

**Sea Containers Ltd.**

Annual Report 2003



**GSE** seacon

# Sea Containers Ltd.

## Contents

Company description	2
Financial highlights	3
Directors and officers	4
President's letter to shareholders	7
Discussion by division:	
Passenger and Freight Transport	14
Containers	20
Finance	26
Financial review	29
Shareholder and investor information	60

*Front cover: Most of the company's marine container assets are owned or managed by GE SeaCo SRL, Sea Containers' 50/50 joint venture with GE Capital Corporation, which is the world's largest marine container leasing company in terms of capital investment in equipment.*

**Sea Containers Ltd.** is a Bermuda company with regional subsidiary offices in London, Genoa, New York, Rio de Janeiro and Sydney. Sea Containers is owned primarily by U.S. shareholders and its common shares are listed on the New York Stock Exchange under the trading symbols SCRA and SCRB.

The company is engaged in two main activities: passenger and freight transport and marine container leasing. Within each activity are a number of operating units. Passenger transport consists of fast ferry services in the English Channel and Irish Sea under the Hoverspeed brand, fast ferry services in New York Harbor under the SeaStreak brand, fast and conventional ferry services in the Baltic under the Silja Line brand and in the Adriatic under the SNAV-Hoverspeed brand (50% owned). Rail operations in the U.K. are conducted by the Great North Eastern Railway (GNER). Ship management and naval architect subsidiaries support the passenger and freight transport division and have outside clients as well.

Marine container leasing is conducted primarily through GE SeaCo SRL, a Barbados company owned 50% by Sea Containers and 50% by General Electric Capital Corporation. GE SeaCo operates one of the largest marine container fleets in the world. Sea Containers also owns or partly owns four container service depots, four container manufacturing facilities and a refrigerated container service business.

The company also owns 42% of the equity of Orient-Express Hotels Ltd. Orient-Express Hotels' common shares are listed on the New York Stock Exchange under the trading symbol OEH. This company has 44 deluxe leisure properties in 21 countries. Most of the properties are owned but some are partly owned. One joint venture is PeruRail, the principal railways of Peru, which operates tourist trains on the Cuzco/Machu Picchu route and from Cuzco and Arequipa to Lake Titicaca. PeruRail has freight train operations to and from the ports of Matarani and Mollendo. The hotels, restaurants, river cruise ship and tourist trains compete in the top end of the market.

Other lesser Sea Containers activities include port interests in the U.K. and Greece, property development, publishing, fruit farming in the Ivory Coast and Brazil and a U.K.-based travel agency.

# Financial highlights

(See note 21 to the Financial Statements on page 53)

	2003 \$000	2002 \$000	Change %
Revenue	<b>1,644,709</b>	1,614,860	1.8
Earnings before net finance costs:			
Ferry operations	<b>30,255</b>	51,423	(41.2)
Rail operations	<b>84,083</b>	68,893	22.0
Container operations	<b>35,985</b>	23,499	53.1
Leisure operations	<b>10,887</b>	41,275	(73.6)
Plantation, property, publishing and other operations	<b>6,563</b>	4,452	47.4
	<b>167,773</b>	189,542	(11.5)
Gain on sale of ferry assets and non-recurring charges	<b>54,000</b>	–	
Corporate costs	<b>(15,798)</b>	(15,038)	(5.1)
	<b>205,975</b>	174,504	18.0
Add depreciation and amortization	<b>113,471</b>	113,710	(0.2)
EBITDA*	<b>319,446</b>	288,214	10.8
Pro forma adjustment to deconsolidate OEH and treat on an investment basis	–	(40,890)	
EBITDA as adjusted	<b>319,446</b>	247,324	29.2
Net earnings on common shares	<b>111,370</b>	41,928	165.6
Total assets at book value	<b>2,761,917</b>	2,796,834	(1.2)
Debt and capital lease obligations	<b>1,589,626</b>	1,784,274	(10.9)
	\$	\$	%
Net earnings per Class A and Class B common share:			
– basic	<b>5.28</b>	2.08	153.8
– diluted	<b>5.20</b>	2.07	151.2
Cash dividends per Class A common share	<b>0.050</b>	0.225	(77.8)
Cash dividends per Class B common share	<b>0.045</b>	0.204	(77.9)

\* EBITDA means earnings before interest, tax, depreciation and amortization. See page 57 regarding a reconciliation of EBITDA to earnings before net finance costs and net earnings.

## Directors and officers



Above: The Board of Sea Containers Ltd., photographed at The Ritz in Madrid, Spain. Dating from 1910, The Ritz is one of Europe's finest belle époque hotels and is part owned and managed by Orient-Express Hotels Ltd., in which the company is a major investor.

Standing from left to right:  
**Robert M. Riggs\***  
Senior Counsel of Carter Ledyard & Milburn LLP (attorneys)

**W. Murray Grindrod\***  
Chairman of Grindrod Ltd. (a shipping, transport and financial services company)

**Charles N.C. Sherwood**  
Partner of Permira (a private equity investment firm)

**Philip J.R. Schlee**  
Chairman of Robert Anderson & Co. Ltd.  
(a private investment firm)

**John D. Campbell**  
Senior Counsel (retired) of Appleby Spurling Hunter (attorneys)

Seated from left to right:  
**Michael J.L. Stracey\***  
Executive Vice President, Finance (retired) of the company

**James B. Sherwood**  
President of the company

\* member of the Audit Committee

## Officers *other than the President*

## Regional Managers



*Back row from left to right:*

**Edwin S. Hetherington**  
*Vice President, General Counsel and Secretary*

**Guy N. Sanders**  
*Vice President, Funding*

**James A. Beveridge**  
*Vice President, Administration and Property, Plantations and Publishing*

**Duncan J.C. Scott**  
*Vice President, Information Services*

**David G. Benson**  
*Senior Vice President, Passenger and Freight Transport*

**James G. Struthers**  
*Vice President, Controller*

*Front row from left to right:*  
**Angus R. Frew**  
*Vice President, Containers*

**Christopher W.M. Garnett**  
*Vice President, Rail*

**Nicolas J. Novasic**  
*Vice President, Corporate Finance – North America*

**Daniel J. O'Sullivan**  
*Senior Vice President, Finance and Chief Financial Officer*



**Franco Delle Piane**  
*Regional Manager, Mediterranean*



**Chresten A. Bjerrum**  
*Regional Manager, Asia*



**Robert Alagna**  
*Regional Manager, Australasia*



**Robin Lynch**  
*Regional Manager, North America*



**Luis Freitas**  
*Regional Manager, South America*



# President's letter to shareholders

April 15, 2004

Dear Shareholder,

2003 was a splendid year for your company. We reported net earnings of \$111.4 million (\$5.20 per common share diluted) on revenue of \$1.7 billion after non-recurring charges of \$46 million. This was our best earnings year since 1990 when we realized large gains on asset sales to Stena and Tiphook. Excluding gain on sale of the Isle of Man Steam Packet Company and non-recurring charges net earnings were \$57.4 million, up 37% over 2002.

The \$46 million of non-recurring charges allowed us to eliminate the burden of unprofitable operations and rid ourselves of assets of only marginal profitability. For example, we wrote off the cost of converting our U.K. fast ferry services to seasonal operation which should improve profitability in 2004 and future years. We disposed of our last container ship at a loss but avoided major overhaul costs for this elderly vessel. We covered the loss on sale of a group of containers which had ceased to be leasable for marine service.

When I wrote this message a year ago our share price was around \$9. Recently it was \$21. At that time the public debt markets were not open to us at an acceptable cost of funds. Today they are and by the time you receive this report we should have placed \$150 million of unsecured senior notes at favorable interest cost, allowing us to retire early \$80 million of 12½% debentures which will reduce finance costs in 2004. We have retained our 14.4 million shares of Orient-Express Hotels which today have a market value of about \$260 million compared with \$140 million a year ago. Orient-Express Hotels has continued to upgrade its existing properties and make

acquisitions, so as travel demand strengthens (as they are seeing through forward bookings) earnings should increase and this should be reflected in the market value of our shareholding.

We were able to settle our Network Change claim against Network Rail in the U.K. arising out of the Hatfield rail disaster in 2000 and its aftermath which disrupted the U.K. rail network. This settlement did not require us to take any charge to earnings. The U.K.'s Strategic Rail Authority has claimed an interest in part of the settlement but this does not appear to be supported contractually. We are hopeful of reaching an amicable settlement and have provided for our settlement offer in our 2003 financial statements.

## Marine Container Leasing

As I write this message the marine container leasing industry is enjoying an unparalleled bull market, the strongest I have seen in more than 40 years' involvement in the industry. Lease rates for both new and older equipment have risen to levels not seen for many years. All our older containers in demand locations are booked and could have been leased several times over. Lessees are having to pick up equipment in low demand locations which reduces our positioning expense. At the end of March, 2004 utilization of GE SeaCo's owned fleet was at 98% while utilization of Sea Containers' owned fleet managed by GE SeaCo was 79% and rising.

This demand has been fuelled by a rise in world trade in containerized goods, increase in the world containership fleet and a sharp rise in steel prices driven by a shortage of steel. As new container prices rise, lease rates for older containers rise in step. As utilization of older containers rises, storage and repair costs decline.

*Opposite page: In November 2003, HM Queen Elizabeth launched the first of GNER's new-look high-speed electric trains, part of a £30 million redesign and rebuild of all coaches in the electric 225 fleet. GNER is currently bidding to retain its East Coast Main Line franchise in 2005. The company also intends to bid for Britain's Greater Western and Integrated Kent franchises.*

Of course, we must be careful not to acquire containers at prices which will decline once normal steel supplies are restored, so we use a base price upon which we achieve our normal return on investment and then we must recover in the initial long-term lease the difference between this base price and the actual price, if higher.

The GE SeaCo joint venture with General Electric Capital Corp. excludes related businesses such as container logistics, container manufacturing and container service, repair and depot operations. Sea Containers' four factories operated profitably in 2003 and in early 2004 an agreement was reached with the Owens Group in Australia and New Zealand to acquire their logistics, depot and service operations in seven locations and to sell our 26% interest in the Westfield container depot in Auckland, N.Z. for a net amount of \$8 million.

GE SeaCo has budgeted to acquire about \$160 million of new containers in 2004 and Sea Containers



expects to invest another \$35 million (including purchase of the Owens assets). Of course, these purchases are subject to availability and rate acceptance by our lessees.

Our lessees, mostly containership operators, are enjoying record profitability which should continue as long as additions to containership capacity are less than the increase in containerized trade volumes as they have been for much of 2002 and 2003.

*Right: Tourists aboard Canal Vista, which offers pleasure cruises in the Corinth Canal, Greece. Launched in April 2003 by operating company Periandros, the 26-meter vessel carried 9,000 passengers in its first nine months. Among the highlights of the one-hour tour is Nero's Slate showing the Emperor's first attempt to cut the isthmus. Just over 11,000 ships traversed the Canal in 2003. Traffic was hit by a decline in the cruise market in 2003, but is expected to recover in 2004.*





### Ferry Transportation

Our main investment in this sector is our 100% ownership of Silja Ltd., the Baltic cruise, ferry and roll-on, roll-off ship operator. Silja had a satisfactory 2003 although the winter was adversely impacted by exceptionally heavy ice conditions, and winter losses were 100% consolidated for the first year since we only owned 50% of Silja through April, 2002.

2004 will see the admittance of several Baltic states into the European Union which may create changes in travel patterns. Although Russia has not joined the European Union its economy has greatly strengthened to the point where Silja feels it is prudent to commence a regular passenger service between Rostock, Germany, Tallinn, Estonia and St Petersburg using *m.v. Finnjet*. This service will start in June, 2004 and \$15 million is being spent to upgrade the ship.

In 2003, Silja strengthened its position in the Helsinki-Tallinn market with the addition of a second SuperSeaCat and now controls 38% of the fast ferry passenger market on this route.

Hoverspeed operates five fast ferries in the English Channel and northern corridor of the Irish Sea. Although results were improved over 2002 they were still not satisfactory. Hoverspeed "grasped the nettle" late in 2003 and incurred the cost of converting these services to seasonal-only

operation from the spring of 2004. The restructuring plan also calls for the re-deployment of smaller fast ferries to other markets and their replacement with larger vessels. One of the smaller fast ferries has now been moved to the Mediterranean to start up a Pescara, Italy to Split, Croatia route in 2004 and another has been moved to the St Malo, France to Jersey, Channel Islands route under charter.

Fast ferry commuter services are operated in New York harbor by SeaStreak. In late 2003 and early 2004 two state-of-the-art fast ferries were introduced into the New Jersey-Manhattan services and as passenger volumes expand to fill this additional capacity, profits should rise. Ice disrupted services in February both in 2003 and 2004 and representations are being made to the U.S. Coast Guard to ensure ship channels are kept clear in the future.

The SNAV-Hoverspeed fast ferry joint venture in the Adriatic enjoyed another successful year in 2003.

We are currently in discussion to invest in several existing ferry businesses but it is too early to say whether they will be successful.

### Rail Services

The Great North Eastern Railway (GNER) operated profitably in 2003. Its main traffic volumes are on the London-Leeds and London-

*Above: A new 40ft SeaCell 9ft 6in high being delivered to shipping line CMA-CGM at Nantong port for the carriage of electronic goods from China to northern Europe. GE SeaCo sources most of its new-build containers from China, including refrigerated containers, tanks and dry freight types.*



Newcastle corridors. Better performance by Network Rail, the infrastructure provider, and a stronger U.K. economy stimulated rail travel.

GNER is in the midst of rebuilding its high-speed class 225 train fleet (funded by the bank owners) and upgrading station and service facilities. Its franchise terminates in April, 2005 and the process of bidding for a new franchise has started. A complication is that the U.K. government has announced a major review of the entire rail system and the results will not be known for some months. Those results may herald change and if substantive it will be difficult for the government to complete the re-franchising process by April, 2005. The logical consequence would be an extension of the existing franchise of GNER but this can be no more than speculation at this stage.

Separation of track, signalling and station infrastructure from train operations has been a costly failure in the U.K. Funds which are needed to expand capacity and improve service quality are not available. We have urged the government to consider vertical integration of the main operators and to grant long term concessions which can be funded independently of the government and these are issues which are being debated in the review.

GNER continues to deliver the best railway service in the U.K. and feels its case for a new franchise is strong. It is also in the process of bidding for a new franchise called Integrated Kent which is largely composed of commuter services between London and the southeast of England.

### **Property, Plantations and Publishing**

This division made an improved contribution to profits in 2003. Additional property sales were concluded at Newhaven and elsewhere. An agreement in principle has been reached to sell Folkestone Harbour at a satisfactory price.

The company's table grape plantation in Brazil had an excellent year, achieving a 20% return on investment, while political turmoil in the Ivory Coast reduced profitability of our banana plantation to breakeven. Both operations support refrigerated container leasing through our connections with grower associations.

Profits from the Corinth Canal were lower due to reduced cruise ship transits arising out of terrorist fears related to the Iraq War. We are awaiting planning permission for the major marina and tourist village development envisaged on our concession land at the canal.

Publishing and travel agency operations provide support to the group and to the degree they service outside clients at a profit they effectively reduce the costs of such support.

Please see the reports of the individual division chief executives which follow my message for more detailed operating and financial information.

### **Outlook**

The first quarter is our traditional weakest period and it will be no different in 2004. Container leasing is traditionally slow in the first quarter because of factory closings and Chinese New Year but we should see improvement coming through in the second and subsequent quarters for the reasons I have mentioned.

Silja should have an improved first quarter because of exceptionally harsh weather in the comparative first quarter of 2003. SeaStreak has suffered from ice conditions in New York harbor in the first quarter of 2004 but this should be offset by improved results from Hoverspeed through seasonal operation.

Compensation payments to GNER by Network Rail will be lower compared with 2003's first quarter but passenger revenues have significantly

*Opposite page: Newly built 26,000 liter tank containers awaiting delivery in China. GE SeaCo purchased more than 1,000 tanks in 2003 in response to increasing demand and expects to acquire 1,200 in 2004. Among several sizable long-lease deals concluded in 2003 was one with UENO Chemicals for the transport of food additives between Thailand and Japan.*



increased. Our pick-up of our share of Orient-Express Hotels' traditional first quarter losses will probably be slightly greater in this year's first quarter due to currency translation factors. These losses should reverse out in subsequent quarters.

We will not have the benefit of profits from the Isle of Man Steam Packet Company which was sold in 2003 but this loss should be more than offset by lower finance costs.

