

4 European Ferries Group PLC

4.1. European Ferries has three main activities:

- (a) ferry services from the United Kingdom to Continental Europe and from Scotland to Northern Ireland;
- (b) harbour operations at Felixstowe and Larne; and
- (c) property development in the United Kingdom, the United States of America, Spain and Germany.

Holding company
European Ferries Group
PLC

4.2. European Ferries was incorporated in May 1984 as a group holding company to take over the assets of European Ferries PLC, formerly European Ferries Ltd (EFL). EFL was incorporated as a private company in 1935 under the name Monument Securities Ltd. It became a public company in 1949. Its name was changed to George Nott Industries Ltd in 1959 and to European Ferries Ltd in 1968. In 1957 Monument Securities Ltd bought a 51 per cent interest in Townsend Car Ferries Ltd (Townsend) and in 1959 it acquired the rest of Townsend's share capital. In 1968 EFL acquired Thoresen Car Ferries Ltd (Thoresen) and in 1971 Atlantic Steam Navigation Company Ltd (Atlantic) from the National Freight Corporation. In January 1985 European Ferries acquired P & O Normandy Ferries Ltd from P & O, including its operations between Dover and Boulogne and Southampton and Le Havre, subsequently changing the name of the company to Normandy Ferries Ltd (Normandy Ferries).

4.3. The group's harbour activities began when it purchased Larne Harbour Ltd in 1973 and The Felixstowe Dock & Railway Company in 1976. A 50 per cent interest in the former naval dockyard in Harwich was acquired in 1973.

4.4. The group has property developments in the United Kingdom and overseas and in 1980 it acquired a 92.5 per cent interest in Singer and Friedlander Ltd (Singer and Friedlander) which provided banking and financial services. Until 1983, EFL also had interests in, *inter alia*, banking and finance services, oil and gas exploration and television franchise activities but it then decided to concentrate on its three core businesses, namely ferries, harbours and property. Other businesses, including Singer and Friedlander, were disposed of.

Organisation and
management

4.5. European Ferries' subsidiaries and associated companies are organised and managed on a divisional basis as follows:

- (a) *Shipping Division*. This consists of three companies which operate ferry services to Continental Europe and from Scotland to Northern Ireland. They are Townsend, Thoresen and Atlantic. The details of the services operated by each company are set out in paragraphs 4.9 to 4.14. All these companies market their ferry services under the name 'Townsend Thoresen'. Atlantic also owns the harbour facilities at Cairnryan. The division also includes Monarch Steamship Company Ltd, Stanhope Steamship Company Ltd and Normandy Ferries which own some of the group's ferries; others are owned by the ferry operating companies.
- (b) *Harbour Operations Division* consists of The Felixstowe Dock and Railway Company, which owns and operates the port of Felixstowe, and Larne Harbour Ltd, which owns and operates the port at Larne.
- (c) *Overseas Property Division*. This division consists of EF International Inc (EF International), the group's United States holding company, and its

subsidiaries in Denver, Atlanta and Houston where the group has property interests. In addition this division includes Inmogolf SA which is developing and operating a golf and leisure resort in Spain. The group is also undertaking some commercial property developments in Germany.

(d) *United Kingdom Property Division.* Most of the group's United Kingdom property interests are held by Stockley, an associate company in which European Ferries has a 34.7 per cent shareholding. The group does, however, have some direct involvement with property in the United Kingdom through the operations of its subsidiary companies, Townsend Thoresen Developments Ltd and Townsend Thoresen Properties Ltd.

4.6. Appendix 4.1 shows the organisational structure of the group. European Ferries' subsidiaries are responsible for the operation and development of their respective businesses and subsidiary company directors are responsible for all operational matters. They have direct access to the main Board through common directorships. The parent company retains control of major investment decisions including capital expenditure and of marketing and technical services.

Turnover and employment

4.7. The European Ferries group had a revenue of £403.5 million and employed an average of 8,498 employees in 1985. Some 4,600 staff were seagoing and a further 1,900 were employed on shore by the ferry subsidiaries. Some 2,000 staff were employed by the harbour companies. Table 4.1 shows the percentage of the total revenue accounted for by European Ferries' main activities.

