P&O Stena Fantasia (FL) Limited
(formerly Stena Fantasia (FL) Limited)

Directors' report and financial statements

31 December 1998
Registered number 2471819

Directors' report and financial statements

Contents

Directors' report

The directors submit their annual report and the audited financial statements for the year ended 31 December 1998.

Change of name

The company changed its name to P&O Stena Fantasia (FL) Limited on 10 March 1998.

Principal activities and business review

The activity of the company is that of a ship charterer. The company leases the vessel now named P&OSL Canterbury and charters it to P&O Stena Line (Short Sea) Ltd. On 8 January 1999 the name of the vessel MV "Stena Fantasia" was changed to P&OSL Canterbury.

On 8 March 1998, the authorised share capital of the company was increased from £1,000 to £20,000,000 by the creation of 19,999,000 additional ordinary shares of £1 each. The company issued to Stena Line (UK) Limited 19,304,691 new ordinary shares of £1 each, which were fully paid at par for cash.

The following events occurred on 9 March 1998:

The merger of Stena Line (UK) Limited's ferry interests on the short sea route across the English Channel with those of The Peninsular and Oriental Steam Navigation Company (P&O) was finalised, following clearance by the EC, UK and French regulatory authorities.

Stena Line (UK) Limited sold its shares in Stena Fantasia (FL) Limited to P&O Stena Line (Holdings) Limited, the holding company for the merged ferry interests. P&O Stena Line (Holdings) Limited's shares are owned 40% by Stena Line (UK) Limited and 60% by P&O, with each company owning 50% of the voting shares.

The loss for the year after tax and dividends amounted to £17,352,000 (*1997:£1,364,000 profit*).

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 (1997: £nil).

Future prospects

Following the write down of the value of the P&OSL Canterbury (see note 9) the company is expected to return to profitability in 1999. It is expected that the bareboat charter to P&O Stena Line (Short Sea) Limited will continue throughout 1999.

Directors' report *(continued)*

Directors

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

R D Peters	(appointed as chairman and director on 9 March 1998)
W G Cooper	(resigned as chairman and director on 9 March 1998)
S V Carlsson	(resigned on 16 February 1998)
H Deeble	
L A Hedberg	(resigned on 9 March 1998)
M Storey	(resigned on 9 March 1998)
M J Ridley	(appointed 9 March 1998)
J B Higgs	(appointed 4 March 1998, resigned 9 March 1998)

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 (1997: £nil).

Employees

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

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

26th October 1999

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

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 (formerly Stena Fantasia (FL) Limited)

We have audited the financial statements on pages 5 to 14.

Respective responsibilities of directors and auditors

As described on page 3 the Company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company as at 31 December 1998 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

21 October 1999

Profit and loss account
for the year ended 31 December 1998

	Note	**Before Exceptional Items 1998 £000**	**Exceptional Items (note 3) 1998 £000**	**Total 1998 £000**	Total 1997 £000
Turnover	2	**4,894**	**-**	**4,894**	6,661
Cost of sales		**(2,597)**	**(17,694)**	**(20,291)**	(3,647)
Operating (loss)/profit		**2,297**	**(17,694)**	**(15,397)**	3,014
Net interest payable	6	**(1,955)**	**-**	**(1,955)**	(2,898)
(Loss)/profit on ordinary activities before taxation	7	**342**	**(17,694)**	**(17,352)**	116
Tax on profit/(loss) on ordinary activities	8	**-**	**-**	**-**	1,248
(Loss)/profit on ordinary activities after taxation		**342**	**(17,694)**	**(17,352)**	1,364
Retained profit brought forward				**7,186**	5,822
Retained (loss)/profit carried forward				**(10,166)**	7,186

The company had no recognised gains or losses in 1998 or 1997 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 1998