I am concerned about rising fuel costs. We understand that countries like Mexico are rapidly increasing production to compensate for OPEC output reductions but it is difficult to predict when oil markets will return to more normal price levels.

Orient-Express Hotels should enjoy improved results in 2004 barring any further setbacks due to terrorism. On balance, 2004 should be a satisfactory year.

#### **Management and Staff**

Sea Containers had a dedicated staff of 9,200 at the end of 2003 who are to be congratulated for achieving such excellent results.

Daniel J. O'Sullivan, our Senior Vice President – Finance and Chief Financial Officer for seven years out of 30 years service to the company will be retiring at the end of 2004 and replacement candidates are currently being interviewed.



*Left: Silja Finnjet will offer sailings from Rostock, Germany to St Petersburg via Tallinn in summer 2004. This reflects the growing popularity of the Russian city as a leisure destination and complements Silja's existing services offered by Silja Opera. Finnjet will begin the new bi-weekly sailings from June 17.*

Ian Hilton retired as a director at the time of the annual meeting of shareholders in 2003, after 29 years' service. He was for many years the managing partner of the Appleby Spurling & Kempe law firm in Bermuda (now Appleby Spurling Hunter) who are the company's lawyers. Our thanks go to him for his valuable advice over the period of his directorship.

Bermuda law no longer requires Bermuda-based directors but John Campbell has agreed to remain as a director and he lives in Bermuda. There is no need to replace Ian Hilton at present.

My own plan to divide the roles of Chief Executive and Chairman remains unchanged,

however, my target is now 2005 rather than 2004 because of various matters which currently require a great deal of my time and expertise.

Sincerely,

**James B. Sherwood**

*Founder, President and Chief Executive Officer*

## Analysis of division: Passenger and Freight Transport

*Hoverspeed*

---

*SeaStreak*

---

*Silja Line*

---

*Great North Eastern Railway*

---

*Hart, Fenton & Co*

---

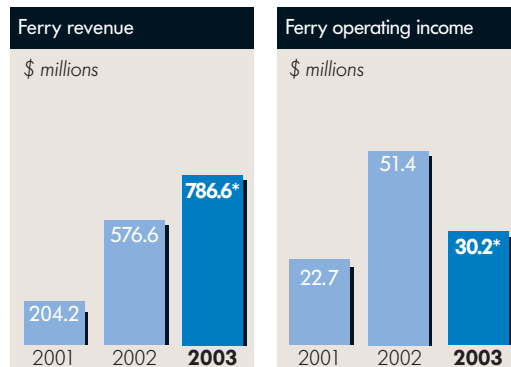
### Ferry Services – British Isles

Cross Channel operations under our Hoverspeed brand carried 1.53 million passengers in 2003 (2002 – 1.83 million) and 441,000 vehicles (2002 – 467,000). The Dover-Ostend route did not operate in 2003. Dover-Calais services were operated by an 81-meter and two 74-meter SeaCats. Newhaven-Dieppe services were operated by *SuperSeaCat One*.

Average passenger yields on Dover-Calais were 13% lower than 2002. Vehicle yield declined 3.5% reflecting competitive pressures as market leader Eurotunnel sought to increase market share by lowering prices. On the Newhaven-Dieppe route, passenger yields increased by 4.8% and vehicle yield by 4.5%. Total revenue for Hoverspeed was \$98.4 million (2002 – \$104.8 million).

The Dover-Calais route will become seasonal in 2004 in order to reduce winter losses. The service will be operated from March until the autumn by an 81-meter and a 74-meter SeaCat, with an additional 74-meter SeaCat added in July and August to enable hourly departures. *SuperSeaCat One* will again operate a seasonal service from Newhaven to Dieppe.

On the Irish Sea, the Isle of Man Steam



\* Excluding gain on sale of the Isle of Man Steam Packet Company and non-recurring charges



Packet Company Ltd. was sold in July 2003 to Montagu Private Equity for \$242 million together with the Liverpool/Dublin route. The Steam Packet Company kept its 74-meter SeaCat and took an eight year charter on *SuperSeaCat Two*.

The 81-meter *SeaCat Rapide* operated the Belfast-Troon route in 2003 and carried 368,000 passengers and 88,000 cars (2002 – 331,000 passengers and 76,000 cars). Total revenue for this route was \$15.7 million (2002 – \$13.6 million). In order to reduce winter losses the service will also become seasonal in 2004.

### Ferry Services – USA

Traffic growth continued at SeaStreak commuter ferry services between Monmouth and Middlesex Counties, New Jersey and Manhattan. 802,000



passengers were carried (2002 – 782,000 passengers).

Two further high-speed passenger craft have joined the fleet making six in total. A floating passenger terminal will be installed at Highlands in the spring of 2004. Revenue totalled \$12.3 million (2002 – \$10.8 million).

### Silja Line

The total market for passenger ferry services between Finland and Sweden, and Finland and Estonia amounted to 16.2 million passengers (2002 – 16.3 million), a decrease of 1%.

Silja Line operates the routes Helsinki-Stockholm and Turku-Stockholm/Kapellskär via Åland, and Helsinki-Tallinn and, in summer, Helsinki-Rostock via Tallinn. *Silja Opera* makes cruises on the Baltic Sea from Helsinki, the main destinations

being St Petersburg, Visby, Riga and Tallinn.

Silja Line carried a total of 5.4 million passengers (2002 – 5.0 million) during the year. The increase is mainly attributable to the introduction of *SuperSeaCat Three*, which started service in May between Helsinki and Tallinn.

The volumes of cargo carried by Silja Line, including its SeaWind Line subsidiary, decreased by 3% compared to the 2002 level on the routes between Finland and Sweden, but increased by 131% on the Tallinn route. Silja Line carried a total of 129,000 units (2002 – 111,000).

The company had a 35% market share (2002 – 37%) in the cargo service between Finland and Sweden, and a 25% share (2002 – 11%) between Finland and Estonia.

Of Silja Line's total cargo volume, some 40% was carried by SeaWind Line's three

*Above: SuperSeaCat Three joined sister craft SuperSeaCat Four on Silja's Helsinki-Tallinn service in April 2003. Together, they offer up to seven return sailings a day in peak season, including early morning services. Silja is the market leader on this route with more than 38% of total fast ferry traffic. Estonia will join the European Union in May, 2004, which is expected to result in an increase in passenger volumes.*



Left: Following a landmark decision in the London High Court, Hoverspeed is pursuing a claim against HM Customs and Excise for substantial damages following illegal harassment of Hoverspeed passengers returning to Britain with duty-paid merchandise for personal use.

Below: Cars waiting to embark at the Hoverport in Dover, England. All ferry operators on the English Channel have been forced to review their staff and service levels, faced with stiff competition from low-cost airlines and Eurotunnel. Hoverspeed has rationalized along seasonal lines with Dover-Calais services now running late-March to autumn and Newhaven-Dieppe running April-October. Hoverspeed now also manages the Belfast-Troon ferry service on a similar seasonal basis, resulting in lower operating costs.

combined car/train ferries and the rest on the car decks of the passenger ferries. The Turku-Stockholm line was served all year by the roll-on roll-off ships *Sea Wind* and *Sky Wind*. The *Star Wind* served the Helsinki-Tallinn route all year.

At year-end 2003, Silja had a total of 12 ships. These are five passenger-car ferries, *Silja Serenade*, *Silja Symphony*, *Silja Europa*, *Silja Festival* and *Finnjet*. SeaWind Line operated three ro-ro ships with railway capacity: *Sea Wind*, *Sky Wind* and *Star Wind*. *SuperSeaCat Four* was employed in Silja Line's service and *SuperSeaCat Three* joined her in May 2003. It is anticipated the day-trip market on this route will grow when Estonia joins the E.U. in May 2004. The *Silja Opera* was employed in cruise service in the Baltic.

At the turn of the year, Silja also owned one cruise ship, the *Walrus*, which is chartered out until December 2004 for cruises in Hong Kong waters. Six ships fly the Swedish flag and three the Finnish flag. *SuperSeaCats Three* and

*Four* fly the Italian flag. The chartered out cruise ship, *Walrus*, is registered in Panama.

## GNER

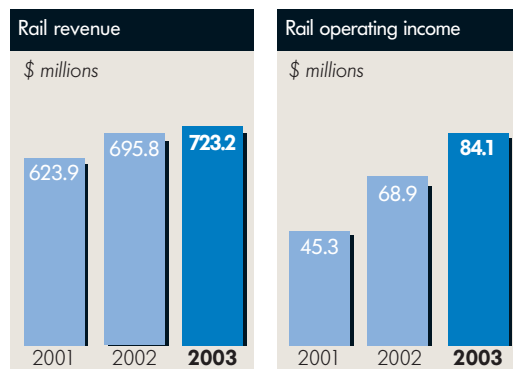
2003 was a year of major recovery for GNER in terms of passenger revenue, profitability and performance. After the decline in passenger revenue and general disruption to the service following the Hatfield accident late in 2000, 2003 saw train reliability and performance increasing, partially as a result of the major improvement GNER has made to its own rolling stock. In that period, the reliability of GNER's electric locomotives has risen from 9,000 miles per failure prior to the rebuild to just under 20,000 miles. GNER has also seen improved performance in its diesel train fleet along with improvements by Network Rail.

The combination of improving train performance, reliability, very focused marketing communication and an uplift in the economy led to passenger revenues being at an all-time record for GNER, with 15.1 million passengers being carried,



a growth of 18% since the start of the franchise.

Passenger revenue in the early part of the year showed low growth rates but then increased from the summer onwards. In November and December the company was enjoying revenue growth of more than 10% on the preceding year with revenue for the year totalling \$723.2 million. GNER's growth has outstripped that of other intercity train operators in the U.K. and has also seen recovery of market share against airlines out of Leeds and Newcastle. From Edinburgh, while seeing smaller passenger growth, GNER has



stabilized the competitive position against the airlines.

Following the award of the two year franchise extension to 2005, projects were being put in place in 2003 to bring on stream the investment that formed part of this arrangement.

The first of the rebuilt electric train sets known as "Mallard" was introduced into service in October. GNER was honored that the inauguration ceremony was undertaken by Her Majesty the Queen, who spent 45 minutes at King's Cross talking to staff from all over the route. Her Majesty had previously unveiled these trains when they first came into service in 1990.

Just before Christmas, GNER's diesel trains were lengthened by one coach, which had the

*Above: Sister ships Silja Symphony and Silja Serenade offer passengers a range of shops and restaurants on the journey between Helsinki and Stockholm. In 2003, Silja's retail sales were €189.1 million, a 6.6% increase over 2002, accounting for 62% of Silja's total revenue. Silja benefits from continuing duty-free sales on all its Finland-Sweden services traveling via the Åland Islands, and on St Petersburg cruises.*





effect of increasing capacity by the equivalent of an extra train set. Also, GNER expanded its car parks at Grantham and Newark, two major locations for commuter traffic into London.

During the year, in conjunction with Laing Rail, a subsidiary of Laing Plc, GNER formed a joint venture company, London and Western, to bid for the Greater Western franchise to be awarded in April 2006. Laing Rail, which has the Chiltern Railways franchise, operates the best short-distance commuter railway in the U.K., and therefore makes an ideal partner for GNER, which continues to operate the best long-distance rail company, based on passenger satisfaction scores. The announcement of this joint bidding vehicle was well received in the press as an example of real quality being brought into the bidding process.

In the meantime, GNER has been shortlisted for the bidding for the Integrated Kent franchise and final bids are required by August, 2004 with the prospective franchisee taking over in the spring of 2005. At the same time, work continues on pre-qualification for the next Intercity East Coast franchise – GNER's current business. Preliminary bids were placed in March, 2004 and the shortlisted bidders will be announced in April/May. This process may, however, be delayed as a result of the U.K. Government undertaking an investigation into the structure of the rail industry.

*Opposite page: New York fast ferry operator SeaStreak took delivery of two new charter vessels, SeaStreak Wall Street in autumn 2003 and SeaStreak Highlands in spring 2004, bringing the number of such craft in the fleet to four. Services on SeaStreak's routes between Highlands/Atlantic Highlands and Manhattan are now exclusively operated by this craft type, offering customers increased consistency, comfort and speed of service. SeaStreak has also installed a new floating terminal at Highlands, with extensive facilities for embarking passengers.*

David G. Benson

Senior Vice President, Passenger and Freight Transport

## Analysis of division: Containers

GE SeaCo

Container manufacturing

Container depots

### Container Leasing

Last year I predicted that the outlook for the container industry looked promising for 2003 and this has proved correct. We saw a strong market develop in 2002 and this continued through 2003. I am delighted to report a turnaround in the performance of our container division with increased profits being reported for the first time in a number of years.

With strong demand being experienced across all major equipment types, GE SeaCo invested a record \$204 million in new equipment. We believe this was the highest among our marine container leasing competitors.

World container trade is reported to have grown by over 10% in 2003. This has been supported by the continuing large-scale shift of manufacturing capacity to China and improving world economies.

Nineteen of the top 20 busiest container ports in the world reported growth in 2003 against the previous year. At the same time, the number of containers handled by mainland Chinese ports rose by an extraordinary 35%.

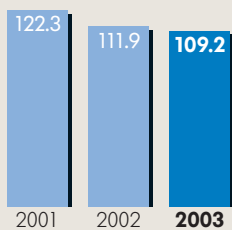
As a result, throughout 2003 GE SeaCo has seen continued improvement in utilization of the operating fleet of standard dry freight containers, achieving just short of 90% by the end of December, a record in recent times.

Prices of new dry freight containers from Chinese factories increased by approximately 10% through the first three quarters of the year before dropping back a little in the fourth quarter. These higher prices, allied with continued strong demand from the shipping lines, have allowed GE SeaCo to increase per diem rental rates on new equipment going out on hire.

GE SeaCo's refrigerated container leasing business has also had an excellent year, experiencing very strong demand which pushed

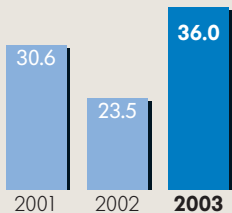
#### Divisional revenue

\$ millions



#### Divisional operating income

\$ millions





Left: Charleston Marine Containers builds innovative transport and storage solutions for the U.S. military. Among the company's latest products is the LSA™ Adaptor, a device that enables containers to be more efficiently loaded and locked down on to aircraft. This picture shows a Charleston Marine Containers-built Quadcon being loaded using LSA™ Adaptors onto a C-17 transport aircraft at RAF Brize Norton, Oxfordshire, England.



utilization of the operating fleet of 40ft hi-cube refrigerated containers up to 89%. GE SeaCo purchased and leased out over \$100 million of 40ft hi-cubes in 2003, all equipped with Carrier refrigeration units, and has entered 2004 with a very encouraging order book.

Tank container leasing started recovering through 2002 and continued improving through 2003 alongside the dry freight container market. The tank container operating fleet utilization has increased by 13 percentage points over the two years, reaching an excellent 88% in December 2003. GE SeaCo ordered 1,000 new tank containers from Consani in South Africa for

delivery through 2003 and were able to fix a very advantageous price at a point when the rand was at its weakest and the price of stainless steel was also low.

#### **Factories and Depots**

Sea Containers' fully owned factory, depot and service operations enjoyed greatly improved results in 2003.

Charleston Marine Containers products have performed very well in the Iraq War as the U.S. forces continue in the containerization of supplies and hardware. Demand for Tricons dramatically increased in the last third of the year as U.S. Army



infantry divisions, selected as part of the second wave of forces to go to Iraq, ordered substantial numbers of Tricons for their upcoming deployment.

Yorkshire Marine Containers Ltd., with two factories in Yorkshire, England, has had a very busy year that started with a rushed order for 600 20ft side door containers. This was followed by a substantial order for swapbodies from GE SeaCo, which have subsequently gone on lease to the German transport subsidiary of the world's largest mail-order company, Otto Versand.

Paulista Containers Maritimos in Santos, Brazil also had a good year, with a large manufacturing

order for offshore containers for the oil industry, a very successful first full year for its tank cleaning operation and increased depot revenue.

Sea Containers has reached an agreement in principle to acquire seven container businesses in Australia and New Zealand from the Owens Group and to sell its interest in the Westfield Container Depot in Auckland, New Zealand for a net amount of NZ\$11.5 million (U.S.\$8 million). This investment is being made at an EBITDA multiple of 3.5 and will greatly strengthen the company's participation in the refrigerated and tank container service and transport businesses in Australasia.