TABLE 4.1 Analysis of European Ferries' turnover by main activity, 1985

	%
Shipping services	69.4
Harbour operations	11.5
UK property	3.6
Overseas property—US	12.1
Overseas property—Spain	3.4
	100

Source: European Ferries.

Ferry services

4.8. European Ferries' shipping subsidiaries operate a wide range of ferry services between the United Kingdom and Continental Europe and a service is also operated between Scotland and Northern Ireland. In all a total of 22 ships, all ro/ro, are operated on the group's various routes of which 15 are multi-purpose ships and the remaining seven are freight-only ships. During 1985 European Ferries undertook a programme of 'jumboisation' of six ships to allow redeployment with a view to increased operational efficiency. In December 1985 European Ferries ordered two 20,000 ton ships, at a cost of £98 million, to spearhead its future Dover to Calais operations.

Townsend Car Ferries Ltd

4.9. Townsend was incorporated in 1929 with the name Townsend Bros Ferries Ltd. In 1930 it started the first cross-Channel accompanied car ferry service between Dover and Calais using a converted minesweeper. This ship was replaced in 1951 by a converted frigate, which in 1962 was superseded when Townsend's first purpose-built car ferry was introduced. Townsend now operates three multi-purpose ferries between Dover and Calais and three between Dover and Zeebrugge. In addition the company operates three freight-only ships between Dover and Zeebrugge. In January 1986 a marketing agreement came into operation between European Ferries and RMT covering the two companies' ferry and jetfoil services between Dover and Ostend.

Normandy Ferries Ltd

4.10. Normandy Ferries was acquired from P & O in January 1985 at a cost of £11.7 million. The acquisition included five ships and P & O's routes from Dover to Boulogne and from Southampton to Le Havre.

Thoresen Car Ferries Ltd

4.11. In 1964 a group of Norwegian investors set up a Norwegian registered company, Otto Thoresen Shipping Company (Otto Thoresen), to operate ro/ro ferry services from Southampton to Cherbourg and Le Havre. A wholly-owned British subsidiary company, Thoresen, was formed to act as agent for these services in the United Kingdom. A two-ship operation began in 1964 which was expanded to four ships in 1965.

4.12. In 1968 EFL acquired all the share capital of Otto Thoresen, which was put into liquidation, but its subsidiary, Thoresen, has remained in the European Ferries group. Thoresen now operates four multi-purpose ships and one freight ship between Portsmouth and Cherbourg and Le Havre.

Atlantic Steam Navigation Co Ltd

4.13. Atlantic was incorporated in 1936 with the intention of operating a moderately priced trans-Atlantic passenger service. The Second World War frustrated this intention. In 1946, using converted tank carriers, the company started a service from Tilbury to Hamburg mainly for the movement of freight. A Tilbury to Rotterdam service operated from 1960 to 1966, also mainly for freight. Services from Tilbury ceased in 1968 because they had become uneconomic and because of the development by the company of services from Felixstowe to Rotterdam in 1964 and to Antwerp in 1965. The latter route was closed in 1974. Atlantic now operates two multi-purpose vessels between Felixstowe and Zeebrugge and two freight-only ships from Felixstowe to Rotterdam.

Irish Sea services

4.14. Atlantic started services between Cairnryan and Larne in 1974 after EFL had acquired the port of Larne and had built facilities both at Larne and Cairnryan. This service is now operated by two multi-purpose ships.

European Ferries' traffic

4.15. European Ferries' tourist traffic is carried on multi-purpose ro/ro passenger and vehicle ferries. Freight is carried either on the multi-purpose ferries or on purpose-built ro/ro freight ships. The group does not operate general cargo or container ships (lo/lo services). Unlike P & O, which is involved in road haulage as well as ferry operations and so can provide a door-to-door service for freight, European Ferries only provides a ferry service for freight. Freight traffic carried by European Ferries comprises commercial road haulage vehicles and new cars being imported or exported.

