
Turnover	2	4,489	4,894
Cost of sales	3	(2,514)	(20,291)
 Operating profit/(loss)		 1,975	 (15,397)
Net interest payable	6	(1,354)	(1,955)
 Profit/(loss) on ordinary activities before taxation	7	 621	 (17,352)
Tax on profit/(loss) on ordinary activities	8	-	-
 Profit/(Loss) on ordinary activities after taxation		 621	 (17,352)

The company had no recognised gains or losses in 1999 or 1998 other than those reported in the profit and loss account.

None of the above results are attributable to operations which meet the definition of discontinued operations given by Financial Reporting Standard 3.

Balance sheet
at 31 December 1999

	Note	1999 £000	1998 £000
Fixed assets			
Tangible assets	9	31,354	31,809
Current assets			
Debtors	10	1,765	3,831
		<u>1,765</u>	<u>3,831</u>
Creditors: Amounts falling due within one year	11	<u>(3,493)</u>	<u>(3,536)</u>
Net current assets/(liabilities)		(1,728)	295
Total assets less current liabilities		29,626	32,104
Creditors:			
Amounts falling due after more than one year	12	(19,865)	(22,964)
Net assets		9,761	9,140
Capital and reserves			
Called up share capital	13	19,306	19,306
Profit and loss account		<u>(9,545)</u>	<u>(10,166)</u>
Shareholders' funds – equity		9,761	9,140

These financial statements were approved by the board of directors on 23rd October 2000 and were signed on its behalf by:



M J Ridley
Director



H Deeble
Director

Notes

(forming part of the financial statements)

1 Accounting policies

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

Basis of preparation

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

Cash flow

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

Turnover

Turnover represents amounts (excluding value added tax) derived from charter hire income which is evenly recognised over the period of charter.

Tangible fixed assets and depreciation

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

Leased ships	-	15 years from March 1998.
--------------	---	---------------------------

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallise in the future.

Leased assets

The capital cost of assets leased for substantially the whole of their estimated useful lives is included in tangible fixed assets with a corresponding liability within leasing liabilities.

The excess of the lease payments over the recorded liability is treated as an interest charge, which is amortised to give a constant rate of charge on the remaining balance of the obligation.

These assets are depreciated in the same way as owned assets.

Notes (continued)

2 Turnover and profit/(loss) on ordinary activities before taxation

Turnover and profit/(loss) on ordinary activities before taxation were derived from the charter of the P&OSL Canterbury to P&O Stena Line (Short Sea) Limited. The vessel operated on the route between Dover and Calais throughout the year.

3 Exceptional items

In the year ended 31 December 1998 exceptional costs of £17,694,000 were incurred in the write down of the carrying value of the vessel P&OSL Canterbury. This related to the restructuring of the business in connection with the merger of the P&O and Stena Line predecessor businesses.

4 Directors' emoluments

The directors received no emoluments for services provided to the company during the year (1998: £nil). The remuneration of the chairman was £nil (1998: £nil).

5 Employees

The company does not employ any personnel directly but draws on the resources of other group undertakings for its business requirements at no charge.

6 Net interest payable

	1999 £000	1998 £000
Interest payable:		
Bank loans and overdrafts	-	7
On balances with shareholders	-	159
On other loans	38	24
Finance lease interest	1,316	1,765
Total interest payable	<u>1,354</u>	<u>1,955</u>

7 Profit/(Loss) on ordinary activities before taxation

The profit/(loss) on ordinary activities before taxation is stated after charging/(crediting) the following:

	1999 £000	1998 £000
Depreciation and other amounts written off tangible fixed assets:		
Assets held under finance leases	2,514	20,291
Ship's charter hire	(4,489)	(4,894)

Auditor's remuneration is borne by P&O Stena Line Limited and no charge is included in these financial statements.

Notes (continued)

8 Taxation on profit/(loss) on ordinary activities

No liability for UK corporation tax arose during the year to 31 December 1999 (1998: £nil).