*Above: The tank-cleaning station at Paulista Marine Containers in Santos, Brazil. This facility was opened in 2002.*



12215

GESU 706612 8

U G1 8

L-PT 6

ope

WARNING

Thomson

47C



Left: An airfield fire-fighting vehicle being shipped from the U.S. to South America on a SeaDeck. This flatrack is ideal for overlength cargoes as its end walls can be lowered flush with the deck. GE SeaCo has seen an increase in demand for flatracks in recent months to enable U.S. military equipment and project cargo to be moved from North America and Europe to the Middle East.

### Other Activities

Sea Containers exited container ship owning with the sale of its last remaining container ship, the *Puerto Cortes*.

### Outlook for 2004

China has a voracious appetite for raw materials to support the substantial investment in infrastructure and consumer demand resulting from its booming export-led economy. This has resulted in a shortage of steel and higher steel prices in 2004, causing uncertainty of supply of new containers. We are seeing new container prices leap by 40% since late 2003 and are now over \$2,000 for a 20ft standard dry-freight container for delivery in Q2 2004. With global container trade growth expected to continue and the growth rates seen over the last two years, there is an increasing realization by the shipping lines that there will be a shortage of available containers.

GE SeaCo is seeing substantial increases in per diem rental rates for our limited stocks of new

equipment and increasing demand for our existing fleet of containers. The outlook for 2004 is for even higher utilization of our operating fleet of standard dry freight containers, and increasing per diem rental rates. The shortage of new equipment will mean that GE SeaCo's investment in new equipment is likely be restricted to around \$160 million in 2004.

Charleston Marine Containers and Yorkshire Marine Containers both entered 2004 with encouraging future order books, although there is some concern about steel supply in the latter half of the year.

Angus R. Frew  
Vice President, Containers  
and President, GE SeaCo SRL

Opposite: A 7.45 meter swapbody being finished at a Yorkshire Marine Containers' factory in the U.K. It is one of almost 2,500 units currently leased by GE SeaCo to Hermes, the transportation subsidiary of Otto Versand, the world's largest mail-order company.

## Analysis of division:

# Finance

### Corporate finance

---

### Information services

---

### Insurance

---

### Pensions

---

The 2003 results showed a significant improvement over 2002 with EBITDA of \$319.4 million for 2003 compared with \$247.3 million for 2002 – an improvement of \$72.1 million. The EBITDA for 2002 includes the net earnings on our investment in Orient-Express Hotels Ltd. (OEH) of \$14.7 million, so it is on a comparable basis to the 2003 figure which includes OEH net earnings of \$10.9 million. OEH was consolidated for the first nine months of 2002 and for 2001, as the company only reduced its ownership below 50% in the fourth quarter of 2002. Sea Containers owned 14.4 million of the common shares in OEH, or 42%, at December 31, 2003. The 2003 EBITDA included a profit of \$100m on the sale of the Isle of Man Steam Packet Company and non-recurring charges of \$46 million, so the EBITDA excluding these items was \$265.4 million.

Sea Containers' cash flow from operations amounted to \$98.4 million which, together with the proceeds from the sale of assets of \$228.6 million and funds from the issuance of shares and long-term debt of \$77.4 million, gave total cash flow of \$404.4 million; \$37.6 million was invested in capital additions, \$369.7 million was repaid on long-term debt and \$2.1 million paid in dividends on common and preferred shares, leaving a deficit after adjustment for foreign exchange and other items for the year of \$4.7 million. In addition to the cash on the balance sheet at December 31, 2003 of \$213.3 million, there were undrawn bank facilities of \$130 million, giving cash availability of \$343.3 million.

The company sold the Isle of Man Steam Packet Company for \$242 million to produce a gain on sale of \$100 million. Non-recurring charges of \$46 million were recognized in the year, of which \$15 million related to an impairment charge on certain ship assets, \$10 million to severance charges on some of the company's ferry routes, \$5 million to the company's exchange



offers and \$16 million to the write down of certain container assets identified for sale.

The company repaid \$136.3 million of the \$158.8 million of public senior notes which became due on July 1, 2003, and holders of \$22.5 million converted their debt into 13% senior notes due July 1, 2006. \$19.2 million of 12½% senior notes due on December 1, 2009 were issued on July 23, 2003 in exchange for an equal principal amount of 12½% senior subordinated debentures due in 2004, leaving the balance of \$79.7 million of these debentures due on December 1, 2004.

The company intends issuing \$150 million of new senior notes to repay the remaining 12½% debentures, which are currently redeemable at par, with the balance being used to repay other debt or for general corporate purposes.

The company has a revolving credit facility with a group of banks secured by containers of which \$129 million was drawn at December 31, 2003 and which matures on October 25, 2004. The company intends refinancing \$100 million of this facility under a new revolving credit facility and currently has a draft term sheet from the bank leading the current loan for this amount.



Our 50% owned container company, GE SeaCo, purchased \$204 million of new containers in 2003 and raised \$172 million of new container finance. A Wachovia Bank securitization facility was renewed and increased from \$100 million to \$150 million in November 2003. It is planned to issue a new 10-year securitized facility through Wachovia in the sum of \$250 million in 2004. GE SeaCo has containers with a book value of \$697 million at December 31, 2003 and debt of \$510 million which is not guaranteed by the parent companies.

Under the terms of the company's loan facilities, the most restrictive covenants are the leverage and interest coverage tests. At December 31, 2003 it had substantial room under both these covenants. It is anticipated that planned capital expenditure of about \$40 million in 2004 will be covered by a combination of new debt, cash flow from operations and existing liquidity. At December 31, 2003 the company had total debt of almost \$1.6 billion of which \$385 million related to fixed-rate debentures, leaving \$1.2 billion of bank debt of which \$700 million was in euros, with the balance primarily in U.S. dollars. The bank debt included about \$200 million at

fixed interest rates with the balance at floating interest rates.

The company was in compliance with the covenants in its major bank agreements and bond indentures at December 31, 2003 and believes it will continue to be in 2004.

The company's tax charge in 2003 largely related to our ferry and rail operations, which are mainly taxable in the U.K. and Finland – both high-tax jurisdictions. Available tax shelter, which has kept taxes to a minimum, is diminishing so that the tax charge is likely to increase in future years.

Our Information Services department continues to upgrade our container computer systems to keep them at the forefront of the container leasing industry.

A handwritten signature in blue ink that reads "D J O'Sullivan".

Daniel J. O'Sullivan

Senior Vice President, Finance and Chief Financial Officer

*Above: A GNER electric 225 train on the Borders Bridge at Berwick-on-Tweed, England. GNER has been named the U.K.'s best long-distance train operator for the eighth time running in a six-monthly passenger survey conducted by the Strategic Rail Authority. In the most recent poll, 81% of GNER passengers said they were either satisfied (45%) or very satisfied (36%) with their GNER journey.*

*This report contains, in addition to historical information, forward-looking statements that involve risks and uncertainties. These include statements regarding earnings growth, investment plans and similar matters that are not historical facts. These statements are based on management's current expectations and are subject to a number of uncertainties and risks that could cause actual results to differ materially from those described in the forward-looking statements. Factors that may cause a difference include, but are not limited to, those mentioned in the report, unknown effects on the transport, leasing and leisure markets in which the company operates of terrorist activity and any police or military response, varying customer demand and competitive considerations, inability to sustain price increases or to reduce costs, fluctuations in interest rates, currency values and public securities prices, uncertainty of completing the proposed issue and sale of new senior notes and of the timing and manner of the offering (through underwriters or otherwise) as well as the final terms of the notes such as maturity and interest rate, variable fuel prices, variable container prices and*

*container lease and utilization rates, uncertainty of negotiating, financing and completing proposed acquisition, sale or capital expenditure transactions, inadequate sources of capital and unacceptability of finance terms and inability to reduce debt, global, regional and industry economic conditions, shifting patterns and levels of world trade and regional passenger travel, seasonality and adverse weather conditions, realization of bookings and reservations as actual revenue, changes in ferry service and ship deployment plans and the success of new ferry services, inability of Network Rail to maintain properly the U.K. rail infrastructure, uncertainty of reaching a settlement agreement with the U.K. Strategic Rail Authority and the possibility of arbitration of the dispute at significant cost to the company if no settlement is reached, and legislative, regulatory and political developments including the uncertainty of renewing the GNER rail franchise beyond April 2005 or obtaining other U.K. rail franchises. Further information regarding these and other factors is included in the filings by the company and Orient-Express Hotels Ltd. with the U.S. Securities and Exchange Commission.*

# Financial Review

## Contents

Report of independent auditors	30
Consolidated balance sheets	31
Statements of consolidated operations	32
Statements of consolidated cash flows	33
Statements of consolidated shareholders' equity	34
Notes to consolidated financial statements	35
Five year performance	56
Price range of common shares and dividends	57
Summary of quarterly earnings	58
Shareholder and investor information	60

## Report of Independent Auditors

March 12, 2004

Board of Directors and Shareholders  
Sea Containers Ltd.  
Hamilton, Bermuda

We have audited the accompanying consolidated balance sheets of Sea Containers Ltd. and subsidiaries (the "Company") as of December 31, 2003 and 2002, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2003. The consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Sea Containers Ltd. and subsidiaries as of December 31, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2003 in conformity with accounting principles generally accepted in the United States of America.

As disclosed in Note 1 to the consolidated financial statements, effective January 1, 2002, the Company adopted the provisions of Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets".



Deloitte & Touche LLP  
Two World Financial Center  
New York, New York 10281-1414  
Tel: (212) 436-2000 Fax: (212) 436-5000  
www.deloitte.com

## Consolidated Balance Sheets

December 31,	2003 \$000	2002 \$000
<b>Assets</b>		
Cash and cash equivalents	213,313	218,022
Accounts receivable, net of allowances of \$9,790 and \$9,365	151,521	134,036
Prepaid expenses and other	55,498	53,860
Asset sale receivables	40,284	35,844
Advances on asset purchase contracts	6,539	5,242
Containers at cost, less accumulated depreciation of \$493,544 and \$512,724	470,287	551,712
Ships at cost, less accumulated depreciation of \$135,567 and \$140,897	1,165,436	1,105,143
Assets under capital leases, less accumulated depreciation of \$19,169 and \$14,748	12,494	15,574
Real estate and other fixed assets at cost, less accumulated depreciation of \$100,787 and \$92,619	140,698	179,377
Inventories	45,991	46,061
Investments	356,024	323,541
Goodwill	12,054	31,867
Other intangible assets, net	52,711	55,620
Other assets	39,067	40,935
	<b>2,761,917</b>	<b>2,796,834</b>
<b>Liabilities and Shareholders' Equity</b>		
Working capital facilities	2,235	1,651
Accounts payable	125,799	143,454
Accrued liabilities	299,862	268,063
Manufacturer accounts payable, notes payable, bank loans and other purchase obligations in respect of containers	353,910	407,358
Mortgage loans in respect of ships	698,323	579,849
Obligations under capital leases	8,260	11,763
Bank loans in respect of real estate and other fixed assets	143,756	264,036
Senior notes	305,806	422,783
Senior subordinated debentures	79,571	98,485
Deferred revenue	10,799	11,025
	<b>2,028,321</b>	<b>2,208,467</b>
Minority interest	1,783	1,535
Shareholders' equity:		
Preferred shares \$.01 par value (15,000,000 shares authorized):		
Issued - 150,000 \$7.25 convertible cumulative preferred shares (liquidation value of \$100 per share)	15,000	15,000
Class A common shares \$.01 par value (60,000,000 shares authorized):		
Issued - 20,932,548 shares (2002 - 19,500,115)	209	195
Class B common shares \$.01 par value (60,000,000 shares authorized):		
Issued - 14,413,595 shares (2002 - 14,419,614)	144	144
Paid-in capital	415,107	389,693
Retained earnings	871,691	761,364
Accumulated other comprehensive loss	(179,077)	(188,303)
Less: reduction due to Class B common shares acquired with voting rights by a subsidiary - 12,900,000 shares at cost	(391,261)	(391,261)
Total shareholders' equity	731,813	586,832
Commitments and contingencies	-	-
	<b>2,761,917</b>	<b>2,796,834</b>

See notes to consolidated financial statements.

## Statements of Consolidated Operations

Year ended December 31,	2003 \$000	2002 \$000	2001 \$000
Revenue	1,644,709	1,614,860	1,215,759
Other	39,989	22,365	54,054
	<b>1,684,698</b>	<b>1,637,225</b>	<b>1,269,813</b>
Expenses:			
Depreciation and amortization	113,471	113,710	109,742
Operating	1,199,513	1,118,005	847,984
Selling, general and administrative	219,739	231,006	173,550
Total expenses	<b>1,532,723</b>	<b>1,462,721</b>	<b>1,131,276</b>
Gain on sale of ferry assets and non-recurring charges	54,000	-	-
Earnings from operations before net finance costs	<b>205,975</b>	174,504	138,537
Interest expense, net of capitalized interest	(95,319)	(124,993)	(123,814)
Interest and related income	10,026	10,323	7,933
Net finance costs	<b>(85,293)</b>	<b>(114,670)</b>	<b>(115,881)</b>
Earnings before minority interest and income taxes	<b>120,682</b>	59,834	22,656
Minority interest	-	(10,958)	(11,052)
Earnings before income taxes	<b>120,682</b>	48,876	11,604
Provision for income taxes	8,224	5,860	5,970
Net earnings	<b>112,458</b>	43,016	5,634
Preferred share dividends	1,088	1,088	1,088
Net earnings on Class A and Class B common shares	<b>111,370</b>	41,928	4,546
	\$	\$	\$
Earnings per Class A and Class B common share:			
Basic	5.28	2.08	0.24
Diluted	5.20	2.07	0.24
Dividends per Class A common share	0.05	0.225	0.30
Dividends per Class B common share	0.045	0.204	0.272

See notes to consolidated financial statements.

## Statements of Consolidated Cash Flows

Year ended December 31,	2003 \$000	2002 \$000	2001 \$000
Cash flows from operating activities:			
Net earnings on Class A and Class B common shares	111,370	41,928	4,546
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Preferred share dividends	1,088	1,088	1,088
Depreciation and amortization	113,471	113,710	109,742
(Gain)/loss on sale of assets	(101,391)	139	(23,146)
Undistributed (earnings)/losses of affiliates and other non-cash items	(30,197)	(7,550)	(27,409)
Non-recurring charges relating to asset writedowns	31,000	-	-
Change in assets and liabilities net of effects from acquisition of subsidiaries:			
Decrease in receivables	3,171	35,292	11,944
(Increase)/decrease in inventories	(5,910)	487	(380)
(Decrease)/increase in accounts payable, accrued liabilities and other liabilities	(24,178)	8,638	28,915
Total adjustments	(12,946)	151,804	100,754
Net cash provided by operating activities	98,424	193,732	105,300
Cash flows from investing activities:			
Capital expenditures	(37,625)	(123,718)	(90,612)
Acquisitions and investments, net of cash acquired	-	(85,503)	(40,799)
Net proceeds on sale of ferry and other fixed assets	228,562	8,834	76,249
Net cash provided by/(used in) investing activities	190,937	(200,387)	(55,162)
Cash flows from financing activities:			
Issuance of common shares	24,655	127	47
Issuance of long-term debt	52,701	202,201	162,916
Sale of OEH shares by SCL	-	68,650	1,518
Cash reduction from deconsolidation of OEH	-	(56,355)	-
Principal payments under long-term debt	(123,670)	(163,345)	(139,893)
Payment of loans upon disposal of ferry and other fixed assets	(109,698)	-	-
Purchase and retirement of notes and debentures	(136,323)	(9,700)	(9,059)
Payment of preferred share dividends	(1,088)	(1,088)	(1,088)
Payment of common share dividends	(1,043)	(4,326)	(5,504)
Purchase and retirement of OEH shares	-	-	(1,407)
Working capital facilities and redrawable loans (repaid)/drawn	(18,542)	(41,824)	34,092
Net cash (used in)/provided by financing activities	(313,008)	(5,660)	41,622
Effect of exchange rate changes on cash and cash equivalents	18,938	13,401	(2,657)
Net (decrease)/increase in cash and cash equivalents	(4,709)	1,086	89,103
Cash and cash equivalents at beginning of year	218,022	216,936	127,833
Cash and cash equivalents at end of year	213,313	218,022	216,936

See notes to consolidated financial statements.