4.16. Traffic carried by European Ferries in 1985 is shown in Table 4.2.

TABLE 4.2 Tourist and freight traffic carried by European Ferries, 1985

	<i>Passengers</i>	<i>Tourist vehicles</i>	<i>Freight vehicles</i>
Cairnryan-Larne	393,056	88,257	83,645
Dover-Boulogne	1,092,372	108,848	35,270
Dover-Calais	3,843,052	600,170	164,277
Dover-Zeebrugge	1,153,214	185,216	246,082
Felixstowe-Zeebrugge	727,376	123,804	49,727
Portsmouth-Le Havre/Cherbourg	1,380,315	271,597	69,741
Felixstowe-Rotterdam	—	—	125,660
Total	8,589,385	1,377,892	774,402

Source: European Ferries.

Note: In January 1986 European Ferries entered into a marketing agreement with RMT. RMT's carryings between Dover and Ostend in 1985 were 2,397,482 passengers, 1,211,491 tourists vehicles and 151,411 freight vehicles.

Ports

4.17. Felixstowe harbour, acquired by EFL in 1976, has in recent years become a major port for deep-sea container traffic. It handled 10.0 million tonnes of cargo in 1985, of which about 3.4 million tonnes was ro/ro freight on ferry routes and the remainder containers, general cargo and oil. European Ferries this year completed a new terminal at Felixstowe which has the capacity to increase container throughput by 50 per cent. In addition to the group's tourist and freight service to Zeebrugge and freight service to Rotterdam, several other companies also use the port for ro/ro freight service to Scandinavia and the Continent.

4.18. The harbour at Larne, owned by the group since 1973, is the leading ro/ro port in Northern Ireland, and nearly all the freight passing through the port is moved by ro/ro services. In 1985, 1,363,981 passengers, 255,810 tourist vehicles and 277,184 freight vehicles were carried from or to Larne. The port is used by Sealink, P & O and European Ferries. Sealink and P & O were already users of the port when EFL acquired it. Improved facilities for handling ro/ro traffic have been installed, particularly since 1978, and a new passenger terminal was opened at Larne in 1985.

4.19. Cairnryan, situated on Loch Ryan in South-West Scotland, is the Scottish terminal for European Ferries' Northern Ireland service. It came into use in 1974 and was developed and is operated by European Ferries for this route; no other company uses the port on a regular basis.

Property interests

4.20. European Ferries has property interests in the United States of America, the United Kingdom, Spain and Germany. The company told us that these interests accounted for approximately half of its assets in 1985 but it expected this proportion to decrease because of its current investments in the shipping and harbour divisions.

4.21. The major property interests are in the United States. As set out in Chapter 5, the group first entered this market in 1979 when it undertook a joint venture property development in Denver. A further joint venture property development followed when the joint venture partners purchased the majority stake in a company in Atlanta. In 1980 European Ferries started buying development land in Houston in partnership with other parties.

4.22. The group is currently concerned with the development of some 5,000 acres of land in Denver, Atlanta and Houston. Management of European Ferries' United States property interests is undertaken by EF International (see paragraph 4.5(c)), which is managed by two of the main Board directors of European Ferries.

4.23. European Ferries had considerable property interests in the United Kingdom until May 1985 when it transferred most of those interests to Stockley in exchange for a 44 per cent shareholding in that company. European Ferries has two representatives on the Board of Stockley.

4.24. At about the same time that European Ferries acquired its initial shareholding in Stockley, Stockley acquired a 26.5 per cent holding in Stock Conversion, another property company. As part of its arrangements to acquire its shareholding in Stock Conversion, Stockley issued further ordinary shares including 3.7 million to European Ferries. As a result of these arrangements European Ferries' stake in Stockley became 34.7 per cent. In April 1986 Stockley agreed to dispose of its interests in Stock Conversion to P & O.

4.25. In addition to Stockley, European Ferries has some directly-owned property interests. These consist of interests in some 15 to 20 property developments, mostly North of London. In Southern Spain European Ferries owns a 1,100 acre leisure development and the group is also developing property in Hamburg and Frankfurt.

