

P&O FINANCE PLC

REGISTERED NUMBER : 718002

DIRECTORS' REPORT AND ACCOUNTS

31 DECEMBER 1999



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**P&O FINANCE PLC****REPORT OF THE DIRECTORS**

The Directors present their annual report and accounts of the Company for the year ended 31 December 1999.

Principal activity and review of business:

The Company's principal activity is trading in financial instruments. The results for the year are set out in the profit and loss account on page 5. The directors do not recommend the payment of a dividend (1998 £nil).

Directors and directors' interests:

The directors of the Company during the year were:

J D Beverton  
R M Gradon  
N L Luff  
N J Monteith  
M Owen

According to notifications received by the Company relating to interests of directors and their families in the share capital and debentures of the company and other group companies, there were the following beneficial interests in the stock of the ultimate holding company, The Peninsular and Oriental Steam Navigation Company:

	Deferred Stock		Deferred Stock under option			
	1999	1998	1999	Granted in year	Exercised in year	1998
J D Beverton	35,249	28,479	8,000	4,100	22,989	26,889
N J Monteith	4,493	4,085	27,778	5,800	-	21,978
M Owen	17,303	16,545	11,442	3,800	-	7,642

The interests of R M Gradon and N L Luff in shares and debentures of group companies and of awards under the P&O Long Term Incentive Plan are disclosed in the directors' report of the Company's ultimate holding company, The Peninsular and Oriental Steam Navigation Company.

In addition M Owen had an interest in £600 (1998 £600) 5.5% concessionary stock and £1 (1998 £nil) 6.75% convertible stock at 31 December 1999. J D Beverton also had an interest in £600 (1998 £600) 5.5% concessionary stock at 31 December 1999.

Creditor payment policy

The company does not normally have any trade creditors.

**P&O FINANCE PLC**

**REPORT OF THE DIRECTORS (Cont'd)**

**Year 2000 Compliance**

The directors are aware of the risks and uncertainties associated with the Year 2000 although it is not anticipated that the impact on the company will be significant. At the date of signature the company has not encountered disruption from the Year 2000 issue and has not incurred any additional costs.

**Implications of the euro**

The company is assessing the business effect of the introduction of the euro and it is anticipated that the effect will be limited. The company has not incurred any costs to date.

**Donations**

During the year ended 31 December 1999 the Company contributed £907,750 (1998 £825,205) for charitable purposes.

**Auditors**

Under section 385 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit Plc as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

79 Pall Mall  
London  
SW1Y 5EJ

25 July 2000

On behalf of the Board



M OWEN  
Secretary

P&O FINANCE PLC

DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE PREPARATION OF THE ACCOUNTS

The following statement, which should be read in conjunction with the statement of auditors' responsibilities included in the report of the auditors on page 4, is made with a view to distinguishing for shareholders the respective responsibilities of the directors and of the auditors in relation to the accounts.

The directors are required by the Companies Act 1985 to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss for the financial year.

In preparing the accounts on pages 5 to 10, the directors are required to select appropriate accounting policies and then apply them consistently, make judgements and estimates that are reasonable and prudent and state whether all accounting standards which they consider to be applicable have been followed. The directors are also required to use a going concern basis in preparing the accounts unless this is inappropriate.

The directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Company and which enable them to ensure that the accounts comply with the Companies Act 1985.

The directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

AUDITORS' REPORT TO THE MEMBERS OF

P&O FINANCE PLC

We have audited the financial statements on pages 5 to 10.

Respective responsibilities of directors and auditors

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

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

Basis of opinion

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

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

Opinion

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

London  
25 July 2000

*KPMG Audit Plc*

KPMG Audit Plc  
Chartered Accountants  
Registered Auditor

**P&O FINANCE PLC**  
**PROFIT AND LOSS ACCOUNT**  
**FOR THE YEAR ENDED 31 DECEMBER 1999**

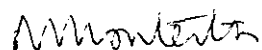
	Note	1999 £	1998 £
Interest swaps:			
Intra group interest received		12,950,608	14,830,209
Third party interest received		50,271,604	35,588,744
Intra group interest paid		(8,682,985)	(10,605,754)
Third party interest paid		(54,086,495)	(39,740,817)
 Intra group interest received		 5,697	 -
Exchange gains		459,178	227,027
Net interest and similar items		<u>917,607</u>	<u>299,409</u>
Administration costs		(908,386)	(832,914)
Profit / (loss) on ordinary activities before taxation	2	<u>9,221</u>	<u>(533,505)</u>
Taxation	3	196,448	150,080
Profit / (loss) for the financial year		<u>205,669</u>	<u>(383,425)</u>
Profit and loss account brought forward		(1,463,594)	(1,080,169)
Profit and loss account carried forward		<u><u>(1,257,925)</u></u>	<u><u>(1,463,594)</u></u>

All the above transactions relate to continuing business activities.

P&O FINANCE PLCBALANCE SHEET AT 31 DECEMBER 1999

	Note	1999 £	1998 £
<b>Current assets</b>			
Debtors	4	12,581,486	11,293,245
		<u>                    </u>	<u>                    </u>
<b>Capital and reserves</b>			
Called up share capital	5	4,000,000	4,000,000
Profit and loss account		(1,257,925)	(1,463,594)
		<u>                    </u>	<u>                    </u>
Equity shareholders' funds		2,742,075	2,536,406
<b>Creditors</b>	6	9,839,411	8,756,839
		<u>                    </u>	<u>                    </u>
		12,581,486	11,293,245
		<u>                    </u>	<u>                    </u>

The financial statements were approved by the Board on 25 July 2000 and were signed on its behalf by N J Monteith.