## Statements of Consolidated Shareholders' Equity

	Redeemable Preferred Shares at Liquidation Value \$000	Class A Common Shares at Par Value \$000	Class B Common Shares at Par Value \$000	Paid-in Capital \$000	Retained Earnings \$000	Accumulated Other Comprehensive Loss \$000	Common Shares Held by a Subsidiary \$000	Total Comprehensive Income (Loss) \$000
<b>Balance, January 1, 2001</b>	15,000	168	146	351,590	724,720	(175,806)	(391,261)	
Issuance of Class A common shares under dividend reinvestment plan	-	-	-	47	-	-	-	
Conversion of Class B common shares	-	1	(1)	-	-	-	-	
Dividends on common and preferred shares	-	-	-	-	(6,592)	-	-	
Comprehensive income:								
Net earnings	-	-	-	-	5,634	-	-	5,634
Other comprehensive income/(loss) for the year	-	-	-	-	-	(23,215)	-	(23,215)
Cumulative effect of change in accounting principle	-	-	-	-	-	(7,526)	-	(7,526)
								(25,107)
<b>Balance, December 31, 2001</b>	15,000	169	145	351,637	723,762	(206,547)	(391,261)	
Issuance of Class A common shares under dividend reinvestment plan	-	-	-	79	-	-	-	
Issuance of common shares under employee stock option plan	-	-	-	48	-	-	-	
Issuance of Class A common shares to acquire a subsidiary	-	25	-	37,929	-	-	-	
Conversion of Class B common shares	-	1	(1)	-	-	-	-	
Dividends on common and preferred shares	-	-	-	-	(5,414)	-	-	
Comprehensive income:								
Net earnings	-	-	-	-	43,016	-	-	43,016
Other comprehensive income/(loss) for the year	-	-	-	-	-	18,244	-	18,244
								61,260
<b>Balance, December 31, 2002</b>	15,000	195	144	389,693	761,364	(188,303)	(391,261)	
Issuance of Class A common shares under dividend reinvestment plan	-	-	-	18	-	-	-	
Issuance of common shares under employee stock option plan	-	-	-	9	-	-	-	
Issuance of Class A common shares in public offering, net of issuance costs	-	14	-	24,614	-	-	-	
Dividends on common and preferred shares	-	-	-	-	(2,131)	-	-	
Gain on sale of OEH common shares by OEH, net of costs	-	-	-	773	-	-	-	
Comprehensive income:								
Net earnings	-	-	-	-	112,458	-	-	112,458
Other comprehensive income/(loss) for the year	-	-	-	-	-	9,226	-	9,226
								121,684
<b>Balance, December 31, 2003</b>	15,000	209	144	415,107	871,691	(179,077)	(391,261)	

See notes to consolidated financial statements.

## Notes to Consolidated Financial Statements

### 1. Summary of significant accounting policies

#### (a) Principles of consolidation

The consolidated financial statements include the accounts of Sea Containers Ltd. and all majority-owned subsidiaries. All significant intercompany balances and transactions have been eliminated. Unconsolidated companies that are 20% to 50% owned are accounted for on an equity basis.

For purposes of these Notes, the "Company" refers to Sea Containers Ltd., and "SCL" refers to Sea Containers Ltd. and its subsidiaries. "OEH" refers to Orient-Express Hotels Ltd., an equity investment of the Company engaged in the hotel and leisure business (see Notes 2 and 4). "GE SeaCo" refers to GE SeaCo SRL, a container leasing joint venture company between the Company and General Electric Capital Corporation accounted for under the equity method (see Note 4(b)). "GNER" refers to Great North Eastern Railway Ltd., a wholly-owned subsidiary of the Company and operator of SCL's passenger rail franchise in Great Britain. "Silja" refers to Silja Oyj Abp, a wholly-owned subsidiary of the Company based in Finland engaged in ferry operations in the northern Baltic Sea (see Note 4(a)).

Certain items in 2002 and 2001 have been reclassified to conform with the current year's presentation.

"FASB" means Financial Accounting Standards Board and "APB" means Accounting Principles Board, the FASB's predecessor. "SFAS" means Statement of Financial Accounting Standards of the FASB. "FIN" means an accounting interpretation of the FASB.

#### (b) Cash and cash equivalents

Cash and cash equivalents include all cash balances and highly liquid investments having original maturities of three months or less.

Included in cash and cash equivalents is approximately \$46,700,000 (2002 - \$28,300,000) held by GNER under a liquidity maintenance requirement imposed by the U.K. Strategic Rail Authority and there are restricted deposits in other subsidiaries of approximately \$8,000,000 (2002 - \$15,000,000).

#### (c) Containers, ships, real estate and other fixed assets

Containers and ships are recorded at cost and, after allowance for salvage value, are depreciated over their estimated useful lives by the straight-line method. The estimated useful life and salvage value for containers are generally 20 years and 20%, respectively, and for ships generally 30 to 35 years and 15% to 5%, respectively. In 2002, the estimated useful lives of certain vessels for depreciation purposes were extended from 20 to 30 years. The impact of this change in estimate resulted in an increase in net earnings of \$5,800,000 for the year ended December 31, 2002.

Real estate, train and other fixed assets are recorded at cost and are depreciated over their estimated useful lives by the straight-line method. The depreciation rates on freehold buildings and train assets range from 25 to 50 years and on machinery and other remaining assets from 5 to 25 years. Leasehold improvements are depreciated over the shorter of the estimated useful life or the respective lease term.

#### (d) Foreign currency translation

The functional currency for each of the Company's foreign subsidiaries is the applicable local currency. Foreign subsidiary income and expenses are translated into U.S. dollars, SCL's reporting currency, at the average rates of exchange prevailing during the year. The assets and liabilities are translated into U.S. dollars at the rates of exchange on the balance sheet date and the related translation adjustments are included in accumulated other comprehensive income/(loss). No income taxes are provided on the translation adjustments as management does not expect that such gains or losses will be realized. Foreign currency transaction gains and losses are recognized in operations as they occur.

#### (e) Intangible assets and goodwill

In accordance with the adoption of SFAS No. 142, "Goodwill and Other Intangible Assets", as of January 1, 2002, goodwill and indefinite-lived assets must be evaluated annually to determine impairment. Those intangible assets that will continue to be classified as goodwill and other intangibles with indefinite lives are no longer amortized. Intangible assets with finite lives will continue to be amortized using the straight-line method over their estimated useful lives. For the year ended December 31, 2001, intangible assets and goodwill were amortized using the straight-line method over the estimated useful lives of the related assets, over 40 years for trademarks and licenses and primarily 40 years for goodwill. See Note 8.

#### (f) Revenue recognition

Container assets are revenue-earning under operating leases and, accordingly, the financial statements reflect such operating lease rentals as revenue. With respect to sales-type leases, a gain or loss is calculated in accordance with SFAS No. 13, "Accounting for Leases" and is included in revenue. Ferry and rail revenues are recognized upon completion of the train or ferry journey. Hotel revenue is recognized when a service is performed. Deferred revenue consisting of deposits paid in advance are recognized as revenue when the services are performed and upon completion of the train or ferry journeys. Deferred revenue amounted to \$10,799,000 at December 31, 2003 (2002 - \$11,025,000). Revenues under management contracts are recognized based upon the attainment of certain financial results, primarily revenue and operating earnings, in each contract as defined.

#### (g) Other

Other in the statements of consolidated operations comprises gains/(losses) on asset sales and earnings from unconsolidated companies.

Gains/(losses) on asset sales were \$6,390,000 in 2003 (2002 - \$1,530,000, 2001 - \$20,787,000). During 2003, \$5,000,000 of the gains related to the sale of land at the port of Newhaven and \$1,390,000 to container disposals. During 2002, gains of \$2,883,000 related to the sale by the Company of OEH shares and losses of \$4,434,000 related to container disposals.

Earnings from unconsolidated companies include SCL's share of the net earnings of its equity investments as well as interest income related to loans and advances to the equity investees. See Note 4(b).

#### (h) Government subsidy

In 2001, operating expenses included \$7,000,000 which was

## Notes to Consolidated Financial Statements (continued)

received from the British government in respect of an expense subsidy for GNER. Under the GNER franchise agreement, 2001 was the last year any expense subsidy was due and, accordingly, no amount has been included in 2002 or 2003.

### (i) Inventories

Inventories include train, vessel and container-related items, food and beverages, and certain retail goods. Inventories are valued at the lower of cost or market value under the first-in, first-out method.

### (j) Earnings per share

Basic earnings per Class A and Class B common share for each year are computed by dividing net earnings on Class A and Class B common shares by the weighted average number of common shares outstanding (excluding voting shares owned by a subsidiary).

Diluted earnings per Class A and Class B common share for each year are computed by dividing net earnings by the sum of the weighted average number of common shares outstanding (excluding voting shares owned by a subsidiary), the weighted average number of shares reserved for conversion of outstanding convertible preferred shares (if dilutive) and the dilutive effect of stock options. Common shares to be issued, assuming conversion of convertible preferred shares, were not included in the 2002 and 2001 computations of diluted earnings per Class A and Class B common share because to do so would have been anti-dilutive. The number of common shares excluded from the calculation was 478,622 in each of the years ended December 31, 2002 and 2001. Diluted earnings per Class A and Class B common share were the same as basic for 2001 as the conversion of stock options did not affect the computation.

The number of shares used in computing basic and diluted earnings per share at year end was as follows:

December 31,	2003	2002	2001
	000	000	000
Basic	21,081	20,199	18,530
Effect of dilution	556	23	27
Diluted	21,637	20,222	18,557

### (k) Interest expense, net

SCL capitalizes interest during the construction of assets. Interest expense is net of capitalized interest of \$nil (2002 - \$1,168,000, 2001 - \$1,815,000).

### (l) Marketing costs

Marketing costs, including website research and planning costs, are expensed as incurred and are reported in selling, general and administrative expenses. Marketing costs include costs of advertising and other marketing activities. These costs were \$74,454,000 in 2003 (2002 - \$56,906,000, 2001 - \$46,796,000).

### (m) Interest and related income

Interest and related income in 2003 includes foreign exchange gains of \$8,099,000 (2002 - \$7,236,000, 2001 - \$3,454,000). In addition, interest and related income in 2002 included a gain of \$1,000,000 on

redemption of Silja convertible bonds, and in 2001 a gain of \$2,141,000 on retirement of senior notes and subordinated debentures. Also included is interest on receivables related to sales-type leases.

### (n) Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates include, among others, the allowance for doubtful accounts, inventories, depreciation and amortization, carrying value of ship assets and container assets, carrying value of intangible assets, employee benefits, taxes and contingencies. Actual results may differ from those estimates.

### (o) Income taxes

Deferred income taxes result from temporary differences between the financial reporting and tax bases of assets and liabilities. Deferred taxes are recorded at enacted statutory rates and are adjusted as enacted rates change. Classification of deferred tax assets and liabilities corresponds with the classification of the underlying assets and liabilities giving rise to the temporary differences or the period of expected reversal, as applicable. A valuation allowance is established, when necessary, to reduce deferred tax assets to the amount that is more likely than not to be realized based on available evidence.

### (p) Concentration of credit risk

Concentration of credit risk with respect to trade receivables is limited because of the large number of customers comprising SCL's customer base and their dispersion across different businesses and geographic areas. Also, management routinely assesses the financial strength of SCL's customers.

### (q) Stock-based compensation

SFAS No. 123, "Accounting for Stock-Based Compensation", as amended by SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure - An Amendment of FASB Statement No. 123", encourages, but does not require, companies to record compensation cost for stock-based employee compensation plans at fair value. The Company has chosen to continue to account for stock-based compensation using the intrinsic value method prescribed in APB Opinion No. 25, "Accounting for Stock Issued to Employees", as amended, and related interpretations. Accordingly, compensation cost for share options is measured as the excess, if any, of the quoted market price of the Company's shares at the date of the grant over the amount an employee must pay to acquire the shares. Compensation expense for stock appreciation rights is recorded annually based on the quoted market price of the Company's shares at the end of the period.

If compensation cost for the Company's stock option plans had been determined based on fair values as of the date of grant, SCL's net earnings and earnings per share would have been reported as follows:

Year ended December 31,	2003 \$000	2002 \$000	2001 \$000
Net earnings on common shares:			
As reported	111,370	41,928	4,546
Deduct: Total stock-based employee compensation expense determined under fair value based method, net of related tax	(323)	(368)	(315)
Pro forma	111,047	41,560	4,231
	\$	\$	\$
Basic and diluted earnings per share:			
As reported:			
Basic	5.28	2.08	0.24
Diluted	5.20	2.07	0.24
Pro forma:			
Basic	5.27	2.06	0.23
Diluted	5.18	2.06	0.23

The pro forma figures in the preceding table may not be representative of pro forma amounts in future years.

#### *(r) Impairment of long-lived assets*

In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", the Company reviews its long-lived assets and finite-lived intangible assets whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. An impairment would be recognized when expected future undiscounted operating cash flows are lower than the carrying value. In the event that an impairment occurs, the fair value of the related asset is estimated, and SCL records a charge to earnings calculated as the excess of the asset's carrying value over the estimated fair value.

In accordance with SFAS No. 142, indefinite-lived intangible assets and goodwill must be evaluated annually for impairment. The impairment testing under SFAS No. 142 is performed in two steps, first, the determination of impairment based upon the fair value of a reporting unit as compared with its carrying value and, second, if there is an impairment, the measurement of the amount of impairment loss by comparing the implied fair value of goodwill with the carrying amount of that goodwill. To determine fair value, SCL relies on valuation models utilizing discounted cash flows.

#### *(s) Derivative financial instruments*

Effective January 1, 2001, the Company adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended by SFAS No. 137, No. 138 and No. 149. SFAS No. 133 requires SCL to record all derivatives on the balance sheet at fair value. If the derivative is designated as a fair value hedge, the changes in the fair value of the derivative and of the hedged item attributable to the hedged risk are recognized in operating expense in the consolidated statement of operations. If the derivative is designated as a cash flow hedge, the effective portions of changes in the fair value of the derivative are recorded as a component of accumulated other comprehensive loss in shareholders' equity and

are recognized in interest expense in the statement of consolidated operations when the hedged item affects earnings. The ineffective portion of a hedging derivative's change in the fair value will be immediately recognized in either operating or interest expense as appropriate in the consolidated statement of operations. If the derivative is not designated as a hedge for accounting purposes, the change in its fair value is recorded in either operating or interest expense as appropriate in the consolidated statement of operations.

SCL management formally documents all relationships between hedging instruments and hedged items, as well as its risk management objectives and strategies for undertaking various hedge transactions. SCL links all hedges that are designated as fair value hedges to specific assets or liabilities on the balance sheet or to specific firm commitments. SCL links all hedges that are designated as cash flow hedges to forecasted transactions or to floating rate liabilities on the balance sheet. Management also assesses, both at the inception of the hedge and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. Should it be determined that a derivative is not highly effective as a hedge, SCL will discontinue hedge accounting prospectively.

The initial adoption of SFAS No. 133 resulted in an unrealized loss of \$7,526,000 in accumulated other comprehensive income/(loss) as of January 1, 2001. For the year ended December 31, 2003, the change in the fair market value of derivative instruments resulted in a credit to other comprehensive loss of \$54,000 (2002 - \$6,843,000). See Note 20.

#### *(t) Recent accounting pronouncements*

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement No. 133 on Derivative Instruments and Hedging Activities", which amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133. SCL adopted SFAS No. 149 on July 1, 2003, and adoption had no effect on SCL's financial statements.

## Notes to Consolidated Financial Statements (continued)

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments With Characteristics of Both Liabilities and Equity", which establishes standards for how an issuer classifies and measures financial instruments with characteristics of both liabilities and equity. With the exception of certain financial measurement criteria deferred indefinitely by the FASB, SFAS No. 150 was adopted in fiscal 2003. The implementation of SFAS No. 150 had no material effect on SCL's financial condition or results of operations.

In December 2003, the FASB issued a revised SFAS No. 132, "Employers' Disclosures about Pensions and Other Post-Retirement Benefit", which requires companies to provide additional information about plan assets, benefit obligations, cash flows, benefit costs and other relevant information. Revised SFAS No. 132 is effective for fiscal years beginning after June 15, 2004, with earlier adoption encouraged. SCL adopted revised SFAS No. 132 on December 31, 2003 and, accordingly, the additional information has been provided in the notes to the financial statements.

In November 2002, the FASB issued FIN No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others", which clarifies and elaborates on the requirement for entities to recognize a liability and provide disclosures relating to the fair value of the obligation undertaken in a guarantee. Under FIN No. 45, SCL will record a liability at the inception of a transaction representing the fair value of the guarantee and maintain the liability until it is relieved of the contingent obligation. FIN No. 45 requires the fair value of the guarantee to be recorded for all guarantees issued or modified after December 31, 2002. The recognition of this liability results in delayed recognition of revenue until the guarantee has been settled or expired. FIN No. 45 also provides for disclosure regarding existing guarantees. The adoption of the initial recognition and measurement provisions of FIN No. 45 did not have a material effect on SCL's financial position or results of operations. The disclosures required have been provided in the notes to the financial statements.