Financial information
Capital structure

4.26. At 31 December 1985 European Ferries had an allotted, called-up and fully paid share capital amounting to £196.6 million as follows:

	<i>£ million</i>
(a) 223,221,826 ordinary shares of 25p each	55.8
(b) 74,204,535 6.75 per cent convertible redeemable cumulative preference shares of £1 each	74.2
(c) 66,638,327 5 per cent redeemable non-cumulative preference shares of £1 each	66.6
	<hr style="width: 100%; border: 0.5px solid black;"/>
	196.6

4.27. There were also options outstanding at 31 December 1985 exercisable by directors and employees under the following schemes:

(d) 1,641,800 ordinary shares under the Executive Share Option Scheme at a price of £1.48 exercisable before 7 March 1995; and

(e) 2,299,583 ordinary shares under the Savings Related Share Option Scheme at a price of £1.25 exercisable before December 1992.

4.28. The 6.75 per cent convertible redeemable cumulative preference shares may be converted into ordinary shares at the option of the holder on 2 July in any of the years 1988 to 2000 inclusive at the rate of 64 ordinary shares for every 100 convertible preference shares. Subject to the prior consent of the holders of the 5 per cent redeemable non-cumulative preference shares, the company will be entitled to redeem, at par, all or any convertible preference shares not converted by the expiration of the conversion rights in the year 2000, by giving the holders of the convertible preference shares to be redeemed not less than three months' notice in writing.

4.29. The 5 per cent redeemable non-cumulative preference shares become redeemable at £1.20 per share should the concessionary fare scheme be terminated.

4.30. Only holders of ordinary shares and holders of 5 per cent preference shares, or their appointed proxies, are entitled to attend and vote at general meetings of the company except in special circumstances when the business of the meeting directly concerns any of the rights, privileges or conditions attached to the convertible preference shares.

4.31. On 16 October 1986, the latest date on which it was practicable to check, the shares were valued according to the Financial Times Index at (a) ordinary 118p, (b) 6.75 per cent convertible redeemable cumulative preference 98.5p, and (c) 5 per cent redeemable non-cumulative preference 138p, which gives a market capitalisation of some £428.5 million. This compares with the book value of shareholders' funds at 31 December 1985 amounting to £327.1 million.

Financial accounts

4.32. European Ferries' accounts are prepared under the historical cost convention, as modified by the revaluation of an investment in its associated company Stockley. Property and land developments are shown as stocks in European Ferries' balance sheet, as they are regarded as being part of the current trading assets of the group. They are described in the 1985 Annual Report as being stated at cost plus attributable profits to the extent that these can be foreseen with reasonable certainty, less any foreseeable losses. Cost consists of development costs (direct materials, direct labour and attributable overheads) and certain interest incurred in financing the acquisition and holding of development property. The relevant figures for the five years to 31 December 1985 are as shown in Table 4.3.

4.33. Table 4.4 summarises European Ferries' balance sheets at 31 December for each of the last four years restated to reflect prior year merger adjustments. Table 4.5 summarises group results for each of the last four years and the interim results for the six-month period to 30 June 1986. The main changes in divisional contribution to operating results over the period reflect developments in overseas property (3.9 per cent to 34.7 per cent), reduced United Kingdom property division activity (7.9 per cent to 4.1 per cent) and the disposal of the banking subsidiary Singer and Friedlander in 1984.

TABLE 4.3 European Ferries' stocks (included in net current assets)

	1982	1983	1984	£ million 1985
(a)				
UK	54.6	68.2	89.2	18.0
US:				
Denver	} 46.4 }	} 42.0 }	98.2	45.0
Atlanta			16.1	14.3
Houston			81.1	63.2*
Spain (La Manga)	6.4	7.8	9.9	5.8
Germany			4.6	11.9
	<u>107.4</u>	<u>118.0</u>	<u>299.1</u>	<u>158.2</u>
(b) Interest charges capitalised during the year and included in (a) above	6.9	7.2	12.1	11.8

Source: MMC from European Ferries data.

*The figure of £63.2 million for the Houston development was arrived at after making a £15 million reserve due to the adverse influence on value caused by the drop in oil prices. As a result of this reserve European Ferries' attributable profits were reduced from £23.5 million to £8.5 million and this change had a substantial effect on results for the year.

