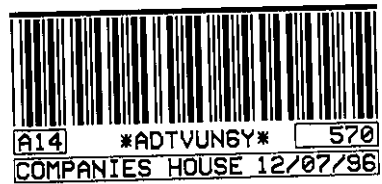


P&O FINANCE PLC

REGISTERED NUMBER : 7180²2

DIRECTORS' REPORT AND ACCOUNTS

31 DECEMBER 1995



P&O FINANCE PLCREPORT OF THE DIRECTORS

The Directors present their annual report and accounts of the Company for the year ended 31 December 1995.

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			
	1995	1994	Granted Exercised			
			1995 in year	in year		1994
J D Beverton	25,244	24,833	41,678	-	-	41,678
N L Luff	-	-	31,192	-	-	31,192
N J Monteith	1,758	1,397	20,126	-	-	20,126
M Owen	6,607	5,447	24,297	442	521	24,376

D E A Morris and J M Crossman were also members of the board of directors of the ultimate holding company, at 31 December 1995 and 1994, of which this company is a wholly owned subsidiary. Their 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 1995 and 1994.

79 Pall Mall
London SW1Y 5EJ

On behalf of the Board



M OWEN
Director

5 July 1996

P&O FINANCE PLCDIRECTORS' 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 9, 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 9

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 1995 and of its result for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG

London

KPMG
Chartered Accountants
Registered Auditors

5 July 1996

P&O FINANCE PLCPROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 1995

	Note	1995 £	1994 £
Interest swaps:			
Intra group interest received		20,107,039	2,619,016
Third party interest received		22,816,939	11,498,691
Intra group interest paid		(16,444,219)	(1,681,902)
Third party interest paid		(31,157,115)	(19,153,304)
Release of provision against future interest swap costs		49,169	-
Swap closure profits		525,935	-
Intra group interest received		9,789,333	6,860,694
Third party interest received		1,801	894,066
Third party interest paid		(97,899)	-
Exchange gains/(losses)		459	(10,088)
Net interest received		5,591,442	1,027,173
Administration costs		-	(4,701)
Management charge		4,500	-
Other operating income		299,929	96,000
Provision against doubtful debts		-	(41,130)
Profit on ordinary activities before taxation	2	5,895,871	1,077,342
Taxation charge	3	(1,476,000)	(255,601)
Profit for the financial year		4,419,871	821,741
Profit and loss account brought forward		(5,495,578)	(6,317,319)
Profit and loss account carried forward		(1,075,707)	(5,495,578)

All the above transactions relate to continuing business activities

P&O FINANCE PLCBALANCE SHEET AT 31 DECEMBER 1995

	Note	1995 £	1994 £
Current assets			
Debtors	4	114,268,654	109,546,729
Listed investments	5	-	3,735,807
		<hr/>	<hr/>
		114,268,654	113,282,536
		<hr/>	<hr/>
Capital and reserves			
Called up share capital	6	4,000,000	4,000,000
Profit and loss account		(1,075,707)	(5,495,578)
		<hr/>	<hr/>
Equity shareholders' funds		2,924,293	(1,495,578)
Provisions for liabilities and charges			
Other provisions	7	121,000	389,000
Creditors	8	111,223,361	114,389,114
		<hr/>	<hr/>
		114,268,654	113,282,536
		<hr/>	<hr/>

The financial statements were approved by the Board on 5 July 1996 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 1995

	Year ended 31 Dec 1995 £	Year ended 31 Dec 1994 £
Profit for the financial year attributable to shareholders	4,419,871	821,741
Total recognised gains and losses for the financial year	<u>4,419,871</u>	<u>821,741</u>

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS
FUNDS FOR THE YEAR ENDED 31 DECEMBER 1995

	Year ended 31 Dec 1995 £	Year ended 31 Dec 1994 £
Total recognised gains and losses for the financial year	4,419,871	821,741
Shareholders' funds at the beginning of the year	<u>(1,495,578)</u>	<u>(2,317,319)</u>
Shareholders' funds at the end of the year	<u>2,924,293</u>	<u>(1,495,578)</u>

P&O FINANCE PLCNOTES TO THE ACCOUNTS AT 31 DECEMBER 1995**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 (1994 - nil).
- (c) The Company had no employees during the year (1994 - nil).
- (d) Auditors' remuneration is dealt with on a group basis and no amount has been specifically recharged to this company (1994 - nil).

P&O FINANCE PLCNOTES TO THE ACCOUNTS AT 31 DECEMBER 1995 (cont'd)3 **Taxation**

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

	1995 £	1994 £
UK Corporation tax at 33% (1994 33%)		
Current year	(1,689,000)	(225,000)
Prior year	301,000	(158,601)
Deferred taxation	(88,000)	128,000
	<hr/>	<hr/>
	(1,476,000)	(255,601)
	<hr/>	<hr/>

The deferred taxation relates to taxation on the provision for future swap costs of £121,000 (1994 £389,000). A potential deferred tax asset of £1,838,367 (1994 £1,838,807) has not been provided.

4 **Debtors**

	1995 £	1994 £
Amounts owed by fellow subsidiaries	94,200,000	100,700,000
Taxation	2,270,283	4,247,314
Other debtors and prepayments	17,798,371	4,599,415
	<hr/>	<hr/>
	114,268,654	109,546,729
	<hr/>	<hr/>

5 **Investments**

	£
At 1 January 1995	3,735,807
Disposals	(3,735,807)
At 31 December 1995	<hr/> -

The listed investments were debentures issued by Charlwood Alliance Holdings plc, a fellow subsidiary. They were redeemed during the year. Last year they were listed on the London Stock Exchange and had a market value of £3,955,021. The income relating to these debentures is included within intra group interest received.

6 **Called up share capital**

As at 31 December 1995 and 1994:

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

P&O FINANCE PLCNOTES TO THE ACCOUNTS AT 31 DECEMBER 1995 (cont'd)

7 Other provisions

	Total £
Provision against future interest swap costs:	
At 1 January 1995	389,000
Applied during the year	(268,000)
	<hr/>
At 31 December 1995	121,000
	<hr/>

8 Creditors

	1995 £	1994 £
Amounts due within one year:		
Amounts owed to fellow subsidiaries	105,367,521	106,653,328
Taxation	2,963,645	3,423,199
Other creditors and accruals	2,892,195	4,312,587
	<hr/>	<hr/>
	111,223,361	114,389,114
	<hr/>	<hr/>

9 Future commitments

The Company has entered into interest rate swap transactions in respect of group US dollar, Australian dollar and sterling loans. At the year end, the company had entered into interest rate swaps until 2007 in respect of the following principal amounts:

	1995 £m Pay fixed	1995 £m Pay variable	1994 £m Pay fixed	1994 £m Pay variable
Third party sterling	118.6	-	120.9	-
Intra group sterling	-	32.1	-	2.2
	<hr/>	<hr/>	<hr/>	<hr/>
	US\$m	US\$m	US\$m	\$m
Third party US dollar	478.9	150.0	335.6	-
Intra group US dollar	182.4	481.7	7.8	300.0
	<hr/>	<hr/>	<hr/>	<hr/>
	661.3	631.7	343.4	300.0
	<hr/>	<hr/>	<hr/>	<hr/>
	AUS\$m	AUS\$m	AUS\$m	AUS\$m
Third party Australian dollar	50.0	-	-	-
Intra group Australian dollar	-	50.0	-	-
	<hr/>	<hr/>	<hr/>	<hr/>

10 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.