In December 2003, the FASB issued revised FIN No. 46, "Consolidation of Variable Interest Entities", which addresses the consolidation of certain types of entities including special purpose entities. Revised FIN No. 46 requires a variable interest entity to be consolidated if SCL's investment in the entity (regardless of the date it was created) will absorb a majority of the entity's expected losses and/or residual returns if they occur, and must be applied by March 31, 2004. SCL does not believe that adoption of revised FIN No. 46 will have any impact on its financial position or results of operations.

### 2. Sales of OEH shares and deconsolidation

In November and December 2003, OEH sold 3,450,000 newly issued OEH Class A common shares in a public offering at \$16.00 per share, thereby reducing the Company's economic interest in OEH to about 42%. As a result, SCL recognized a gain in 2003 of \$773,000, which was recorded directly to shareholders' equity in respect of the offering in accordance with the provisions of SEC Staff Accounting Bulletin No. 51. The Company in 2003 sold none of the OEH common shares that it owns.

During 2002, the Company sold 4,921,500 existing OEH Class A

common shares at an average price of \$13.96 per share, including 3,100,000 shares on November 14, 2002. SCL recognized in 2002 a gain of \$2,883,000 relating to its sale of the shares. Effective November 14, 2002, because the Company's economic interest in OEH dropped below 50% to approximately 47% and the Company does not otherwise have control over OEH, the Company began to account for its investment in OEH under the equity method of accounting.

During 2001, the Company sold 75,200 existing OEH Class A common shares at an average price of \$20.27 per share, and OEH purchased 100,000 of its outstanding Class A common shares at an average price of \$13.99 per share which were cancelled. As a result, SCL recognized in 2001 a gain of \$551,000 relating to its sale of OEH shares.

### 3. Gain on sale of ferry assets and non-recurring charges

Included in Gain on sale of ferry assets and non-recurring charges in 2003 are the following items:

Year ended December 31,	2003
	\$000
Gain on sale of ferry assets	100,000
Non-recurring charges	46,000
Gain on sale of ferry assets and non-recurring charges	54,000

#### (a) Gain on sale of ferry assets

On July 18, 2003, the Company completed the sale of its indirect wholly owned subsidiary Sea Containers Isle of Man Ltd., which was the holding company of SCL's Isle of Man Steam Packet ferry business (collectively "Steam Packet"). The sale was to Windwood Limited, a company unaffiliated with SCL and controlled by Montagu Private Equity Ltd., formerly a private equity arm of HSBC Holdings plc. Steam Packet operated passenger, vehicle and freight ferry services between the Isle of Man in the Irish Sea and England, Northern Ireland and the Republic of Ireland. The sale price was approximately \$242,000,000, paid in cash, which resulted in a gain on sale of approximately \$100,000,000. Under separate contractual agreements, SCL will continue to charter a vessel and provide certain administrative services to Steam Packet. SCL retains its remaining ferry service in the Irish Sea between Northern Ireland and Scotland for which Steam Packet will provide certain administrative services also under separate contractual agreement.

#### (b) Non-recurring charges

As a result of the sale of Steam Packet and SCL's concurrent restructuring of its fast ferry business, an impairment evaluation was performed in accordance with the guidelines of SFAS No. 144. This indicated that the carrying value of certain ship and ship-related assets exceeded the expected future cash flows attributable to these assets, resulting in an impairment. The total impairment charge recognized during the third quarter of 2003 was approximately \$15,000,000 determined by taking the excess of the carrying value over the estimated fair value. Fair value was determined using estimated future discounted cash flows and external valuations where applicable.

In connection with the restructuring of some of SCL's ferry routes,

SCL recorded a severance charge for approximately 400 employees of approximately \$10,000,000, all of which has been paid in 2003.

Other non-recurring charges of approximately \$5,000,000 were incurred including \$3,700,000 relating to the Company's exchange offers for a portion of its publicly traded debt (see Note 11). These costs consisted of legal and other professional fees.

In addition, during the third quarter of 2003, management implemented a plan to sell certain specifically identified container assets and applied the provisions of SFAS No. 144. This indicated that the carrying value of certain container assets exceeded the expected future cash flows attributable to these assets, resulting in an impairment. The total impairment charge recognized during 2003 was approximately \$16,000,000 determined by taking the excess of the carrying value over the estimated fair value. Fair value was determined by using estimated future discounted cash flows. This required that these assets be valued at the lower of their respective carrying amount or fair value less costs to sell. The carrying value of container assets held for sale at December 31, 2003, after disposing of containers having net book value of \$7,000,000 in the fourth quarter of 2003, was approximately \$15,000,000.

#### 4. Significant acquisitions and investments

##### (a) Acquisitions

###### *Silja Oyj Abp:*

During the second quarter of 1999, SCL purchased a 50% interest in Silja which was listed on the Helsinki Exchanges. The shareholders from whom SCL acquired this investment had options under the 1999 share purchase agreement to sell the balance of their shares in Silja to SCL exercisable in April 2002, representing an additional 25% of shares outstanding. These options were duly exercised and SCL purchased the shares at a total price of €40,299,000 (\$37,954,000) paid in newly issued Class A common shares of the Company.

On June 25, 2002, SCL launched a redemption offer for the remaining shares in Silja and for Silja's outstanding convertible subordinated bonds, which had an aggregate par value of €55,368,000. The offer was €2.25 for each common share and 92.4% of the par value of the bonds. The offer expired on August 26, 2002 and SCL acquired additional Silja shares, bringing its total shareholding to 97.2%, and €13,222,900 of the Silja bonds for an aggregate price of €43,398,000 (\$42,654,000) paid in cash funded by bank loans. Any shares not tendered have been compulsorily acquired as permitted by Finnish law.

The acquisition was accounted for using the purchase method of accounting in accordance with SFAS No. 141, "Business Combinations". The purchase price has been allocated to the assets and liabilities acquired using estimated fair values at the date of acquisition (May 1, 2002) and resulted in assigning value to Silja trademarks of \$24,918,000. The trademarks are considered to have indefinite useful lives and will not be amortized, in accordance with SFAS No. 142.

The following table shows the allocation of the purchase price:

December 31,	2002 \$000
Cash	14,216
Other current assets	43,965
Property, plant and equipment	503,452
Trademarks	24,918
Inventories	6,332
	<u>592,883</u>
Purchase price, including SCL Class A common shares issued, cash and the carrying value of the existing investment in Silja	211,141
Liabilities assumed	<u>381,742</u>

Prior to May 2002, SCL had accounted for its initial investment in Silja under the equity method. Since the date of acquisition, the results of operations have been included in the consolidated financial results of SCL. The pro forma impact on results, had this acquisition occurred on January 1, 2002, is not material.

###### *Acquisitions by Orient-Express Hotels Ltd.:*

In February 2002, OEH acquired the hotel La Residencia in Mallorca, Spain and the hotel Le Manoir aux Quat'Saisons in Oxfordshire, England, all for approximately \$40,000,000. The price was paid largely with bank mortgage finance.

In March 2002, OEH acquired, for approximately \$7,500,000, a 75% share interest in Maroma Resort and Spa near Cancún, Mexico. The purchase price was paid in cash, with \$1,000,000 paid in March 2003.

On April 27, 2001, OEH acquired the Bora Bora Lagoon Resort in French Polynesia, a hotel previously managed by OEH, for a cash price of approximately \$19,600,000. OEH funded most of the purchase price with bank mortgage finance.

On January 17, 2001, OEH acquired the Miraflores Park Hotel in Lima, Peru. Because OEH's 50%/50% hotel joint venture in Peru had an option to purchase the hotel at cost which, if exercised, would have resulted in OEH becoming the exclusive long-term manager of the hotel, it was accounted for in 2001 as an equity investment by OEH. Because the option lapsed, the hotel has been accounted for as an acquisition with effect from December 31, 2001. The purchase price of approximately \$17,000,000 was paid largely by the assumption of existing debt, with the balance paid in cash and the issuance of notes to the seller.

No goodwill was recognized on these transactions. The acquisitions in 2002 and 2001 have been accounted for as purchases in accordance with SFAS No. 141. The results of operations have been included in the consolidated financial results of OEH from the dates of acquisition, and the assets and liabilities of the acquired companies have been recorded at their fair value at the dates of acquisition. Pro forma data has not been presented as the revenues and net earnings resulting from these 2002 and 2001 acquisitions would not have had a material impact in the year of acquisition.

Notes to Consolidated Financial Statements (continued)

**(b) Investments**

Investments represent equity interests of 20% to 50% in any unconsolidated companies. SCL does not have effective control of these unconsolidated companies and, therefore, accounts for these investments using the equity method. SCL's principal equity investees are as follows:

**GE SeaCo SRL**

GE SeaCo and its subsidiaries are engaged in the container leasing business. The Company and General Electric Capital Corporation each have a 50% interest in GE SeaCo. See Note 22 regarding transactions between SCL and GE SeaCo.

December 31,	2003 \$000	2002 \$000
Current assets	232,580	186,804
Property, plant and equipment, net	1,530,561	1,281,101
Other assets	244,586	172,171
<b>Total assets</b>	<b>2,007,727</b>	1,640,076
Current liabilities	218,514	206,558
Long-term debt	1,064,739	827,123
Other liabilities	24,938	32,390
Total shareholders' equity	699,536	574,005
<b>Total liabilities and shareholders' equity</b>	<b>2,007,727</b>	1,640,076

Year ended December 31,	2003 \$000	2002 \$000	2001 \$000
Revenue	419,934	336,929	599,804
Earnings from operations before net finance costs	99,468	60,994	86,527
Net earnings	30,868	30,879	30,716

**5. Real estate and other fixed assets**

The major classes of real estate and other fixed assets are as follows at year end:

December 31,	2003 \$000	2002 \$000
Freehold and leased land and buildings	132,761	161,110
Machinery and equipment	55,707	60,448
Fixtures, fittings and office equipment	53,017	50,438
	241,485	271,996
Less: accumulated depreciation	100,787	92,619
	140,698	179,377

**Orient-Express Hotels Ltd.**

OEH and its subsidiaries are engaged in the hotel and leisure business. Effective November 14, 2002, because the Company's economic interest in OEH dropped below 50% and the Company does not otherwise have control over OEH, the Company began to account for its investment in OEH under the equity method of accounting (see Note 2). As of December 31, 2003, SCL had a 42% interest in OEH. See Note 22 regarding transactions between SCL and OEH.

SCL's interest income related to loans and advances to its equity investees amounted to \$nil in 2003 (2002 - \$5,197,000, 2001 - \$6,702,000). See Note 1(g).

Summarized financial data for SCL's unconsolidated companies for the periods during which the investments were held by SCL are as follows:

## 6. Asset sale receivables

The components of asset sale receivables are as follows at year end:

December 31,	2003 \$000	2002 \$000
Gross asset sale receivable	43,477	39,252
Unearned income	3,193	3,408
Asset sale receivables	40,284	35,844

Contractual maturities of SCL's gross asset sale receivables subsequent to December 31, 2003 are as follows:

Year ending December 31,	\$000
2004	27,223
2005	7,880
2006	5,475
2007	2,200
2008	699
	43,477

## 7. Assets under capital lease

The following is an analysis of assets leased under capital leases by major classes at year end:

December 31,	2003 \$000	2002 \$000
Machinery and equipment	8,887	8,857
Real estate and other fixed assets	22,776	21,465
	31,663	30,322
Less: accumulated depreciation	19,169	14,748
	12,494	15,574

The following is a schedule of future minimum lease payments under capital leases together with the present value of the minimum lease payments at December 31, 2003:

Year ending December 31,	\$000
2004	5,272
2005	2,748
2006	747
2007	552
2008	7
Minimum lease payments	9,326
Less: amount of interest contained in above payments	1,066
Present value of minimum lease payments	8,260

The amount of interest deducted from minimum lease payments to arrive at the present value is the interest contained in each of the leases. In the normal course of business, SCL has an option to purchase certain leases at a bargain purchase option. In other cases, the leases will be renewed or replaced upon expiration.

### 8. Intangible assets and goodwill

Effective January 1, 2002, SCL adopted the provisions of SFAS No. 141, "Business Combinations", and SFAS No. 142, "Goodwill and Other Intangible Assets". These statements establish financial accounting and reporting standards for acquired goodwill and other intangible assets. Specifically they address how acquired intangible assets should be accounted for both at the time of acquisition and after they have been recognized in the financial statements.

SFAS No. 141 changes the accounting for business combinations, requiring that all business combinations be accounted for using the purchase method and that intangible assets be recognized as assets apart from goodwill if they arise from contractual or other legal rights, or if they are separable or capable of being separated from the acquired entity and sold, transferred, licensed, rented or exchanged. SFAS No. 142 specifies the financial accounting and reporting for acquired goodwill and other intangible assets. In accordance with SFAS No. 142, goodwill must be evaluated annually for impairment. Those intangible assets that will continue to be classified as goodwill or as other intangibles with indefinite lives are

no longer amortized. Intangible assets with finite lives will continue to be amortized using the straight-line method over their estimated useful lives.

SCL is required to perform goodwill impairment testing on an annual basis. The impairment testing was performed in two steps, first, by a determination of impairment based upon the fair value of a reporting unit as compared to its carrying value and, second, if there was an impairment, by the measurement of the amount of impairment loss by comparing the implied fair value of goodwill with the carrying amount of that goodwill. As of December 31, 2003 and 2002, SCL determined the carrying values of all its operating segments were less than their respective derived fair values, indicating that there was no impairment of the recorded goodwill and indefinite-lived intangible assets. To determine fair value, SCL relied on valuation models utilizing discounted cash flows. For goodwill valuation purposes only, the revised fair value of each reporting unit was allocated to the assets and liabilities of the respective units to arrive at an implied fair value of goodwill, based upon known facts and circumstances, as if the acquisition occurred currently.

Intangible assets consist of the following:

December 31,	2003 \$000	2002 \$000
Intangible assets not subject to amortization:		
Goodwill	12,054	31,867
Trademarks	24,918	24,918
Other intangible assets at cost	1,443	1,092
	<b>38,415</b>	<b>57,877</b>
Intangible assets subject to amortization:		
Other intangibles at cost	52,803	52,566
Less: accumulated amortization	(26,453)	(22,956)
	<b>26,350</b>	<b>29,610</b>
<b>Total</b>	<b>64,765</b>	<b>87,487</b>

During 2003, amortization expense of \$3,473,000 (2002 – \$3,501,000) was approximately \$3,700,000 lower than 2001, due to the adoption of SFAS No. 142. Amortization for the succeeding five years is expected to be approximately \$3,500,000 annually.

The changes in the carrying amount of goodwill for the years ended December 31, 2002 and 2003 are as follows:

	Ferry Segment \$000	Rail Segment \$000	Container Segment \$000	Leisure Segment \$000	Other Segment \$000	Total \$000
Balance as of January 1, 2002	22,091	–	5,665	2,144	3,779	33,679
Deconsolidation of OEH	–	–	–	(2,144)	–	(2,144)
Foreign currency translation	–	–	–	–	332	332
Balance as of December 31, 2002	22,091	–	5,665	–	4,111	31,867
Sale of ferry assets	(20,145)	–	–	–	–	(20,145)
Foreign currency translation	–	–	–	–	332	332
Balance as of December 31, 2003	1,946	–	5,665	–	4,443	12,054

The following pro forma information reconciles the net earnings and earnings per share reported for the year ended December 31, 2001 to adjusted net earnings and earnings per share which reflect the adoption of SFAS No. 142:

Year ended December 31,	2001 \$000
Reported earnings on common shares	4,546
Add: Amortization of goodwill and other indefinite-lived intangible assets, net of tax	3,704
Adjusted earnings on common shares	8,250
	\$
Reported earnings per common share	0.24
Add: Amortization of goodwill and other indefinite-lived intangible assets, net of tax, per share (basic)	0.20
Adjusted earnings per share (basic)	0.44
Reported earnings per common share	0.24
Add: Amortization of goodwill and other indefinite-lived intangible assets, net of tax, per share (diluted)	0.19
Adjusted earnings per share (diluted)	0.43

## 9. Working capital facilities

Working capital facilities at year end are comprised of the following, all repayable within one year:

December 31,	2003 \$000	2002 \$000
Unsecured working capital facilities, with a weighted average interest rate of 6.04% and 4.57%, respectively	2,235	1,651

There are additional working capital lines of credit in place but not drawn amounting to \$129,800,000 (2002 - \$39,200,000), of which \$60,700,000 (2002 - \$10,700,000) is undrawn under secured revolving credit facilities (see Note 10). The working capital facilities are issued by various financial institutions and have various expiration dates.

