

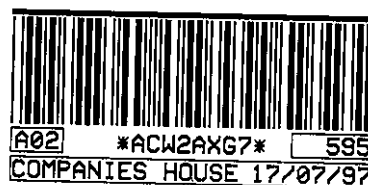
P&O FINANCE PLC

REGISTERED NUMBER : 718002

718022

DIRECTORS' REPORT AND ACCOUNTS

31 DECEMBER 1996



P&O FINANCE PLCREPORT OF THE DIRECTORS

The Directors present their annual report and accounts of the Company for the year ended 31 December 1996.

Principal activity and review of business:

The Company's principal activity is trading in financial instruments. Movements in reserves are set out in the accounts. The directors do not recommend the payment of a dividend.

Directors and directors' interests:

The directors of the Company during the year were:-

J D Beverton	
J M Crossman	(resigned 30 June 1996)
R M Gradon	(appointed 1 July 1996)
N L Luff	
N J Monteith	
D E A Morris	
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			
	1996	1995	1996	Granted in year	Exercised in year	1995
J D Beverton	26,350	25,244	29,721	-	11,957	41,678
N L Luff	-	-	46,192	15,000	-	31,192
N J Monteith	2,460	1,758	25,787	5,978	317	20,126
M Owen	11,380	6,607	9,112	-	15,185	24,297
R M Gradon	5,272	5,272†	59,954	-	-	59,954†

† At date of appointment

D E A Morris is also a member of the board of directors of the ultimate holding company, at 31 December 1996 and 1995, of which this company is a wholly owned subsidiary. His interests in shares and debentures of group companies are disclosed in the directors' report of that company.

In addition M Owen and J D Beverton each had an interest in £600 5.5% concessionary stock at 31 December 1996 and 1995.

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

14 July 1997

On behalf of the Board



M OWEN

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 3, 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 4 to 10, the directors are required to select appropriate accounting policies, 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.

REPORT OF THE AUDITORS TO THE MEMBERS OF

P&O FINANCE PLC

We have audited the accounts on pages 4 to 10

Respective responsibilities of directors and auditors

As described on page 2 the Company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, 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 accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company as at 31 December 1996 and of its result for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

London
14 July 1997

KPMG Audit Plc
Chartered Accountants
Registered Auditor

P&O FINANCE PLC
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 1996

	Note	1996 £	1995 £
Interest swaps:			
Intra group interest received		29,650,359	20,107,039
Third party interest received		30,867,140	22,816,939
Intra group interest paid		(14,564,106)	(16,444,219)
Third party interest paid		(49,472,199)	(31,157,115)
Release of provision against future interest swap costs		1,873	49,169
Swap closure profits		-	525,935
Intra group interest received		6,142,268	9,789,333
Third party interest received		2,345	1,801
Third party interest paid		-	(97,899)
Exchange gains		1,215	459
Net interest received		2,628,895	5,591,442
Administration costs		(21,500)	4,500
Other operating income		-	299,929
Profit on ordinary activities before taxation	2	2,607,395	5,895,871
Taxation charge	3	(854,000)	(1,476,000)
Profit for the financial year		1,753,395	4,419,871
Profit and loss account brought forward		(1,075,707)	(5,495,578)
Profit and loss account carried forward		677,688	(1,075,707)

All the above transactions relate to continuing business activities.

P&O FINANCE PLCBALANCE SHEET AT 31 DECEMBER 1996

	Note	1996 £	1995 £
Current assets			
Debtors	4	20,313,497	114,268,654
		<u>20,313,497</u>	<u>114,268,654</u>
Capital and reserves			
Called up share capital	5	4,000,000	4,000,000
Profit and loss account		677,688	(1,075,707)
Equity shareholders' funds		<u>4,677,688</u>	<u>2,924,293</u>
Provisions for liabilities and charges			
Other provisions	6	-	121,000
Creditors	7	15,635,809	111,223,361
		<u>20,313,497</u>	<u>114,268,654</u>

The financial statements were approved by the Board on 14 July 1997 and were signed on its behalf by N J Monteith.



