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P&O FINANCE PLC

REGISTERED NUMBER : 718002

DIRECTORS' REPORT AND ACCOUNTS

31 DECEMBER 2001



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COMPANIES HOUSE

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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 2001.

Principal activity and review of business:

The Company's principal activity is to enter into interest rate swaps, cross currency swaps, foreign currency forward contracts and fuel price swaps on behalf of the P&O Group. 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 (2000 - Nil).

Directors and directors' interests:

The directors of the Company during the year were:

A F Crowe	
R M Gradon	
J M Laver	(Resigned 20th April 2001)
N J Monteith	
S Scott	(Appointed 20th April 2001)

On 31<sup>st</sup> May 2002 N J Monteith resigned and P A Walker was appointed a director of the Company.

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		
	2001	2000		Granted in year	Exercised in year	
N J Monteith	17,036	7,105	195,618	73,189	-	122,429
S Scott	60	60*	32,159	16,059	-	16,100*
A F Crowe	Nil	Nil	82,074	35,980	-	46,094

\* at/from date of appointment

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

Implications of the euro

The Company successfully integrated the introduction of the euro into its operating systems. The Company has not incurred any significant costs to date.

**P&O FINANCE PLC**

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

**Creditor payment policy**

The Company's policy is to pay suppliers in accordance with terms and conditions agreed when the orders are placed or contracts negotiated.

**Donations**

During the year ended 31 December 2001 the Company contributed £665,467 (2000 - £552,555) for charitable purposes. The Company made no contributions to EU political parties (2000 - £nil).

**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

11 July 2002

On behalf of the Board



S. SCOTT  
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 independent auditors on page 4, is made with a view to distinguishing for shareholders the respective responsibilities of the directors and of the independent 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 11, 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.

**REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF**

**P&O FINANCE PLC**

We have audited the financial statements on pages 5 to 11.

**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 1985. 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 2001 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*KPMG Audit Plc*

London  
11 July 2002

KPMG Audit Plc  
Chartered Accountants  
Registered Auditor

**P&O FINANCE PLC**  
**PROFIT AND LOSS ACCOUNT**  
**FOR THE YEAR ENDED 31 DECEMBER 2001**

	Note	2001 £	2000 £
Administration costs		(665,467)	(552,556)
Operating loss		(665,467)	(552,556)
Interest swaps:			
Intra group interest received	-	6,232,416	
Third party interest received	52,395,444	59,064,647	
Intra group interest paid	-	(4,419,586)	
Third party interest paid	(63,078,690)	(63,005,180)	
Exchange gains on currency swaps	519,216	2,725,183	
Fuel price swaps:			
Fuel price swap gains	692,232	1,793,011	
Fuel price swap losses	(692,421)	(1,762,942)	
Net interest and similar items		(10,164,219)	627,549
(Loss)/ profit on ordinary activities before taxation	2	(10,829,686)	74,993
Tax on (loss)/ profit on ordinary activities	3	3,346,543	(66,641)
(Loss)/ profit for the financial year		(7,483,143)	8,352
Profit and loss account brought forward		(1,249,573)	(1,257,925)
Profit and loss account carried forward		(8,732,716)	(1,249,573)

All the above transactions relate to continuing business activities.

P&O FINANCE PLCBALANCE SHEET AT 31 DECEMBER 2001

	Note	2001 £	2000 £
Current assets			
Debtors	4	11,301,965	19,027,794
		<hr/>	<hr/>
Capital and reserves			
Called up share capital	5	4,000,000	4,000,000
Profit and loss account		(8,732,716)	(1,249,573)
		<hr/>	<hr/>
Equity shareholders' (deficit)/funds		(4,732,716)	2,750,427
Creditors: falling due within one year	6	16,034,681	16,277,367
		<hr/>	<hr/>
		11,301,965	19,027,794
		<hr/>	<hr/>

The financial statements were approved by the Board on 11 July 2002 and were signed on its behalf by P A Walker.



P A WALKER  
Director

P&O FINANCE PLCSTATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES  
FOR THE YEAR ENDED 31 DECEMBER 2001

	Year ended 31 Dec 2001 £	Year ended 31 Dec 2000 £
(Loss)/ profit for the financial year attributable to shareholders	(7,483,143)	8,352
Total recognised gains and losses for the financial year	(7,483,143)	8,352

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS'  
FUNDS FOR THE YEAR ENDED 31 DECEMBER 2001

	Year ended 31 Dec 2001 £	Year ended 31 Dec 2000 £
Total recognised gains and losses for the financial year	(7,483,143)	8,352
Shareholders' funds at the beginning of the year	2,750,427	2,742,075
Shareholders' funds at the end of the year	(4,732,716)	2,750,427



**P&O FINANCE PLC****NOTES TO THE ACCOUNTS AT 31 DECEMBER 2001****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, including Financial Reporting Standard 18 (Accounting policies). The financial statements have been prepared on a going concern basis as the parent company has undertaken to provide the company with sufficient funds as are necessary for it to meet its current liabilities. If the going concern basis of preparation were not adopted, no significant adjustments to the company's liabilities would be required.
- (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.
- (c) 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.