## 10. Long-term debt (other than senior notes and subordinated debentures)

Long-term debt at year end consists of the following:

December 31,	2003 \$000	2002 \$000
Container manufacturer accounts payable, notes payable and bank loans payable over periods of 1 to 8 years, with a weighted average interest rate of 3.39% and 3.86%, respectively	353,910	407,358
Ship mortgage loans payable over periods of 1 to 13 years, with a weighted average interest rate of 3.40% and 4.72%, respectively	698,323	579,849
Loans from banks secured by real estate and other fixed assets payable over periods of 1 to 9 years, with a weighted average interest rate of 5.39% and 6.62%, respectively	143,756	264,036
	<b>1,195,989</b>	<b>1,251,243</b>

Containers are secured to financial institutions as collateral for debt obligations. The ship loans are secured by first or second mortgages on the vessels and are shown net of cash totalling \$6,656,000 (2002 – \$6,656,000) which is held as security for, or otherwise allocated to, repayment of obligations in respect of certain ships.

Included in container long-term debt is a maximum \$198,800,000 revolving credit facility with a group of banks secured by container equipment. SCL may borrow on a revolving basis until October 25, 2004 and must repay the balance outstanding at that date. Interest on the facility ranges from 2.25% to 2.70% over LIBOR. At December 31, 2003, \$129,000,000 (2002 – \$128,000,000) was outstanding under this facility.

Also included in long-term debt is a \$226,701,000 securitization facility secured by container equipment. A bankruptcy-remote subsidiary of the Company formed to facilitate asset securitization issued a senior note in the principal amount of \$206,321,000 which is non-recourse to the Company and its other subsidiaries. The senior note began its nine-year amortization schedule in October 2002 and, in January 2004, began early amortization requiring net cash flow of the subsidiary to be used to pay down principal. The Company issued an effectively subordinated \$20,380,000 note for the balance of the facility. The subordinated note began its five-year amortization period in October 2001. The overall interest rate is approximately 1.10% to 1.31% over LIBOR. At December 31, 2003, \$223,201,000 (2002 – \$279,615,000) was outstanding under this facility.

In November 2003, Silja entered into a €341,000,000 (\$430,000,000) term loan and revolving credit facility agreement with a syndicate of banks guaranteed by the Company, and the Company entered into a related €54,000,000 (\$68,000,000) loan facility agreement with the same syndicate. The non-revolving credit portion of the Silja loan is repayable in installments with interest on both portions at EURIBOR plus 1.625% p.a. and a final maturity in October 2010. The Company loan is also repayable in installments with interest at EURIBOR plus 2.125% p.a. maturing in October 2008. The primary security for both facilities are mortgages on certain of Silja's ships, with the Company loan subordinated to the Silja loan. Proceeds of the loans have been used to refinance existing debt with the balance available for general corporate purposes.

At December 31, 2003, SCL was in full compliance with all the requirements of the credit and financing agreements evidencing its

long-term debt. These requirements included financial covenants to maintain specified minimum debt service coverage, minimum interest coverage and minimum net worth and not to exceed specified leverage. The carrying value of the long-term debt approximated its fair value due to the variable-rate nature of the respective borrowings.

The following is a summary of the aggregate maturities of long-term debt at December 31, 2003. The 2004 amount includes \$161,000,000 due under bank-syndicated loan facilities that SCL expects to extend or refinance:

Year ending December 31,	\$000
2004	277,536
2005	135,665
2006	138,289
2007	145,480
2008	135,982
2009 and thereafter	363,037
	<b>1,195,989</b>

In addition, syndicates of banks have provided GE SeaCo with \$155,500,000 of credit facilities to fund new container purchases. Also, a bankruptcy-remote subsidiary of GE SeaCo, formed to facilitate asset securitization, has a \$417,500,000 container securitization facility consisting of \$267,500,000 of term notes issued in November 2002 which amortize over 10 years and a \$150,000,000 revolving note which, if not extended, converts to a 10-year term note in November 2004. At December 31, 2003, GE SeaCo had borrowed \$511,000,000 (2002 – \$368,100,000) under these facilities, none of which is guaranteed by the Company or General Electric Capital Corporation.

Also the Company has guaranteed through 2010 one half of a €7,156,000 (\$9,026,000) bank loan of Speedinvest Ltd., owner of the Adriatic fast ferry in which SCL has a 50% interest. This guarantee existed prior to December 31, 2002.

## 11. Senior notes and subordinated debentures

### (a) 9½% and 10½% senior notes due 2003

The aggregate \$158,798,000 principal amount of 9½% and 10½% senior notes due 2003 of the Company matured on July 1, 2003 and were either repaid on that date or exchanged for new 13% senior notes due 2006 of the Company referred to below.

### (b) 10¾% senior notes due 2006

The aggregate principal amount of these notes is \$115,000,000 (including \$573,000 of unamortized discount). They bear interest at 10¾% per annum, payable semi-annually, and were originally issued at a discount to yield 11% per annum. They are redeemable, in whole or in part, at the option of the Company, at a price of 105.375% of the principal amount on and after October 15, 2003, 102.688% on and after October 15, 2004, and 100% on and after October 15, 2005. The notes may also be redeemed by the Company in the event of certain tax law changes. The notes have no sinking fund requirement and come due on October 15, 2006. In the event a change in control of the Company occurs, it is obligated to make an offer to purchase the notes at a price of 101% of the principal amount. The fair value of these notes as of December 31, 2003 was approximately \$118,000,000 based upon available market quotes.

### (c) 13% senior notes due 2006

These notes in the aggregate principal amount of \$22,475,000 were issued on June 27, 2003 in exchange for an equal principal amount of 9½% and 10½% senior notes due 2003 referred to above. They bear interest at 13% per annum, payable semi-annually, and are redeemable, in whole or in part, at the option of the Company at a price of 100% of the principal amount on or after July 1, 2005. The notes may also be redeemed by the Company in the event of certain tax law changes. The notes have no sinking fund requirement and come due on July 1, 2006. In the event a change in control of the Company occurs, it is obligated to make an offer to purchase the notes at a price of 101% of the principal amount. The fair value of these notes as of December 31, 2003 was approximately \$24,000,000 based on available market quotes.

### (d) 7⅞% senior notes due 2008

The aggregate principal amount of these notes is \$149,750,000 and they bear interest at 7⅞% per annum, payable semi-annually. They are redeemable, in whole or in part, at the option of the Company at a price of 103.938% of the principal amount on or after February 15, 2003, 101.969% on or after February 15, 2004, and 100% on and after February 15, 2005. The notes may also be redeemed by the Company in the event of certain tax law changes. The notes have no sinking fund requirement and come due on February 15, 2008. In the event a change in control of the Company occurs, it is obligated to make an offer to purchase the notes at a price of 101% of the principal amount. The fair value of these notes as of December 31, 2003 was approximately \$148,000,000 based upon available market quotes.

### (e) 12½% senior notes due 2009

These notes in aggregate principal amount of \$19,154,000 were issued on July 23, 2003 in exchange for an equal principal amount of 12½% senior subordinated debentures due 2004 referred to below. They bear interest at 12½% per annum, payable semi-annually and are redeemable, in whole or in part, at the option of the Company at a price of 100% of the principal amount on or after July 1, 2005. The notes may also be redeemed by the Company in the event of certain tax law changes. The notes have no sinking fund requirement and come due on December 1, 2009. In the event a change in control of the Company occurs, it is obligated to make an offer to purchase the notes at a price of 101% of the principal amount. The fair value of these notes as of December 31, 2003 was approximately \$20,000,000 based on available market quotes.

### (f) 12½% senior subordinated debentures due 2004

The aggregate principal amount of these debentures is \$79,729,000 (including \$158,000 of unamortized discount) and they bear interest at 12½% per annum, payable semi-annually. The Company issued these debentures in two tranches. The first tranche, designated series A, was sold at a discount, while the second tranche, designated series B, was sold at a premium, both of which are being amortized over the life of the debentures. The effective annual interest rate on the total principal amount is 12.75%. The debentures are subordinated to all existing and future superior indebtedness, but rank senior to certain subordinated indebtedness, and are redeemable, in whole or in part, at the option of the Company at a price of 100% of the principal amount. The debentures may also be redeemed by the Company in the event of certain tax law changes. The debentures have no sinking fund requirement and come due on December 1, 2004. In the event a change in control of the Company occurs, it is obligated to make an offer to purchase the debentures at a price of 101% of the principal amount. The fair value of these debentures as of December 31, 2003 was approximately \$81,000,000 based upon available market quotes.

## 12. Pension plans

SCL has pension plans covering substantially all of its employees. The significant plans are four defined benefit plans in which the benefits are based primarily on years of service and employee compensation near retirement. It is SCL's policy to fund its plans in accordance with applicable laws and income tax regulations. Plan assets consist primarily of common stocks, mutual funds, government securities and corporate debt securities held through separate trustee-administered funds.

The significant weighted-average assumptions used to determine benefit obligations and net periodic costs are as follows:

Year ended December 31,	2003	2002	2001
Discount rate	5.4%	5.6%	6.0%
Assumed rates of compensation increases	3.0%	2.7%	3.5%
Expected long-term rate of return on plan assets	6.9%	6.4%	6.5%

The significant weighted-average assumptions used to determine benefit obligations at year end are as follows:

December 31,	2003	2002
Discount rate	5.6%	6.0%
Assumed rate of compensation increase	3.0%	2.7%

The discount rate essentially represents the risk-free rate of return on high-quality corporate bonds at the end of the year in the country in which the assets are held.

In determining the expected long-term rate of return on assets, management has evaluated input from SCL's actuaries and financial advisors, including their review of anticipated future long-term performance of individual asset classes and the consideration of the appropriate asset allocation strategy given the anticipated requirements of the respective plans to determine the average rate of earnings expected on the funds invested. The projected returns by these consultants are based on broad equity and bond indices, including fixed interest rate gilts of long-term duration since the plans are predominantly in the U.K. SCL's expected long-term rate of return is based on a planned asset allocation of 58% in equity investments, with an expected long-term rate of return of 6.9%, and 42% in fixed income investments, with an expected long-term rate of return of 6.9%.

The changes in the benefit obligation, the plan assets and the funded status for the four plans were as follows:

Year ended December 31,	2003 \$000	2002 \$000
Change in benefit obligation:		
Benefit obligation at beginning of year	192,008	153,230
Benefit obligations transferred in	4,977	11,322
Service cost	4,363	4,507
Interest cost on projected benefit obligation	11,057	9,642
Plan participants' contributions	1,607	1,439
Actuarial gain/(loss)	31,197	(110)
Benefits paid	(9,967)	(6,094)
Curtailement gain	341	-
Foreign currency translation	26,083	18,072
Benefit obligation at end of year	261,666	192,008
Change in plan assets:		
Fair value of plan assets at beginning of year	138,410	132,394
Plan assets transferred in	4,165	15,429
Actual return on plan assets	19,579	(25,389)
Employer contributions	8,843	6,280
Plan participants' contributions	1,607	1,439
Benefits paid	(9,967)	(6,094)
Foreign currency translation	18,529	14,351
Fair value of plan assets at end of year	181,166	138,410
Funded status	(80,500)	(53,598)
Unrecognized net actuarial loss	94,103	69,136
Unrecognized prior service cost	424	663
Unrecognized transition amount	985	396
Net amount recognized	15,012	16,597

The amounts recognized in the consolidated balance sheets consist of the following:

December 31,	2003 \$000	2002 \$000
Prepaid benefit cost	2,506	1,947
Accrued benefit cost	(54,383)	(35,950)
Intangible assets	1,409	1,059
Accumulated other comprehensive loss	65,480	49,541
Net amount recognized	15,012	16,597

The components of net periodic benefit cost consist of the following:

Year ended December 31,	2003 \$000	2002 \$000	2001 \$000
Service cost	4,363	4,507	4,264
Interest cost on projected benefit obligation	11,057	9,642	8,723
Expected return on assets	(9,337)	(9,386)	(9,673)
Net amortization and deferrals	3,985	1,473	505
Net periodic benefit cost	10,068	6,236	3,819

The weighted-average asset allocations of SCL's plans as of December 31, 2003 and 2002 by asset category as a percentage of plan assets are as follows:

December 31,	2003	2002
Equity investments	60.0%	61.4%
Fixed income investments	40.0%	38.6%
	100.0%	100.0%

Additional information about SCL's pension plans is as follows:

Year ended December 31,	2003 \$000	2002 \$000
Increase in minimum pension liability	15,939	49,541

SCL expects to contribute \$7,961,000 to its pension plans in 2004. The following benefit payments, which reflect assumed future service, are expected to be paid:

Year ending December 31,	\$000
2004	9,966
2005	10,253
2006	10,522
2007	10,858
2008	11,173
2009 to 2013	60,149
	112,921

The accumulated benefit obligation for all pension plans was \$230,048,000 as of December 31, 2003 (2002 – \$173,780,000). Three pension plans included in 2003 and 2002 above and one pension plan included in 2001 above had accumulated benefit obligations in excess of plan assets at December 31, 2003, 2002 and 2001, respectively. The projected benefit obligation, accumulated benefit obligation and fair value of plan assets of these plans were, in aggregate, \$247,101,000 (2002 – \$181,262,000, 2001 – \$27,309,000), \$219,816,000 (2002 – \$163,030,000,

## Notes to Consolidated Financial Statements (continued)

2001 – \$26,581,000), and \$165,433,000 (2002 – \$126,196,000, 2001 – \$19,169,000), respectively.

While SCL operates GNER, it is responsible for providing pension benefits for the relevant employees who participate in a multiple-employer plan covering many British rail franchises. SCL's net periodic benefit cost under this pension plan for 2003 was \$5,081,000 (2002 – \$2,088,000, 2001 – \$6,188,000). These amounts are excluded from the amounts disclosed above relating to the four significant defined benefit plans.

### 13. Income taxes

The provision for income taxes consisted of the following:

	Year ended December 31, 2003			Year ended December 31, 2002			Year ended December 31, 2001		
	Current \$000	Deferred \$000	Total \$000	Current \$000	Deferred \$000	Total \$000	Current \$000	Deferred \$000	Total \$000
United States	469	(721)	(252)	1,006	(1,648)	(642)	1,722	1,450	3,172
Other foreign	5,244	3,232	8,476	7,054	(552)	6,502	4,242	(1,444)	2,798
	<b>5,713</b>	<b>2,511</b>	<b>8,224</b>	<b>8,060</b>	<b>(2,200)</b>	<b>5,860</b>	<b>5,964</b>	<b>6</b>	<b>5,970</b>

The Company is incorporated in Bermuda which does not impose an income tax. SCL's effective tax rate is entirely due to income taxes imposed by jurisdictions in which SCL conducts business other than Bermuda.

The net deferred tax assets/liabilities recognized in the consolidated balance sheets at year end are comprised of the following:

December 31,	2003 \$000	2002 \$000
Gross deferred tax assets (operating loss carry forwards)	66,052	46,145
Less: Valuation allowance	(30,110)	(17,407)
Net deferred tax assets	35,942	28,738
Deferred tax liabilities	(11,480)	(7,206)
Net deferred tax assets	<b>24,462</b>	<b>21,532</b>

The gross deferred tax assets relate primarily to tax loss carryforwards. In addition, during 2002, SCL recognized a deferred tax asset of \$19,663,000 (2002 - \$14,684,000) representing the future tax benefits of accrued pension costs recognized in other comprehensive income pursuant to SFAS No. 87, "Employers' Accounting for Pensions". The deferred tax asset is included in other assets. The deferred tax liabilities are temporary differences substantially caused by tax depreciation in excess of book depreciation.

### 14. Supplemental cash flow information

Year ended December 31,	2003 \$000	2002 \$000	2001 \$000
Cash paid for:			
Interest	104,477	117,692	129,829
Income taxes	2,610	5,534	6,399

Non-cash investing and financing activities:

In conjunction with acquisitions (see Note 4(a)), liabilities were assumed as follows:

Year ended December 31,	2003 \$000	2002 \$000	2001 \$000
Fair value of assets acquired	–	814,814	51,769
Class A common shares issued and cash paid	–	(129,775)	(36,600)
Carrying value of existing investment	–	(137,061)	–
Liabilities assumed	–	547,978	15,169

## 15. Employee stock option and stock appreciation rights plans

### (a) Stock option plans

Under the Company's 1997 stock option plan, options to purchase up to 500,000 Class A or B common shares of the Company may be awarded to employees of SCL at fair market value at the date of grant. Options are exercisable three years after award and must be exercised 10 years from the date of grant. At December 31, 2003, 251,050 Class A common shares were reserved for issuance pursuant to options awarded to 75 persons. The 1986 stock option plan of the Company terminated in 1996. At December 31, 2003, 9,000 Class A common shares of the Company were reserved for issuance pursuant to options awarded to three persons.