N J MONTEITH
Director

P&O FINANCE PLC**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**
FOR THE YEAR ENDED 31 DECEMBER 1996

	Year ended 31 Dec 1996 £	Year ended 31 Dec 1995 £
Profit for the financial year attributable to shareholders	1,753,395	4,419,871
Total recognised gains and losses for the financial year	<u>1,753,395</u>	<u>4,419,871</u>

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS'
FUNDS FOR THE YEAR ENDED 31 DECEMBER 1996

	Year ended 31 Dec 1996 £	Year ended 31 Dec 1995 £
Total recognised gains and losses for the financial year	1,753,395	4,419,871
Shareholders' funds at the beginning of the year	<u>2,924,293</u>	<u>(1,495,578)</u>
Shareholders' funds at the end of the year	<u>4,677,688</u>	<u>2,924,293</u>

P&O FINANCE PLC**NOTES TO THE ACCOUNTS AT 31 DECEMBER 1996****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, 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.

Investments

Investments are stated at the lower of cost and market value.

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 (1995 - nil).
- (c) The Company had no employees during the year (1995 - nil).
- (d) Auditors' remuneration is dealt with on a group basis and no amount has been specifically recharged to this company (1995 - nil).

P&O FINANCE PLC**NOTES TO THE ACCOUNTS AT 31 DECEMBER 1996 (cont'd)****3 Taxation**

The taxation (charge)/credit on ordinary activities is as follows:

	1996 £	1995 £
UK Corporation tax at 33% (1995 33%)		
Current year	(814,000)	(1,689,000)
Prior year	-	301,000
Deferred taxation	(40,000)	(88,000)
	<u>(854,000)</u>	<u>(1,476,000)</u>

4 Debtors

	1996 £	1995 £
Amounts owed by fellow subsidiaries	6,659,241	94,200,000
Taxation	2,142,001	2,270,283
Other debtors and prepayments	11,512,255	17,798,371
	<u>20,313,497</u>	<u>114,268,654</u>

5 Called up share capital

As at 31 December 1996 and 1995:

	<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 Other provisions

	Total £
Provision against future interest swap costs:	
At 1 January 1996	121,000
Transfer to profit and loss account	(1,873)
Applied during the year	(119,127)
At 31 December 1996	<u>-</u>

P&O FINANCE PLC**NOTES TO THE ACCOUNTS AT 31 DECEMBER 1996 (cont'd)**

7 Creditors	1996	1995
	£	£
Amounts due within one year:		
Amounts owed to fellow subsidiaries	-	105,367,521
Taxation	3,777,645	2,963,645
Other creditors and accruals	11,858,164	2,892,195
	<u>15,635,809</u>	<u>111,223,361</u>
8 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 2004 in respect of the following principal amounts:

	1996	1996	1995	1995
	Pay	Pay	Pay	Pay
	fixed	variable	fixed	variable
	£m	£m	£m	£m
Third party sterling	110.8	126.0	118.6	-
Intra group sterling	-	-	-	32.1
	<u>110.8</u>	<u>126.0</u>	<u>118.6</u>	<u>32.1</u>
	US\$m	US\$m	US\$m	\$m
Third party US dollar	350.0	-	478.9	150.0
Intra group US dollar	-	326.8	182.4	481.7
	<u>350.0</u>	<u>326.8</u>	<u>661.3</u>	<u>631.7</u>
	AUS\$m	AUS\$m	AUS\$m	AUS\$m
Third party Australian dollar	80.0	-	50.0	-
Intra group Australian dollar	-	50.0	-	50.0
	<u>80.0</u>	<u>50.0</u>	<u>50.0</u>	<u>50.0</u>
	DMm	DMm	DMm	DMm
Third party deutschmark	577.7	577.7	-	-
	<u>577.7</u>	<u>577.7</u>	<u>-</u>	<u>-</u>

P&O FINANCE PLC**NOTES TO THE ACCOUNTS AT 31 DECEMBER 1996 (cont'd)****9 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.