		1998		1997	
	Note	£000	£000	£000	£000
Fixed assets					
Tangible assets	*9*		**31,809**		50,738
Current assets					
Debtors	*10*	**3,831**		5,217	
Fellow subsidiary intra group debtor					
		3,831		5,217	
Creditors: Amounts falling due within one year	*11*	**(3,536)**		(22,974)	
Net current assets/(liabilities)			**295**		(17,757)
Total assets less current liabilities			**32,104**		32,981
Creditors: Amounts falling due after more than one year	*12*		**(22,964)**		(25,794)
Net assets			**9,140**		7,187
Capital and reserves					
Called up share capital	*13*		**19,306**		1
Profit and loss account			**(10,166)**		7,186
Shareholders' funds – equity			**9,140**		7,187

These financial statements were approved by the board of directors on 26th October 1999 and were signed on its behalf by:

H Deeble

H Deeble
Director

M J Ridley

M J Ridley
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

The carrying values, useful economic lives and estimated residual values of all tangible fixed assets as at 9 March 1998 have been reassessed by the directors in connection with the merger described in the directors' report.

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 reassessment of useful economic life.

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 loss on ordinary activities before taxation

Turnover and 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

The exceptional item of £17,694,000 represents the write down of the carrying value of the vessel P&OSL Canterbury at the time of 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 (1997: £nil). The remuneration of the chairman was £nil (1997: £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

	1998	1997
	£000	£000
Interest payable:		
Bank loans and overdrafts	**7**	218
On balances with shareholders	**159**	828
On other loans	**24**	-
Finance lease interest	**1,765**	1,969
Total interest payable	**1,955**	3,015
Interest receivable from ultimate parent undertaking	**-**	(117)
	1,955	2,898

Details of loans and the applicable interest rates are given in note 12.

Notes *(continued)*

7 (Loss)/profit on ordinary activities before taxation

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

	1998 £000	1997 £000
Depreciation and other amounts written off tangible fixed assets:		
Assets held under finance leases	**20,291**	3,666
Ship's charter hire	**(4,894)**	(6,661)

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

8 Taxation on profit/(loss) on ordinary activities

	1998 £000	1997 £000
Adjustment in respect of prior years	**-**	1,248
	-	1,248

No liability for UK corporation tax arose during the year to 31 December 1998 (1997: £nil).

The adjustment in respect of prior years in 1997 represented a payment received for tax losses surrendered to another group undertaking by way of group relief.

No provision for deferred taxation has been included in these financial statements (1997: £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:

	1998 £000	1997 £000
Difference between accumulated depreciation and capital allowances	**-**	283
Other timing differences	**282**	4,924
	282	5,207

Notes *(continued)*

9 Tangible fixed assets

	Leased Ship £000
Cost at 1 January 1998	74,274
Additions during the year	1,362
Cost at 31 December 1998	75,636
Depreciation at 1 January 1998	23,536
Dimunution in value (note 3)	17,694
Charge for the year	2,597
Depreciation at 31 December 1997	43,827
Net book value at 31 December 1998	**31,809**
Net book value at 31 December 1997	50,738

10 Debtors

	1998 £000	1997 £000
Falling due within one year:		
Amounts owed by group undertaking	**3,105**	4,091
Amounts owed by shareholders	**-**	305
Prepayments and accrued income	**726**	821
	3,831	5,217

Amounts owed by shareholders (Stena Line AB) in 1997 represented an unsecured loan of £188,000 together with accrued interest of £117,000 which were repayable on demand. The loan plus accrued interest was novated to Stena Line (UK) Limited on 31 January 1998 and was repaid on 9 March 1998. Interest was receivable on these loans at the London Interbank Offered Rate plus a margin of 1% (1997: margin of 1%).

Notes *(continued)*

11 Creditors: Amounts falling due within one year

	1998 £000	1997 £000
Bank loan	-	429
Finance lease liabilities	2,762	2,290
Amounts owed to shareholders	-	19,344
Accruals and deferred income	774	911
	3,536	22,974

Amounts owed to the shareholders at 31 December 1997 included an unsecured loan of £10,214,000 from Stena Line (UK) Ltd, together with accrued interest of £77,000, which was repayable in full on 9 April 2002. Interest was payable on this loan at the London Interbank Offered Rate plus a margin of 1%. The loan was repaid on 6 March 1998.