No provision for deferred taxation has been included in these financial statements (1998: £nil). A deferred tax liability, which has not been recognised in these financial statements as it is unlikely to crystallise in the foreseeable future, amounted to:

	1999 £000	1998 £000
Other timing differences	1,321	282
	<u>1,321</u>	<u>282</u>

9 Tangible fixed assets

	Leased Ship £000
Cost at 1 January 1999	75,636
Additions during the year	2,059
Cost at 31 December 1999	<u>77,695</u>
Depreciation at 1 January 1999	43,827
Charge for the year	2,514
Depreciation at 31 December 1998	<u>46,341</u>
Net book value at 31 December 1999	<u>31,354</u>
Net book value at 31 December 1999	<u><u>31,809</u></u>

The parent company's bank loans are secured on the Company's ship

10 Debtors

	1999 £000	1998 £000
Amounts owed by group undertaking	1,378	3,105
Prepayments and accrued income	387	726
	<u>1,765</u>	<u>3,831</u>

Notes *(continued)*

11 Creditors: Amounts falling due within one year

	1999 £000	1998 £000
Finance lease liabilities	3,105	2,762
Accruals and deferred income	388	774
	<u>3,493</u>	<u>3,536</u>

12 Creditors: Amounts falling due after more than one year

	1999 £000	1998 £000
Finance lease liabilities	19,865	22,964
	<u>19,865</u>	<u>22,964</u>

The maturity of obligations under finance leases, net of future finance charges is as follows:

	1999 £000	1998 £000
Within one year	3,105	2,762
Between two and five years	16,531	14,820
After five years	3,334	8,144
	<u>22,970</u>	<u>25,726</u>

13 Capital and reserves

(a) Called up share capital

	1999 £000	1998 £000
<i>Authorised</i>		
Ordinary shares of £1 each	20,000	20,000
	<u>20,000</u>	<u>20,000</u>

	1999 £000	1998 £000
<i>Allotted, called up and fully paid</i>		
Ordinary shares of £1 each	19,306	19,306
	<u>19,306</u>	<u>19,306</u>

Notes *(continued)*

13 Capital and reserves *(continued)*

(b) Reconciliation of movements in equity shareholders' funds

	1999	1998
	£000	£000
Shares issued during the year	-	19,305
Profit/(loss) for the financial year	621	(17,352)
Opening equity shareholders' funds	9,140	7,187
	<hr/>	<hr/>
Closing equity shareholders' funds	9,761	9,140
	<hr/> <hr/>	<hr/> <hr/>

14 Capital commitments

Capital commitments at the end of the financial year, for which no provision has been made, are as follows:

	1999	1998
	£000	£000
Contracted	-	385
	<hr/> <hr/>	<hr/> <hr/>

15 Ultimate parent and controlling company

The Company's immediate controlling party and parent undertaking is P&O Stena Line (Holdings) Limited, incorporated in Great Britain and registered in England and Wales. The consolidated financial statements of P&O Stena Line (Holdings) Limited are available to the public and may be obtained from Channel House, Channel View Road, Dover, Kent CT17 9TJ.

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

The ultimate parent company of Stena Line (UK) Limited is Stena Line AB. The Sten A Olsson family through the Stena AB group and the Stena Metall Group, are the largest shareholders in Stena Line AB

Notes *(continued)*

16 Related party disclosures

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

The following material transaction with related parties were undertaken:

	1999	1998
	£000	£000
<i>Interest receivable</i>		
Stena Line companies	-	2
	=====	=====
<i>Interest payable</i>		
Stena Line companies	-	159
	=====	=====

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

17 Year 2000

The Group's Year 2000 preparations were completed in good time, with all critical systems amendments implemented and tested successfully before 31 December 1999. No significant problems were encountered and all systems continued to operate normally on 1 January 2000.