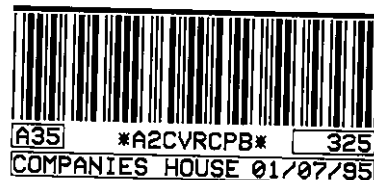


P&O FINANCE PLC

REGISTERED NUMBER : 718022

DIRECTORS' REPORT AND ACCOUNTS

31 DECEMBER 1994



P&O FINANCE PLCREPORT OF THE DIRECTORS

The Directors present their annual report and accounts of the Company for the year ended 31 December 1994.

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
N L Luff (appointed 1 August 1994)
N J Monteith
D E A Morris
M Owen

According to notifications received by the Company relating to interests of directors in the share capital and debentures of group companies, there were the following beneficial holdings in the stock of the ultimate holding company, The Peninsular and Oriental Steam Navigation Company, not shown in the accounts of that company:

	Deferred Stock		Deferred Stock under option		
	1994	1993	1994	Granted during year	1993
J D Beverton	24,833	29,454	41,678	13,900	27,778
N L Luff	-	-*	31,192	17,500	13,692*
N J Monteith	1,397	1,185	20,126	11,300	8,826
M Owen	5,447	4,976	24,376	5,000	19,376

* at date of appointment

D E A Morris and J M Crossman are also members of the board of directors of the ultimate holding company 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. At 31 December 1993 J M Crossman had an interest in £4,423 deferred stock and deferred stock under option of £53,133.

In addition M Owen and J D Beverton each had an interest in £600 5.5% concessionary stock at 31 December 1994 and 1993 and M Owen had an interest in £866 6.75% convertible stock at 31 December 1993.

P&O FINANCE PLCREPORT OF THE DIRECTORS (Continued)

Other Matters:

On 6 February 1995 the Company's auditors changed the name under which they practise to KPMG and, accordingly, have signed their report in their new name.

In accordance with section 385 of the Companies Act 1985 a resolution proposing the reappointment of KPMG as auditors to the Company will be put to the annual general meeting.

79 Pall Mall
London SW1Y 5EJ

On behalf of the Board



20 June 1995

M OWEN
Director

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 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, 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 1994 and of its result for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

London

KPMG
Chartered Accountants
Registered Auditors

20 June 1995

P&O FINANCE PLCPROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 1994

	Note	1994 £	1993 £
Interest swaps:			
Intra group interest received		2,619,016	1,313,618
Third party interest received		11,498,691	12,785,996
Intra group interest paid		(1,681,902)	(482,453)
Third party interest paid		(19,153,304)	(21,637,513)
Provision against future interest swap costs		-	(1,026,316)
Intra group interest received		6,860,694	353,367
Third party interest received		894,066	645,624
Interest on commercial paper		-	(104,368)
Exchange (losses)/gains		(10,088)	3,197
Net interest received/(paid)		1,027,173	(8,148,848)
Administration costs		(4,701)	(3,839)
Other operating income		96,000	-
Release of provision against current asset investments		-	144,002
Provision against doubtful debts		(41,130)	(1,148,487)
Profit/(loss) on ordinary activities before taxation	2	1,077,342	(9,157,172)
Taxation (charge)/credit	3	(255,601)	2,415,479
Profit/(loss) for the financial year		821,741	(6,741,693)
Profit and loss account brought forward		(6,317,319)	424,374
Profit and loss account carried forward		(5,495,578)	(6,317,319)

All the above transactions relate to continuing business activities

P&O FINANCE PLCBALANCE SHEET AT 31 DECEMBER 1994

	Note	1994 £	1993 £
Current assets			
Debtors	4	109,546,729	4,934,901
Listed investments	5	3,735,807	3,735,807
Cash at bank		-	19,080,000
		113,282,536	27,750,708
		<hr/>	<hr/>
Capital and reserves			
Called up share capital	6	4,000,000	4,000,000
Profit and loss account		(5,495,578)	(6,317,319)
		<hr/>	<hr/>
Equity shareholders' funds		(1,495,578)	(2,317,319)
Provisions for liabilities and charges			
Other provisions	7	389,000	784,000
Creditors	8	114,389,114	29,284,027
		<hr/>	<hr/>
		113,282,536	27,750,708
		<hr/>	<hr/>