12 Creditors: Amounts falling due after more than one year

	1998 £000	1997 £000
Finance lease liabilities	22,964	25,794

Finance lease liabilities and the bank loan are shown in detail below:

(a) Bank loan

Amounts due at 31 December 1997 were repayable as follows:

	1998 £000	1997 £000
Within one year	-	429

The above loan was unsecured and was repaid on 9 March 1998. Interest was payable on this loan at the London Interbank Offered Rate plus a margin of 1%.

Notes *(continued)*

12 Creditors: Amounts falling due after more than one year *(continued)*

(b) Finance lease liabilities

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

	1998 £000	1997 £000
Within one year	**2,762**	2,290
Between one and two years	**3,109**	2,645
Between two and five years	**11,711**	10,411
After five years	**8,144**	12,738
	25,726	28,084

13 Capital and reserves

(a) Called up share capital

	1998 £000	1997 £000
Authorised		
Ordinary shares of £1 each	**20,000**	1

	1998 £000	1997 £000
Allotted, called up and fully paid		
Ordinary shares of £1 each	**19,306**	1

On 8 March 1998 the authorised share capital was increased to £20,000,000 by the creation of a further 19,999,000 ordinary shares of £1 each. On the same date 19,304,691 ordinary shares of £1 each were issued at par.

(b) Reconciliation of movements in equity shareholders' funds

	1998 £000	1997 £000
Shares issued during the year	**19,305**	-
(Loss)/profit for the financial year	**(17,352)**	1,364
Opening equity shareholders' funds	**7,187**	5,823
Closing equity shareholders' funds	**9,140**	7,187

Notes *(continued)*

14 Capital commitments

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

	1998	1997
	£000	£000
Contracted	385	-

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 Stena A Olsson family through the Stena AB group and the Stena Metall Group, are the largest shareholders in Stena Line AB

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 during the year.

	1998	1997
	£000	£000
Interest receivable		
Stena Line companies	2	117
Interest payable		
Stena Line companies	159	829

Notes *(continued)*

16 Related party disclosures *(continued)*

The following balances with related parties were outstanding at the year end:

	1998 £000	1997 £000
Amounts due from shareholders		
Stena Line companies - interest bearing	-	305
Amounts due to shareholders		
Stena Line companies - interest bearing	-	10,214
Stena Line companies - non-interest bearing	-	9,130
	-	19,344

P&O and Stena Line AB have entered into non-exclusive, royalty-free trademark licence agreements with the 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 directors have set up a Year 2000 task force including representatives for all areas of the Group of which the Company forms a part, which has met on a regular basis to identify and address the relevant issues. The task force established a project plan which encompassed all risk areas, whether relating to IT systems or non-IT systems, and is meeting monthly throughout 1999 to monitor progress.

All system amendments are scheduled to be fully implemented and tested before the end of 1999, and the directors are committed to ensuring that the appropriate resources are made available to the project to enable the necessary changes to be made on schedule. The Group's IT department has recruited extra staff and has a dedicated Year 2000 team in place.

An inventory of all equipment which potentially contains embedded chips has been taken and is being tested. This inventory is under constant review, and a fleet directive entitled "Computers, Embedded Systems and the Year 2000 Problem" has been issued to all vessels.

The Company is confident that all critical systems will be fully Year 2000 compliant, but due to the general uncertainty which is associated with all Year 2000 issues contingency plans have been produced by all areas of the business and have been reviewed by the Year 2000 project managers. All vessels have put in place plans for manual control, and drills are carried out on a regular monthly basis.

The task force has also arranged communication with the Company's suppliers and corporate customers to ensure that they are addressing the Year 2000 issues, and to assure them that the Company will be fully Year 2000 compliant.

Costs associated with the Year 2000 project are being charged to the profit and loss account as they are incurred and, although they have not been separately quantified, they are not expected to be material to the results of the Company.