TABLE 4.4 European Ferries Group PLC: summary of group balance sheets at 31 December

	1982	1983	1984	£ million 1985
Fixed assets				
Tangible assets				
Ships	107.4	95.6	115.6	139.8
Port equipment	37.5	38.5	54.4	86.4
Properties	27.6	29.6	31.3	32.4
Plant, fixtures, vehicles	3.6	4.3	5.6	9.1
	<u>176.1</u>	<u>168.0</u>	<u>206.9</u>	<u>267.7</u>
Investments	99.7	124.4	73.9	119.0
Net current assets (excluding net current borrowings)	87.5	94.1	199.8	124.1
	<u>363.3</u>	<u>386.5</u>	<u>480.6</u>	<u>510.8</u>
Deduct borrowings	123.0	113.4	164.6	159.7
Net assets	<u>240.3</u>	<u>273.1</u>	<u>316.0</u>	<u>351.1</u>
Financed by:				
Ordinary shares	69.5	52.8	55.7	55.8
Convertible redeemable cumulative preference shares	0.1	—	—	74.2
Redeemable non-cumulative preference shares	—	66.6	66.6	66.6
Reserves	154.9	135.9	180.1	130.5
Shareholders' funds	<u>224.5</u>	<u>255.3</u>	<u>302.4</u>	<u>327.1</u>
Minority interests	15.8	17.8	13.6	24.0
	<u>240.3</u>	<u>273.1</u>	<u>316.0</u>	<u>351.1</u>
Capital gearing(%)	51.2	41.5	52.1	45.5

Source: European Ferries.

TABLE 4.5 European Ferries Group PLC: summary of group profit and loss accounts for the four years ended 31 December 1982 to 1985 and the six months to June 1986 (showing divisional operating results)

	£ million												Six months to 30 June 1986			
	1982 Turnover	1982 Operating results	%	1982 Turnover	1982 Operating results	%	1983 Turnover	1983 Operating results	%	1984 Turnover	1984 Operating results	%	1985 Turnover	1985 Operating results	%	1986 Turnover
Shipping division	207.7	12.8	41.8	226.7	16.6	36.5	236.4	17.5	39.4	280.1	19.0	39.3	112.5	(8.5)		
Harbour operations division	34.4	8.5	27.8	38.4	9.5	20.9	42.1	9.6	21.6	46.3	10.9	22.5	24.7	4.9		
UK property division	33.9	2.4	7.9	13.7	2.3	5.1	14.0	3.0	6.8	14.6	2.0	4.1	1.4	1.8		
Overseas Property Division																
US	16.5	2.4	7.9	43.0	12.7	27.9	13.9	14.6	32.9	48.8	17.4	35.9	1.1	1.7		
Spain	0.4	(1.2)	(3.9)	1.1	(3.4)	(7.4)	3.0	(4.3)	(9.7)	13.7	(0.5)	(1.0)	9.4	0.6		
Germany	—	—	—	—	—	—	—	—	—	—	(0.1)	(0.2)	—	—		
Overseas property division total	16.9	1.2	3.9	44.1	9.3	20.5	16.9	10.3	23.2	62.5	16.8	34.7	10.5	2.3		
Other activities	—	0.5	1.6	—	(2.4)	(5.2)	—	0.9	2.0	—	1.6	3.3	—	0.6		
Head Office interest	—	—	—	(2.4)	(5.2)	—	0.9	2.0	—	(1.9)	(3.9)	—	(0.9)	—		
Banking division	—	4.6	15.0	—	6.6	14.5	—	2.5	5.6	—	—	—	—	—		
Exceptional items	—	0.6	1.9	—	—	5.9	12.9	(0.3)	(0.6)	—	—	—	—	(4.2)		
Profit on ordinary activities before taxation	292.9	30.6	100	322.9	45.4	100	309.4	44.4	100	403.5	48.4	100	149.1	(4.0)		
Taxation		(6.8)			(10.4)			(9.3)			(9.4)			2.1		
Profit after taxation		23.8			35.0			35.1			39.0			(1.9)		
Minority interest		(0.8)			(1.3)			(1.1)			(2.9)			(0.7)		
Extraordinary items		4.6			—			6.9			(21.4)*			—		
Preference dividends and employee profit share		—			—			(1.7)			(6.2)			—		
Attributable profit for the financial year		27.6			33.7			39.2			8.5			(2.6)		
		10.5†			12.3†			14.9†			13.7†					

Source: European Ferries.