**Interest Swaps**

Gross amounts payable and receivable in respect of interest rate swaps are recognised in the profit and loss account over the period of the contracts.

**Cross Currency Swaps**

Gross exchange gains and losses in respect of cross currency swaps are recognised in the profit and loss accounts as payment falls due.

**Fuel Price Swaps**

The Company enters into fuel price swaps on behalf of other group companies. Back to back arrangements with group companies are established for each third party contract. The gains and losses on each fuel price swap are recognised in the profit and loss account as payment falls due.

**Foreign currency forward contracts**

The Company enters into foreign currency forward contracts on behalf of other group companies. Gains or losses on forwards are recognised when the currency contracts mature.

**(d) 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.

**(e) 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.

**P&O FINANCE PLC****NOTES TO THE ACCOUNTS AT 31 DECEMBER 2001 (cont'd)****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 (2000 - £nil).
- (c) The Company had no employees during the year (2000 - none).
- (d) Auditors' remuneration is dealt with on a group basis and no amount has been specifically recharged to this Company (2000 - £nil).

**3 Taxation**

Taxation on ordinary activities is made up as follows:

	2001 £	2000 £
UK Corporation tax at 30%		
Current year	3,332,000	(22,500)
Prior years	14,543	(44,141)
	<hr/>	<hr/>
	3,346,543	(66,641)
	<hr/>	<hr/>

**4 Debtors**

	2001 £	2000 £
Amounts owed by fellow subsidiaries	-	3,428,625
Taxation	3,541,219	878,219
Other debtors and prepayments	7,760,746	14,720,950
	<hr/>	<hr/>
	11,301,965	19,027,794
	<hr/>	<hr/>

**5 Called up share capital**

As at 31 December 2001 and 2000:

	Authorised	Allotted, called up and fully paid
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 PLC****NOTES TO THE ACCOUNTS AT 31 DECEMBER 2001 (cont'd)****6 Creditors: amounts due within one year**

	2001 £	2000 £
Amounts owed to fellow subsidiaries	4,628,519	-
Taxation	22,500	1,141,500
Other creditors and accruals	11,383,662	15,135,867
	<hr/>	<hr/>
	16,034,681	16,277,367
	<hr/>	<hr/>

**7 Future commitments**

The Company has entered into interest rate swap transactions in respect of group US dollar, Australian dollar, euro and sterling loans. At the year end, the Company had entered into interest rate swaps until 2011 in respect of the following principal amounts:

	2001 fixed £m	2001 variable £m	2000 fixed £m	2000 variable £m
Third party sterling	305.5	36.0	227.3	54.0
	<hr/>	<hr/>	<hr/>	<hr/>
	US\$m	US\$m	US\$m	US\$m
Third party US dollar	342.7	-	376.8	-
Intra group US dollar	-	-	-	180.0
	<hr/>	<hr/>	<hr/>	<hr/>
	AUS\$m	AUS\$m	AUS\$m	AUS\$m
Third party Australian dollar	70.0	-	70.0	-
	<hr/>	<hr/>	<hr/>	<hr/>
	EUROm	EUROm	EUROm	EUROm
Third party euro	204.5	204.5	613.6	613.6
	<hr/>	<hr/>	<hr/>	<hr/>

**P&O FINANCE PLC****NOTES TO THE ACCOUNTS AT 31 DECEMBER 2001 (cont'd)****8 Related party transactions**

During the year and as at 31 December 2001 the Company was party to interest rate swap agreements for a nominal value of EURO 204.5m, expiring in 2004, with the HTC Hanseatic Trade Center GmbH & Co. Grundbesitz KG, an associate of the Company's ultimate holding company. During the year amounts totalling EURO 2,074,926 were accrued to HTC in the year in respect of these transactions. At 31 December 2001 EURO 25,996 was receivable from HTC.

The Company has outstanding forward foreign exchange contracts with Associated Bulk Carriers (London) Ltd, an associate of the Company's ultimate holding company. During the year £377,073 was received in respect of these transactions.

**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.