

P&O FINANCE PLC

REGISTERED NUMBER : 7180<sup>2</sup>/<sub>2</sub>

DIRECTORS' REPORT AND ACCOUNTS

31 DECEMBER 1998



**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 1998.

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  
R M Gradon  
N L Luff  
N J Monteith  
D E A Morris (Resigned 31 December 1998)  
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			1997
	1998	1997	1998	Granted in year	Exercised in year	
J D Beverton	28,479	25,684	26,889	3,900	6,732	29,721
N L Luff	8,203	228	35,366	-	12,491	47,857
N J Monteith	4,085	3,716	21,978	4,700	8,826	26,104
M Owen	16,545	15,443	7,642	7,200	5,587	6,029

On 10 June 1998 R M Gradon was appointed to the board of directors of the ultimate holding company, The Peninsular and Oriental Steam Navigation Company, of which this company is a wholly owned subsidiary. His interests in shares and debentures of group companies from the date of his appointment along with his awards under the P&O Long Term Incentive Plan are disclosed in the directors' report of that company. At 31 December 1997 he had an interest in £10,107 deferred stock of that company and £28,330 deferred stock under option.

The interests of D E A Morris are disclosed in the directors' report in the accounts of the Company's ultimate holding company.

In addition M Owen and J D Beverton each had an interest in £600 5.5% concessionary stock at 31 December 1998 and 1997.

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. The company does not expect to incur any costs in connection with the Year 2000 issue.

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 1998 the Company contributed £825,205 (1997 £111,250) 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

19 July 1999

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.

REPORT OF THE AUDITORS TO THE MEMBERS OF

P&O FINANCE PLC

We have audited the accounts on pages 5 to 10.

Respective responsibilities of directors and auditors

As described on page 3 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 1998 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  
19 July 1999

KPMG Audit Plc  
Chartered Accountants  
Registered Auditor

**P&O FINANCE PLC**  
**PROFIT AND LOSS ACCOUNT**  
**FOR THE YEAR ENDED 31 DECEMBER 1998**

	Note	1998 £	1997 £
Interest swaps:			
Intra group interest received		14,830,209	19,641,225
Third party interest received		35,588,744	53,390,677
Intra group interest paid		(10,605,754)	(14,089,964)
Third party interest paid		(39,740,817)	(60,603,840)
Intra group interest received		-	197,110
Intra group interest paid		-	(36,575)
Exchange gains		227,027	8,021
Net interest and similar items		<u>299,409</u>	<u>(1,493,346)</u>
Administration costs		(832,914)	(139,511)
Loss on ordinary activities before taxation	2	<u>(533,505)</u>	<u>(1,632,857)</u>
Taxation	3	150,080	(125,000)
Loss for the financial year		<u>(383,425)</u>	<u>(1,757,857)</u>
Profit and loss account brought forward		(1,080,169)	677,688
Profit and loss account carried forward		<u><u>(1,463,594)</u></u>	<u><u>(1,080,169)</u></u>

All the above transactions relate to continuing business activities.

P&O FINANCE PLCBALANCE SHEET AT 31 DECEMBER 1998

	Note	1998 £	1997 £
<b>Current assets</b>			
Debtors	4	11,293,245	20,815,329
		<u>                    </u>	<u>                    </u>
<b>Capital and reserves</b>			
Called up share capital	5	4,000,000	4,000,000
Profit and loss account		(1,463,594)	(1,080,169)
		<u>                    </u>	<u>                    </u>
Equity shareholders' funds		2,536,406	2,919,831
<b>Creditors</b>	6	8,756,839	17,895,498
		<u>                    </u>	<u>                    </u>
		11,293,245	20,815,329
		<u>                    </u>	<u>                    </u>

The financial statements were approved by the Board on 19 July 1999 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 1998

	Year ended 31 Dec 1998 £	Year ended 31 Dec 1997 £
Loss for the financial year attributable to shareholders	(383,425)	(1,757,857)
Total recognised gains and losses for the financial year	<u>(383,425)</u>	<u>(1,757,857)</u>

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS'  
FUNDS FOR THE YEAR ENDED 31 DECEMBER 1998

	Year ended 31 Dec 1998 £	Year ended 31 Dec 1997 £
Total recognised gains and losses for the financial year	(383,425)	(1,757,857)
Shareholders' funds at the beginning of the year	<u>2,919,831</u>	<u>4,677,688</u>
Shareholders' funds at the end of the year	<u>2,536,406</u>	<u>2,919,831</u>



**P&O FINANCE PLC**

**NOTES TO THE ACCOUNTS AT 31 DECEMBER 1998**

**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 (1997 - nil).
- (c) The Company had no employees during the year (1997 - nil).
- (d) Auditors' remuneration is dealt with on a group basis and no amount has been specifically recharged to this company (1997 - nil).

**P&O FINANCE PLC****NOTES TO THE ACCOUNTS AT 31 DECEMBER 1998 (cont'd)****3 Taxation**

Taxation on ordinary activities is made up as follows:

	1998 £	1997 £
UK Corporation tax at 31% (1997 31.5%)		
Current year	175,600	518,000
Prior year	(25,520)	(643,000)
	<u>150,080</u>	<u>(125,000)</u>

**4 Debtors**

	1998 £	1997 £
Amounts owed by fellow subsidiaries	2,995,359	4,634,561
Taxation	1,046,603	2,639,646
Other debtors and prepayments	7,251,283	13,541,122
	<u>11,293,245</u>	<u>20,815,329</u>

**5 Called up share capital**

As at 31 December 1998 and 1997:

	<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	40,000,000	16,000,000

**6 Creditors**

	1998 £	1997 £
Amounts due within one year:		
Taxation	1,343,000	4,208,935
Other creditors and accruals	7,413,839	13,686,563
	<u>8,756,839</u>	<u>17,895,498</u>

**P&O FINANCE PLC****NOTES TO THE ACCOUNTS AT 31 DECEMBER 1998 (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 2004 in respect of the following principal amounts:

	1998 Pay fixed £m	1998 Pay variable £m	1997 Pay fixed £m	1997 Pay variable £m
Third party sterling	107.7	90.0	109.3	108.0
	=====	=====	=====	=====
	US\$m	US\$m	US\$m	US\$m
Third party US dollar	286.5	-	116.7	-
Intra group US dollar	-	230.0	-	291.7
	=====	=====	=====	=====
	AUS\$m	AUS\$m	AUS\$m	AUS\$m
Third party Australian dollar	50.0	-	80.0	-
Intra group Australian dollar	-	50.0	-	80.0
	=====	=====	=====	=====
	DMm	DMm	DMm	DMm
Third party deutschmark	1,127.7	1,127.7	827.7	827.7
	=====	=====	=====	=====

**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.