No charges or credits are made to income with respect to options awarded or exercised under the plans since all options to employees are awarded at market value at date of grant.

Transactions under the Company's plans have been as follows:

Year ended December 31, 2003	Shares	Option Price
Outstanding at beginning of period	252,300	\$8.55 - \$30.00
Granted	172,250	\$6.30 - \$15.60
Terminated	(163,500)	\$6.30 - \$30.00
Exercised	(1,000)	\$8.55
Outstanding at end of period	260,050	\$6.30 - \$30.00
Exercisable at end of period	24,000	\$16.00 - \$30.00
Year ended December 31, 2002	Shares	Option Price
Outstanding at beginning of period	218,900	\$8.55 - \$30.00
Granted	49,000	\$9.00 - \$16.20
Terminated	(10,000)	\$21.75 - \$30.00
Exercised	(5,600)	\$8.55
Outstanding at end of period	252,300	\$8.55 - \$30.00
Exercisable at end of period	96,000	\$16.00 - \$30.00
Year ended December 31, 2001	Shares	Option Price
Outstanding at beginning of period	162,500	\$16.00 - \$30.00
Granted	58,400	\$8.55
Terminated	(2,000)	\$30.00
Exercised	-	
Outstanding at end of period	218,900	\$8.55 - \$30.00
Exercisable at end of period	54,000	\$16.00 - \$25.125

The options outstanding under the Company's plans at December 31, 2003 were as follows:

Range of Exercise Prices	Number of Shares		Weighted Average of		
	Outstanding at 12/31/2003	Exercisable at 12/31/2003	Remaining Contractual Lives	Exercise Prices for Outstanding Options	Exercise Prices for Exercisable Options
\$ 6.30	129,750	-	9.1	\$ 6.30	-
\$ 8.55	51,300	-	7.8	\$ 8.55	-
\$ 9.00	10,000	-	7.7	\$ 9.00	-
\$11.00	10,000	-	8.8	\$11.00	-
\$15.60	35,000	-	9.8	\$15.60	-
\$16.00	9,000	9,000	0.8	\$16.00	\$16.00
\$25.125	5,000	5,000	4.8	\$25.125	\$25.125
\$30.00	10,000	10,000	5.6	\$30.00	\$30.00
	260,050	24,000			

## Notes to Consolidated Financial Statements (continued)

As discussed in Note 1(q), these plans are accounted for under APB Opinion No. 25. Accordingly, no compensation cost has been recognized for the stock options with exercise prices equal to the market price of the shares on the date of grant. Estimates of fair values of stock options on the grant dates in the Black-Scholes option-pricing model were based on the following assumptions:

Year ended December 31,	2003	2002	2001
Expected price volatility range	39.53%	39.69%	52.60%
Risk-free interest rate range	3.05%	2.78%	4.62%
Expected dividends	0.42%	1.76%	1.89%
Expected life of stock options	5 years	5 years	5 years
Weighted average fair value	\$2.47	\$3.92	\$3.74

### (b) Stock appreciation rights plan

The 1991 stock appreciation rights plan of the Company terminated in 2001 and provided that the Company could grant to SCL employees stock appreciation rights ("SARs") with respect to Class A common shares of the Company. SARs entitle the holder to a cash amount equal in value to the excess of the fair market value of the common shares at the time of exercise of the SARs over the fair market value of the common shares at the time the SARs were granted. All outstanding SARs are currently exercisable and must be exercised 10 years from the date of grant. At December 31, 2003, 39,000 SARs (2002 – 46,000, 2001 – 61,000) were outstanding. There was no charges to earnings arising from SARs in the years ended December 31, 2003, 2002 and 2001.

## 16. Shareholders' equity

### (a) Redeemable preferred shares

The \$7.25 convertible cumulative preferred shares are convertible at the option of the holder at any time, unless previously redeemed, into Class B common shares of the Company at a conversion price of \$31.34 per share (equivalent to a conversion rate of approximately 3.19 Class B common shares for each preferred share), subject to adjustment under certain conditions. They provide for cumulative dividends at the annual rate of \$7.25 per share payable quarterly and are redeemable at the option of the Company, in whole or in part, at a redemption price of \$100.00 per share. Any preferred shares outstanding on May 6, 2005 must be redeemed at \$100.00 per share plus any accrued and unpaid dividends. This redemption feature is contingent upon the holders not having previously exercised their conversion rights. Accordingly, these securities are not considered mandatorily redeemable securities in accordance with SFAS No. 150.

### (b) Dual common share capitalization

Effective June 23, 1992, following shareholder approval, the existing common shares of the Company were classified as Class B common shares, each of which is convertible at any time into one Class A common share of the Company. Cash dividends on the Class A common shares, if any, must be at least 10% higher than any cash dividends on the Class B common shares. In general, holders of Class A and Class B common shares vote together as a single class, with holders of Class B shares having one vote per share and holders of Class A shares having one-tenth of one vote per share. In all other substantial respects, the Class A and B shares are the same.

### (c) Shareholder rights agreement

The Company has in place a shareholder rights agreement, as amended and restated as of June 1, 1998, which will be implemented

not earlier than the tenth day following the first to occur of (i) the public announcement of the acquisition by a person (other than a subsidiary of the Company) of shares carrying 20% or more of the total voting rights which may be cast at any general meeting of the Company and (ii) the commencement or announcement of a tender offer or exchange offer by a person for shares carrying 30% or more of the total voting rights which may be cast at any general meeting of the Company. At that time, the rights will detach from the Class A and Class B common shares, and the holders of the rights will be entitled to purchase, for each right held, one two-hundredth of a series A junior participating preferred share of the Company at an exercise price of \$180 (the "Purchase Price") for each one two-hundredth of such junior preferred share, subject to adjustment in certain events. From and after the date on which any person acquires beneficial ownership of shares carrying 20% or more of the total voting rights which may be cast at any general meeting of the Company, each holder of a right (other than the acquiring person) will be entitled upon exercise to receive, at the then current Purchase Price and in lieu of the junior preferred shares, that number of Class A or Class B common shares (depending on whether the right was previously attached to a Class A or B share) having a market value of twice the Purchase Price. If the Company is acquired or 50% or more of its consolidated assets or earning power is sold, each holder of a right will be entitled to receive, upon exercise at the then current Purchase Price, that amount of common equity of the acquiring company which at the time of such transaction would have a market value of two times the Purchase Price. The rights will expire on June 19, 2008 but may be redeemed at a price of \$0.025 per right at any time prior to the tenth day following the date on which a person acquires beneficial ownership of shares carrying 20% or more of the total voting rights which may be cast at any general meeting of the Company.

#### (d) Reserved shares

At December 31, 2003, 512,000 common shares have been reserved for options granted or available under the 1986 and 1997 stock option plans of the Company (see Note 15(a)), 478,622 Class B common shares have been reserved for issuance upon conversion of the \$7.25 convertible cumulative preferred shares (see Note 16(a)), and 14,500,000 Class A common shares have been reserved for conversions of Class B common shares (see Note 16(b)). Out of authorized preferred shares, 300,000 have been reserved for issuance as series A junior participating preferred shares upon exercise of preferred share purchase rights held by Class A and B common shareholders (see Note 16(c)).

#### (e) Acquired shares

A total of 12,900,000 Class B common shares were owned by a subsidiary of the Company at December 31, 2003. Under applicable law, these shares are outstanding and may be voted by the subsidiary, although in computing earnings per share these shares are treated as a reduction to outstanding shares.

#### (f) Certain restrictions on payment of dividends

SCL is party to certain credit agreements which restrict the payment of dividends and the purchase of common shares. Under these agreements, approximately \$199,000,000 was available at December 31, 2003 (2002 – \$122,000,000) for the payment of cash dividends and the purchase of shares.

#### (g) Shares issued

In December 2003, the Company sold 1,423,800 newly issued Class A common shares in an SEC-registered public shelf offering raising net proceeds of about \$24,700,000.

### 17. Rental income under operating leases and charters

The following are the minimum future rentals at December 31, 2003 due SCL under operating leases of containers and leases of property and other fixed assets:

Year ending December 31,	\$000
2004	48,820
2005	30,894
2006	22,605
2007	13,725
2008	7,150
2009 and thereafter	7,687
	<u>130,881</u>

Of the total above, related party rental payments due from GE SeaCo amounted to \$76,867,000 (2002 – \$125,564,000).

### 18. Commitments and contingencies

#### (a) Commitments

Outstanding contracts to purchase fixed assets were approximately \$16,000,000 at December 31, 2003 (2002 – \$14,000,000).

Future rental payments under operating leases in respect of equipment rentals and leased premises are payable by SCL as follows:

Year ending December 31,	\$000
2004	269,785
2005	104,795
2006	9,491
2007	8,733
2008	7,178
2009 and thereafter	64,559
	<u>464,541</u>

Of the total above, \$353,566,000 in 2004 and 2005 relates to rental payments by GNER in respect of leases of rolling stock and access charges for railway infrastructure. These commitments are payable only while GNER holds the passenger rail franchise which is currently scheduled to expire in April 2005.

Rental expense for the year ended December 31, 2003 amounted to \$215,664,000 (2002 – \$169,706,000, 2001 – \$249,184,000).

#### (b) Contingencies

##### Strategic Rail Authority

GNER experienced disruption of its services following an accident in October 2000, for which Network Rail and its predecessor were required to pay compensation under the track access agreement. Network Rail owns and maintains substantially all of the railway infrastructure in Britain. GNER has contracted with Network Rail for track access based on the level of service GNER provides. Because of disputes, both GNER and Network Rail withheld contractual payments due during 2001 through March 2002, when payments resumed. As a result of separate arbitration awards under different parts of the track access agreement, Network Rail's liability to compensate GNER was confirmed and proceedings continued as to the amounts due. In December 2003, GNER and Network Rail reached agreement settling GNER's claims arising from the service disruption and relieving GNER from the obligation to repay amounts previously withheld, other than £4,500,000 (\$7,900,000) of track access charges over withheld.

The Strategic Rail Authority ("SRA") which is the franchisor under GNER's passenger rail franchise agreement has separately claimed a portion of the compensation recognized by GNER in its settlement with Network Rail. The SRA's claim amounts to about £25,000,000 (\$45,000,000). GNER has been advised by its legal counsel that GNER has no obligation to the SRA for this claim under the franchise agreement. GNER and the SRA are currently engaged in discussions to resolve this dispute. If the parties do not reach agreement, the dispute between GNER and the SRA would be submitted to arbitration. Because these discussions may be unsuccessful and GNER may have to make payments to the SRA, SCL has recorded a

## Notes to Consolidated Financial Statements (continued)

liability in its accounts for this dispute.

The settlement with Network Rail and the provision for the separate SRA claim have resulted in SCL's recognition of an approximate \$6,000,000 gain for the year ended December 31, 2003, which has been recorded as a reduction in operating expenses consistent with SCL's classification of contract payments with Network Rail and the SRA.

### GNER performance bond

GNER has undertaken since 1996 to reimburse the SRA its costs in the event GNER breaches its franchise agreement to the extent that the SRA must award the franchise to another operator. This undertaking is secured by a surety bond issued by an insurance company in the amount of \$60,080,000 which the Company has guaranteed and which is partly cash collateralized.

## 19. Derivative financial instruments

### (a) Interest rate swap agreements

SCL is exposed to interest rate risk on its floating rate debt (both U.S. dollar and euro) and tries to manage the impact of interest rate changes on earnings and cash flows. SCL's policy is to enter into interest rate swap agreements from time to time to hedge the variability in interest rate cash flows due to interest rate risk on floating rate debt. At December 31, 2003, SCL had a fixed rate interest rate swap, which has been designated as a cash flow hedge. Since its designation as a cash flow hedge, changes in fair value that represent the effective portion of the swap are accumulated in other comprehensive income/(loss). No ineffectiveness was recognized in earnings during 2003, 2002 and

2001. Amounts accumulated in other comprehensive income/(loss) will be reclassified into earnings as the hedged interest cash flows are accrued. The fair value of this swap at December 31, 2003 was a \$12,570,000 liability (2002 – \$10,956,000 liability). SCL had no other interest rate swap agreements at December 31, 2003 and 2002.

### (b) Fuel swap agreements

SCL uses commodity futures contracts from time to time to procure a portion of its fuel requirements and to hedge its exposure to volatility in fuel market prices. SCL has, when considered appropriate, entered into swap agreements to fix the price of fuel. At December 31, 2003, SCL had a fuel swap designated as a cash flow hedge of forecasted purchases of fuel, which was entered on December 23, 2003, matures over the next 12 months and had an immaterial fair value at December 31, 2003. SCL had no other fuel swap agreements at December 31, 2003. At December 31, 2002, a \$932,000 receivable was accumulated in other comprehensive income/(loss) representing the effective portions of fuel swap hedges that matured and were reclassified into earnings in 2003. No ineffectiveness was recognized during the year ended December 31, 2003, 2002 and 2001.

### (c) Foreign exchange risk management

From time to time, SCL utilizes foreign currency forward contracts to reduce exposure to exchange rate risks primarily associated with SCL's international transactions. These contracts establish the exchange rates at which SCL will purchase or sell at a future date the contracted amount of currencies for specified foreign currencies. SCL utilizes forward contracts which are short-term in nature and receives or pays the difference between the contracted forward rate and the exchange rate at the settlement date. No contracts were outstanding at December 31, 2003.

## 20. Accumulated other comprehensive income/(loss)

The accumulated balances for each component of other comprehensive income/(loss) are as follows:

December 31,	2003	2002
	\$000	\$000
Foreign currency translation adjustments	(131,584)	(152,598)
Derivative financial instruments	(1,614)	(1,024)
Minimum pension liability, net of tax	(45,879)	(34,681)
	(179,077)	(188,303)

The components of other comprehensive income/(loss) are as follows:

Year ended December 31,	2003	2002	2001
	\$000	\$000	\$000
Net earnings	112,458	43,016	5,634
Foreign currency translation adjustments	21,014	46,082	(22,874)
Cumulative effect of change in accounting principles (SFAS 133)	–	–	(7,526)
Change in fair value of derivatives	(590)	6,843	(341)
Additional minimum pension liability, net of tax	(11,198)	(34,681)	–
Comprehensive income/(loss)	121,684	61,260	(25,107)

## 21. Information concerning financial reporting for segments and operations in different geographical areas

SCL's business activities are grouped into four main reporting segments. The first segment is the operation of ferry transport services in the Baltic Sea, English Channel, Irish Sea and New York harbor. This business is referred to as "Ferry operations". The second segment is the operation of passenger rail transport services through GNER in Great Britain. This business is referred to as "Rail operations". The third segment is leasing of cargo containers (principally through the GE SeaCo joint venture) to liner ship operators, road and rail operators, forwarders and exporters located throughout the world and the services which support these activities, including the manufacture and repair of container equipment. This business is referred to as "Container operations". The fourth segment historically has been the ownership and/or management of hotels, restaurants, tourist trains and a river cruiseship located worldwide through OEH. This business is referred to as "Leisure operations".

During 2002, SCL's economic interest in OEH dropped below 50% and the Company began to account for its investment in OEH under the equity method of accounting (see Note 2). This change is reflected in the 2002 segment information from the date OEH was deconsolidated (November 14, 2002). "Other operations" include the Corinth Canal, real estate development, perishable commodity production and trading, and publishing activities. Transactions between reportable segments are not material.

SCL's segment information has been prepared in accordance with SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information". The main factor SCL uses to identify its four main segments is the similarity of the products and services provided. Segment performance is evaluated based upon net earnings from operations before net finance costs, taxes and depreciation and amortization. Segment information is presented in accordance with the accounting policies described in Note 1.