* Extraordinary charge in 1985 included £15 million being a reserve against the group's Houston property portfolio because of the consequence of the fall in world oil prices.

† Earnings per ordinary share before extraordinary items (net basis) (pence).

‡ Not appropriate at the half year stage.

4.34. Table 4.6 summarises details of European Ferries' group source and application of funds for the four years ended 31 December 1985.

TABLE 4.6 European Ferries Group PLC: source and application of group funds for the years ended 31 December

	1982	1983	1984	1985
				<i>£ million</i>
Operating profit before tax	29.8	44.1	43.3	45.5
Extraordinary items	5.1	—	13.9	(21.3)
	<u>34.9</u>	<u>44.1</u>	<u>57.2</u>	<u>24.2</u>
Depreciation	11.2	12.0	15.0	17.7
Minority interest	0.8	—	—	2.9
Profits retained in associated companies	(7.0)	(8.8)	(0.5)	(0.8)
Working capital exchange differences	2.1	8.4	12.2	(10.9)
Other reserve movements	0.9	(0.1)	—	(22.9)
(Profits)/losses on sale of fixed assets	—	(8.6)	1.6	(0.1)
Gain on sale of banking subsidiary	—	—	(10.6)	—
	<u>42.9</u>	<u>47.0</u>	<u>74.9</u>	<u>10.1</u>
<i>Gross funds generated in operations</i>				
Sale of fixed assets	1.3	15.8	1.2	3.2
Sale of associates	—	—	81.3	40.6
Decrease/(increase) in property stocks	—	—	(181.1)	140.9
Sale of banking subsidiary	—	—	51.3	—
Net receipts from (charges to) minorities	(0.7)	—	(3.8)	8.1
Tax paid	(4.5)	(5.6)	(6.3)	(7.0)
(Increase)/decrease in operating working capital	(28.7)	(14.7)	22.9	(41.9)
Other	0.3	(6.2)	(3.4)	(5.6)
	<u>10.6</u>	<u>36.3</u>	<u>37.0</u>	<u>148.4</u>
<i>Gross funds available</i>				
Dividends to shareholders	(7.5)	(9.3)	(10.6)	(12.1)
Reinvested:				
Purchase of fixed assets	(33.8)	(13.2)	(45.3)	(82.6)
Investment in associates	(4.6)	(4.2)	(38.2)	(97.0)
Profits left in joint ventures	—	—	(27.1)	(2.1)
	<u>(35.3)</u>	<u>9.6</u>	<u>(84.2)</u>	<u>(45.4)</u>
<i>Net funds applied</i>				
Funded by:				
Share capital issues	—	—	—	(74.3)
Decrease/(increase) in net borrowings	1.6	21.9	(51.2)	4.9
Decrease/(increase) in non-operating working capital	(36.9)	(12.3)	(33.0)	24.0
	<u>(35.3)</u>	<u>9.6</u>	<u>(84.2)</u>	<u>(45.4)</u>

Source: European Ferries.

4.35. European Ferries' returns on average capital employed and net assets are set out in Table 4.7.

TABLE 4.7 European Ferries Group PLC: returns on average capital employed and average net assets

	1982	1983	1984	1985
Average capital employed (£m)	346.1	374.9	433.5	495.7
Profit before interest payable				
extraordinary items and tax (£m)	41.3	55.9	54.1	59.9
Return on average capital employed (%)	11.9	14.9	12.5	12.1
Average net assets (£m)	231.7	256.7	294.5	333.5
Profit before extraordinary items and tax (£m)	30.6	45.4	44.4	48.4
Return on average net assets (%)	13.2	17.7	15.1	14.5

Source: MMC.