N J MONTEITH  
Director

P&O FINANCE PLCSTATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES  
FOR THE YEAR ENDED 31 DECEMBER 1999

	Year ended 31 Dec 1999 £	Year ended 31 Dec 1998 £
Profit / (loss) for the financial year attributable to shareholders	205,669	(383,425)
Total recognised gains and losses for the financial year	<u>205,669</u>	<u>(383,425)</u>

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS'  
FUNDS FOR THE YEAR ENDED 31 DECEMBER 1999

	Year ended 31 Dec 1999 £	Year ended 31 Dec 1998 £
Total recognised gains and losses for the financial year	205,669	(383,425)
Shareholders' funds at the beginning of the year	<u>2,536,406</u>	<u>2,919,831</u>
Shareholders' funds at the end of the year	<u>2,742,075</u>	<u>2,536,406</u>



**P&O FINANCE PLC****NOTES TO THE ACCOUNTS AT 31 DECEMBER 1999****1 Accounting policies**

## Basis of preparation of accounts

- (a) The accounts are prepared on the historical cost basis and in accordance with applicable United Kingdom accounting standards.
- (b) Under Financial Reporting Standard 1 (revised 1996), the Company is exempt from the requirement to prepare a cash flow statement as it is a wholly owned subsidiary undertaking of a parent undertaking which has produced a group cash flow statement in accordance with the provisions of the standard.

## Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange ruling at the date of the transaction. Assets and liabilities in foreign currencies have been expressed in sterling using the rates of exchange ruling at the balance sheet date. Exchange differences arising are taken to the profit and loss account.

## Deferred taxation

Deferred taxation is provided on income and expenditure dealt with for taxation purposes in periods different from those for accounting purposes, to the extent that the difference in the tax charge cannot be expected with reasonable probability to continue for the foreseeable future.

**2 Profit and loss account**

- (a) The basis of charging intra group interest is agreed between the parties from time to time.
- (b) The directors do not receive any remuneration for their services to the Company; their emoluments for work within the group are paid by other group companies and are dealt with in the accounts of those companies (1998 - nil).
- (c) The Company had no employees during the year (1998 - none).
- (d) Auditors' remuneration is dealt with on a group basis and no amount has been specifically recharged to this Company (1998 - nil).

**P&O FINANCE PLC****NOTES TO THE ACCOUNTS AT 31 DECEMBER 1999 (cont'd)****3 Taxation**

Taxation on ordinary activities is made up as follows:

	1999 £	1998 £
UK Corporation tax at 30.25% (1998 31%)		
Current year	(2,952)	175,600
Prior year	199,400	(25,520)
	<u>196,448</u>	<u>150,080</u>

**4 Debtors**

	1999 £	1998 £
Amounts owed by fellow subsidiaries	3,168,012	2,995,359
Taxation	1,092,301	1,046,603
Other debtors and prepayments	8,321,173	7,251,283
	<u>12,581,486</u>	<u>11,293,245</u>

**5 Called up share capital**

As at 31 December 1999 and 1998:

	<u>Authorised</u>	<u>Allotted, called up and fully paid</u>
Ordinary shares of 25p each	£10,000,000	£4,000,000
Number of shares	<u>40,000,000</u>	<u>16,000,000</u>

**6 Creditors**

	1999 £	1998 £
Amounts due within one year:		
Taxation	1,143,600	1,343,000
Other creditors and accruals	8,695,811	7,413,839
	<u>9,839,411</u>	<u>8,756,839</u>

**P&O FINANCE PLC****NOTES TO THE ACCOUNTS AT 31 DECEMBER 1999 (cont'd)****7 Future commitments**

The Company has entered into interest rate swap transactions in respect of group US dollar, Australian dollar, deutschmark and sterling loans. At the year end, the company had entered into interest rate swaps until 2005 in respect of the following principal amounts:

	1999 fixed £m	1999 variable £m	1998 fixed £m	1998 variable £m
Third party sterling	6.1	72.0	107.7	90.0
	=====	=====	=====	=====
	US\$m	US\$m	US\$m	US\$m
Third party US dollar	276.9	-	286.5	-
Intra group US dollar	-	180.0	-	230.0
	=====	=====	=====	=====
	AUS\$m	AUS\$m	AUS\$m	AUS\$m
Third party Australian dollar	50.0	-	50.0	-
Intra group Australian dollar	-	50.0	-	50.0
	=====	=====	=====	=====
	DMm	DMm	DMm	DMm
Third party deutschmark	1,277.7	1,277.7	1,127.7	1,127.7
	=====	=====	=====	=====

The Company is a wholly owned subsidiary of The Peninsular and Oriental Steam Navigation Company and as a reporting entity with no capital instruments that are listed or publicly traded is not required to make disclosures under Financial Reporting Standard 13.

**8 Ultimate holding company**

The Company's ultimate holding company is The Peninsular and Oriental Steam Navigation Company, incorporated by Royal Charter in Great Britain and therefore not registered. Its accounts are available to the public from the Registrar of Companies, Companies House, Crown Way, Cardiff, CF4 3UZ.

The Company is a wholly owned subsidiary of The Peninsular and Oriental Steam Navigation Company and as such, the company has taken advantage of the exemption available under Financial Reporting Standard 8, not to disclose transactions with other group companies.