The financial statements were approved by the Board on 20 June 1995 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 1994

	Year ended 31 Dec 1994 £	Year ended 31 Dec 1993 £
Profit/(loss) for the financial year attributable to shareholders	821,741	(6,741,693)
	<hr/>	<hr/>
Total recognised gains and losses for the financial year	821,741	(6,741,693)
	<hr/>	<hr/>

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS
FUNDS FOR THE YEAR ENDED 31 DECEMBER 1994

	Year ended 31 Dec 1994 £	Year ended 31 Dec 1993 £
Total recognised gains and losses for the financial year	821,741	(6,741,693)
Shareholders' funds at the beginning of the year	(2,317,319)	4,424,374
Shareholders' funds at the end of the year	(1,495,578)	(2,317,319)
	<hr/>	<hr/>

P&O FINANCE PLCNOTES TO THE ACCOUNTS AT 31 DECEMBER 1994**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.

The ultimate holding company has agreed to continue to support the company and its activities.

- (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.
- (c) The Company had no employees during the year (1993 - nil).
- (d) Auditors' remuneration is dealt with on a group basis and no amount has been specifically recharged to this company.

P&O FINANCE PLCNOTES TO THE ACCOUNTS AT 31 DECEMBER 1994 (cont'd)3 **Taxation**

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

	1994 £	1993 £
UK Corporation tax at 33% (1993 33%)		
Current year	(225,000)	2,415,479
Prior year	(158,601)	-
Deferred taxation	128,000	-
	<u>(255,601)</u>	<u>2,415,479</u>

The deferred taxation relates to taxation on the provisions for future swap costs of £389,000 (see note 7). A potential deferred tax asset of £1,838,807 (1993 £2,083,720) has not been provided.

4 **Debtors**

	1994 £	1993 £
Amounts owed by fellow subsidiaries	100,700,000	-
Taxation	4,247,314	4,030,435
Other debtors and prepayments	4,599,415	904,466
	<u>109,546,729</u>	<u>4,934,901</u>

5 **Investments**

At 1 January 1994 and 31 December 1994 3,735,807

The listed investments are debentures issued by Charlwood Alliance Holdings plc, a fellow subsidiary. They are listed on the London Stock Exchange and have a market value of £3,955,021 (1993 - £4,035,736). The income relating to these debentures is included within intra group interest received.

6 **Called up share capital**

As at 31 December 1994 and 1993:

	<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>

P&O FINANCE PLCNOTES TO THE ACCOUNTS AT 31 DECEMBER 1994 (cont'd)

7 Other Provisions

Total
£

Provision against future interest swap costs:

At 1 January 1994	784,000
Applied during the year	(395,000)

At 31 December 1994	389,000
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8 Creditors

1994	1993
£	£

Amounts due within one year:

Amounts owed to fellow subsidiaries	106,653,328	23,275,106
Taxation	3,423,199	3,039,000
Other creditors and accruals	4,312,587	2,969,921
	<u>114,389,114</u>	<u>29,284,027</u>

9 Future commitments

The Company has entered into interest rate swap transactions in respect of group US dollar and sterling loans. At the year end, the company had entered into interest rate swaps until 2004 in respect of the following principal amounts:

	1994 £m	1994 £m	1993 £m	1993 £m
	Pay fixed	Pay variable	Pay fixed	Pay variable
Third party sterling	120.9	-	126.9	-
Intra group sterling	-	2.2	-	-
	<u>120.9</u>	<u>2.2</u>	<u>126.9</u>	<u>-</u>
	1994 \$m	1994 \$m	1993 \$m	1993 \$m
	Pay fixed	Pay variable	Pay fixed	Pay variable
Third party dollar	335.6	-	194.0	-
Intra group dollar	7.8	300.0	-	-
	<u>343.4</u>	<u>300.0</u>	<u>194.0</u>	<u>-</u>

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.