Financial information regarding these business segments is as follows, with net finance costs being net of capitalized interest and interest and related income:

Year ended December 31,	2003 \$000	2002 \$000	2001 \$000
Revenue:			
Ferry operations	786,601	576,585	204,227
Rail operations	723,219	695,775	623,870
Container operations	109,221	111,861	122,322
Leisure operations	–	209,016	252,236
Other operations	25,668	21,623	13,104
	<b>1,644,709</b>	<b>1,614,860</b>	<b>1,215,759</b>
Other:			
Ferry operations	417	(718)	32,998
Rail operations	–	–	–
Container operations	23,685	11,116	11,393
Leisure operations	10,887	9,084	9,112
Other operations	5,000	2,883	551
	<b>39,989</b>	<b>22,365</b>	<b>54,054</b>
Depreciation and amortization:			
Ferry operations	51,568	35,337	24,172
Rail operations	13,352	9,243	8,597
Container operations	47,364	53,561	59,688
Leisure operations	–	14,355	16,356
Other operations	1,187	1,214	929
	<b>113,471</b>	<b>113,710</b>	<b>109,742</b>

Table continued on page 54

Notes to Consolidated Financial Statements (continued)

Year ended December 31,	2003 \$000	2002 \$000	2001 \$000
Earnings from operations before net finance costs:			
Ferry operations	30,255	51,423	22,742
Rail operations	84,083	68,893	45,316
Container operations	35,985	23,499	30,568
Leisure operations	10,887	41,275	52,738
Other operations	6,563	4,452	681
	167,773	189,542	152,045
Gain on sale of ferry assets and non-recurring charges	54,000	-	-
Corporate costs	(15,798)	(15,038)	(13,508)
	205,975	174,504	138,537
Net finance costs	(85,293)	(114,670)	(115,881)
Earnings before minority interest and income taxes	120,682	59,834	22,656
Minority interest	-	(10,958)	(11,052)
	120,682	48,876	11,604
Provision for income taxes	8,224	5,860	5,970
Net earnings	112,458	43,016	5,634
Preferred share dividends	1,088	1,088	1,088
Net earnings on Class A and Class B common shares	111,370	41,928	4,546
Capital expenditure:			
Ferry operations	17,985	56,673	15,963
Rail operations	2,654	2,971	3,448
Container operations	13,445	18,540	26,305
Leisure operations	-	45,008	37,630
Other operations	3,541	526	7,266
	37,625	123,718	90,612
December 31,		2003 \$000	2002 \$000
Identifiable assets:			
Ferry operations		1,416,883	1,416,696
Rail operations		252,081	235,271
Container operations		816,838	887,720
Leisure operations		223,592	212,704
Other operations		52,523	44,443
		2,761,917	2,796,834

Non-U.S. domestic operations accounted for more than 97% of revenue and for 100% of earnings before net finance costs in 2003 (2002 - 96% and 94%, 2001 - 92% and 90%). Containers are regularly moving between countries in international commerce over hundreds of trade routes. SCL has no knowledge of, or control over, the movement of containers under lease or the location of leased containers at any moment in time. Based on container leases in force at December 31, 2003, containers may touch ports in more than 100

different countries worldwide. It is therefore impossible to assign revenues or assets of container operations by geographical areas.

Ferry operations and identifiable assets are mainly carried on and held in north Europe and Scandinavia. Rail operations and assets are based in Britain. Leisure operations are spread throughout the world with no one country representing more than 10% of the revenue or identifiable assets in 2002 and 2001.

## 22. Related party transactions

For the year ended December 31, 2003, SCL earned revenue in connection with the lease and management agreements relating to SCL-owned containers provided to the GE SeaCo joint venture of \$26,213,000 (2002 – \$33,101,000, 2001 – \$47,447,000). Also in 2003, SCL incurred expenses under the services agreement with GE SeaCo by which SCL provides management and administration services to the joint venture and for which GE SeaCo recognized and paid to SCL net amounts of \$32,936,000 (2002 – \$30,690,000, 2001 – \$29,157,000). For the year ended December 31, 2003, SCL sold containers from its factories and provided use of SCL's depots for container repair and storage services, for which GE SeaCo paid \$17,434,000 (2002 – \$23,713,000, 2001 – \$13,694,000). In addition, in 2003, GE SeaCo paid interest of \$nil on loans from SCL (2002 – \$50,000, 2001 – \$401,000) and at year end, SCL had a loan balance of \$3,000,000 due from GE SeaCo (2002 – \$6,000,000). At December 31, 2003, a receivable of \$30,342,000 (2002 – a receivable of \$20,245,000) remains outstanding for GE SeaCo in respect of all the above, which is included in accounts receivable on SCL's consolidated balance sheet and most of which is settled in the following quarter.

For the year ended December 31, 2003, SCL received from OEH \$4,631,000 (2002 – \$5,899,000, 2001 – \$5,508,000) for the provision of various services, including financial, legal, accounting,

corporate executive, public company, human resources administration, insurance, office facilities, and system and computer services. These were provided under a shared services agreement between SCL and OEH on the basis of a fee plus reimbursements equivalent to the direct and indirect costs of providing the services. The agreement had an initial term of one year and is automatically renewed annually unless it is terminated by SCL or OEH. The Company had guaranteed since March 2000 a bank loan to OEH in an outstanding principal amount of \$19,088,000 at December 31, 2003 (2002 – \$112,854,000). This guarantee is being cancelled in March 2004.

SCL received from Silja, prior to its acquisition in May 2002, fees for the provision of various services which amounted to \$400,000 in 2002 (2001 – \$1,200,000). These services were provided on the basis of reimbursement of SCL's costs as approved by the board of directors of Silja. Included in the 2001 fee amount was interest charged on a two-month borrowing in the amount of \$2,302,000 by Silja under a maximum \$16,500,000 seasonal line of credit provided by SCL during the year. SCL also charters a SuperSeaCat to Silja to operate on the Helsinki-Tallinn route for which \$1,260,000 was paid to SCL in 2002 (2001 – \$3,832,000), and SCL charters from Silja a floating passenger terminal located at Liverpool for which \$56,000 was paid to Silja in 2002 (2001 – \$144,000). The amounts paid in 2002 relate to the period prior to acquisition.

## Five-year performance

Year ended December 31,	2003 \$000	2002 \$000	2001 \$000	2000 \$000	1999 \$000
Revenue	1,644,709	1,614,860	1,215,759	1,297,103	1,306,742
Net earnings on Class A and Class B common shares	111,370*	41,928	4,546	44,873	48,258**
Net earnings per Class A and Class B common share:	\$	\$	\$	\$	\$
Basic	5.28*	2.08	0.24	2.42	2.63**
Diluted	5.20*	2.07	0.24	2.42	2.62**
Cash dividends per Class A common share	0.05	0.225	0.30	0.975	1.10
Cash dividends per Class B common share	0.045	0.204	0.272	0.878	0.9945
	\$000	\$000	\$000	\$000	\$000
Total assets	2,761,917	2,796,834	2,652,446	2,608,990	2,515,417
Debt and capital lease obligations	1,589,626	1,784,274	1,673,803	1,628,104	1,700,285
Shareholders' equity	731,813	586,832	492,905	524,557	485,481

\* Year ended December 31, 2003 includes a gain on sale of ferry assets and non-recurring charges of \$54,000,000. Excluding this net gain, net earnings on Class A and Class B common shares would be \$57,370,000 and net earnings per Class A and Class B common share would be \$2.72 basic and \$2.70 diluted.

\*\* Year ended December 31, 1999 includes the cumulative effect of change in accounting principle of \$12,306,000 (\$0.67 per share (basic) and \$0.65 per share (diluted)).

## Price range of common shares and dividends (unaudited)

The principal market on which the Class A and B common shares of the Company are traded is the New York Stock Exchange. Their trading symbols are SCRA and SCRB, respectively. Both classes are also listed on the Pacific Exchange. The following table presents the quarterly high and low sales price of a common share in 2002 and 2003 as reported for New York Stock Exchange composite transactions:

	2003		2002	
	High	Low	High	Low
Class A common shares	\$	\$	\$	\$
First quarter	9.30	5.51	17.90	12.15
Second quarter	12.55	6.80	18.62	14.20
Third quarter	16.35	10.76	14.70	9.90
Fourth quarter	18.70	14.30	11.05	8.19
Class B common shares				
First quarter	9.15	5.92	17.60	12.20
Second quarter	12.50	7.05	18.20	14.20
Third quarter	16.25	10.75	14.50	10.09
Fourth quarter	18.50	14.55	10.90	8.40

The Company paid cash dividends on its Class A and B common shares during the first three quarters of 2002 at the quarterly rates of \$0.075 per Class A share and \$0.068 per Class B share. After suspending dividend payments for three quarters, the Company paid cash dividends on its Class A and B common shares in the third and fourth quarters of 2003 at the quarterly rates of \$0.025 per Class A share and \$0.0225 per Class B share.

## Earnings before interest, tax, depreciation and amortization (EBITDA) (unaudited)

Management believes that EBITDA is a useful measure of operating performance, to help determine the ability to incur capital expenditure or service indebtedness, because it is not affected by non-operating factors such as leverage and the historic cost of assets. However, EBITDA does not represent cash flow from operations as defined by U.S. generally accepted accounting principles, is not necessarily indicative of cash available to fund all cash flow needs and should not be considered as an alternative to earnings from operations under U.S. generally accepted accounting principles for purposes of evaluating results of operations. The following table reconciles EBITDA to earnings before net finance costs and net earnings.

Year ended December 31,	2003	2002	2001
	\$000	\$000	\$000
EBITDA	319,446	288,214	248,279
Depreciation and amortization	113,471	113,710	109,742
Earnings before net finance costs	205,975	174,504	138,537
Net finance costs	85,293	114,670	115,881
Minority interest	–	10,958	11,052
Provision for income taxes	8,224	5,860	5,970
Net earnings	112,458	43,016	5,634

## Summary of quarterly earnings (unaudited)

	Quarter ended			
	December 31	September 30	June 30	March 31
2003	\$000	\$000	\$000	\$000
Revenue and Other:				
Ferry operations	192,301	236,906	216,007	141,804
Rail operations	196,272	197,364	156,933	172,650
Container operations	32,180	31,919	35,901	32,906
Leisure operations	3,877	3,824	4,412	(1,226)
Other operations	8,550	10,126	6,718	5,274
	433,180	480,139	419,971	351,408
Earnings/(losses) before net finance costs:				
Ferry operations	6,113	28,874	7,902	(12,634)
Rail operations	20,864	28,757	13,759	20,703
Container operations	9,289	8,734	9,396	8,566
Leisure operations	3,877	3,824	4,412	(1,226)
Other operations	784	4,771	835	173
	40,927	74,960	36,304	15,582
Gain on sale of ferry assets and non-recurring charges	(6,000)	60,000	–	–
Corporate costs	(4,039)	(4,067)	(3,604)	(4,088)
Net finance costs	(17,792)	(19,577)	(21,339)	(26,585)
Earnings/(losses) before income taxes	13,096	111,316	11,361	(15,091)
Provision for/(benefit from) income taxes	1,192	10,300	1,767	(5,035)
Net earnings/(losses)	11,904	101,016	9,594	(10,056)
Preferred share dividends	272	272	272	272
Net earnings/(losses) on Class A and Class B common shares	11,632	100,744	9,322	(10,328)
	\$	\$	\$	\$
Earnings/(losses) per Class A and Class B common share:				
Basic	0.55	4.79	0.44	(0.49)
Diluted	0.54	4.68	0.44	(0.49)
Dividends per Class A common share	0.0250	0.0250	–	–
Dividends per Class B common share	0.0225	0.0225	–	–

## Summary of quarterly earnings (unaudited)

	Quarter ended			
	December 31	September 30	June 30	March 31
2002	\$000	\$000	\$000	\$000
Revenue and Other:				
Ferry operations	167,916	235,492	144,566	27,893
Rail operations	201,648	194,373	151,525	148,229
Container operations	32,721	29,421	27,512	33,323
Leisure operations	2,248	83,088	79,094	53,670
Other operations	3,548	4,892	7,504	8,562
	408,081	547,266	410,201	271,677
Earnings/(losses) before net finance costs:				
Ferry operations	12,353	25,807	18,524	(5,261)
Rail operations	24,635	19,368	15,787	9,103
Container operations	8,303	5,416	2,642	7,138
Leisure operations	2,248	15,791	17,901	5,335
Other operations	(2,616)	238	2,608	4,222
	44,923	66,620	57,462	20,537
Corporate costs	(3,883)	(3,907)	(3,743)	(3,505)
Net finance costs	(26,459)	(31,867)	(29,001)	(27,343)
Earnings/(losses) before minority interest and income taxes	14,581	30,846	24,718	(10,311)
Minority interest	–	(3,827)	(6,959)	(172)
Earnings/(losses) before income taxes	14,581	27,019	17,759	(10,483)
Provision for/(benefit from) income taxes	280	8,863	1,490	(4,773)
Net earnings/(losses)	14,301	18,156	16,269	(5,710)
Preferred share dividends	272	272	272	272
Net earnings/(losses) on Class A and Class B common shares	14,029	17,884	15,997	(5,982)
	\$	\$	\$	\$
Earnings/(losses) per Class A and Class B common share:				
Basic and diluted	0.67	0.85	0.79	(0.32)
Dividends per Class A common share	–	0.075	0.075	0.075
Dividends per Class B common share	–	0.068	0.068	0.068

## Shareholder and investor information

### Registered office

Sea Containers Ltd.  
22 Victoria Street  
P.O. Box HM 1179  
Hamilton HM EX  
Bermuda  
Tel: +1 (441) 295 2244  
Fax: +1 (441) 292 8666

### Correspondence

Sea Containers Services Ltd.  
Sea Containers House  
20 Upper Ground  
London SE1 9PF  
England  
Tel: +44 (0)20 7805 5000  
Fax: +44 (0)20 7805 5900  
(delete (0) if dialling from outside the U.K.)

### Website

<http://www.seacontainers.com>

### Stock exchange listings

Sea Containers Ltd. Class A and Class B common shares are listed on the New York and Pacific Stock Exchanges. The trading symbols are SCRA and SCRB.

### Share transfer agent and registrar

EquiServe Trust Company N.A.  
P.O. Box 43023  
Providence, Rhode Island 02940-3010  
Tel: +1 (781) 575-3170  
Website: <http://www.equiserve.com>

Shareholders are encouraged to contact the Transfer Agent directly regarding any change in certificate registration, change of mailing address, lost or stolen certificates, replacement of dividend checks, consolidation of multiple accounts, elimination of duplicate mailings, replacement of Form 1099-DIV and related shareholder service matters. Shareholders may also access their accounts and other information directly through EquiServe's website.

### Co-registrar of shares

The Bank of Bermuda  
6 Front Street  
Hamilton HM 11  
Bermuda



### Auditors

Deloitte & Touche LLP  
Two World Financial Center  
New York, New York 10281

### Annual general meeting

The annual general meeting of shareholders will be held at the registered office of the company at 22 Victoria Street, Hamilton, Bermuda on Monday June 7, 2004 at 2:00pm.

### Shareholder information

Copies of SEC Form 10-K annual reports, SEC Form 10-Q quarterly reports and other published financial information are available on the Sea Containers website, or may be obtained upon request to:  
Sea Containers America Inc.  
1155 Avenue of the Americas  
New York, New York 10036  
Tel: +1 (212) 302-5066  
Fax: +1 (212) 302-5073

### Investor relations

Shareholders, securities analysts, portfolio managers and representatives of financial institutions seeking financial information may contact:

William W. Galvin III  
The Galvin Partnership  
76 Valley Road  
Greenwich, Connecticut 06807  
Tel: +1 (203) 618-9800  
Fax: +1 (203) 618-1010  
Email: [wwg@galvinpartners.com](mailto:wwg@galvinpartners.com)

### Dividend reinvestment and share purchase plan

Sea Containers Ltd. offers this plan to owners of its common shares as a convenient and economical method of investing their cash dividends in Class A common shares at a discount from the market price and without payment of any brokerage commission or service charge. A common shareholder under the plan may also make optional cash deposits to purchase Class A common shares at market price without payment of commissions or other charges. For further information about the plan, please contact the share transfer agent and registrar, EquiServe, at the address left.

*Opposite page: New World wine being loaded into refrigerated containers on hire to CSAV in Valparaiso, Chile, for export to Europe. The Chilean shipping line is one of GE SeaCo's most important refrigerated container customers. As well as wine, the containers are used to transport a variety of fruit and vegetables from South America to the northern hemisphere.*



**Sea Containers Ltd.**

22 Victoria Street  
P.O. Box HM 1179  
Hamilton HM EX  
Bermuda

Tel: +1 (441) 295 2244

Fax: +1 (441) 292 8666

Correspondence:

Sea Containers Services Ltd.

Sea Containers House

20 Upper Ground

London SE1 9PF

England

Tel: +44 (0)20 7805 5000

Fax: +44 (0)20 7805 5900

[www.seacontainers.com](http://www.seacontainers.com)