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**P&O NEDLLOYD CONTAINER LINE LIMITED**

**Company Number 3279820**

**ANNUAL REPORT AND ACCOUNTS 1999**

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(Our employees have provided the theme for this year's annual report.  
The support and dedication provided across sea and shore based  
disciplines enable us to look to the future with confidence)

P&O Nedlloyd Container Line Limited, is a world class company in an industry that is consolidating. Formed in December 1996, as a 50:50 joint venture of P&O and Royal Nedlloyd, representing the liner shipping interests of the two companies, it is one of the three largest container carriers world-wide, with routes connecting all parts of the globe.

#### Financial highlights

	1999	1998
Throughputs (Teus '000)	<b>2,811.4</b>	2,488.9
Average Freight Revenue (US\$ per Teu)	<b>1,302</b>	1,370
<b>Results - (US\$m)</b>		
Turnover	<b>4,048.2</b>	3,939.9
Operating profit before remanning costs	<b>6.7</b>	81.7
Interest	<b>(60.0)</b>	(56.9)
Loss before tax	<b>(53.2)</b>	(1.0)
Loss after tax	<b>(61.5)</b>	(11.8)
<b>Statistics (Teus '000)</b>		
Europe/Asia	<b>1,014.4</b>	927.1
North/South & Cross Trades	<b>1,010.1</b>	894.2
North America	<b>786.9</b>	667.6
Total	<b>2,811.4</b>	2,488.9
<b>Summary group balance sheet - (US\$m)</b>		
Fixed assets	<b>2,258.6</b>	2,318.6
Net working capital	<b>10.7</b>	7.2
Total	<b>2,269.3</b>	2,325.8
Equity shareholder funds	<b>1,370.6</b>	1,433.7
Equity minority interest	<b>20.7</b>	21.8
Borrowings	<b>878.0</b>	870.3
Total	<b>2,269.3</b>	2,325.8

P&O Nedlloyd

P&O Nedlloyd Container Line Limited is a 50:50 joint venture of P&O SNCO and Royal Nedlloyd NV. Since the end of 1996 when it was formed, P&O Nedlloyd has grown its business by some 24% in volume terms, developing a full presence in the Trans-Pacific trade, while further enhancing its global network. With a total ship slot capacity of over 278,000 teus P&O Nedlloyd is one of the three largest carriers in the world.

#### Strategy and priorities

P&O Nedlloyd's aim is to be an industry leader in terms of experience, capability and results. P&O Nedlloyd strategy is to follow up opportunities to build on its economies of scale, putting the emphasis now on smart operations, product enhancement and IT based improvements.

In 2000 the following will be key priorities:

- Efficiencies in organisation: these will be vigorously pursued with a view to achieving annualised savings well in excess of US\$100 m by end 2000 and targeted to reach US\$180 m of savings annually by year end 2001.
- Achieving greater fleet and network efficiencies: the new series of economic ships being delivered in 2000 will create a revitalised fleet that will enable numerous improvements and savings to take place.
- Introducing new Atlantic services: the previous Vessel Sharing Agreement will be replaced with a modern and efficient route structure tailored to the needs of our customers.
- Improved base product, and value added services: a new division will improve marketing and provision of value added and total logistics services and packages to customers.
- Improved E-Commerce products: substantial volumes of business with our customers are handled through EDI; in 1999 the company enhanced its E-Commerce products to provide a cargo track and trace facility on its website; and in 2000 an integrated website booking and electronic bill distribution system will be implemented.

#### Important Developments

##### Trading environment

Overall, the liner environment showed a gradual but continuous improvement over the course of the year, with growth in cargo movements in most trades and a useful tightening balance between supply and demand. Revival in Asian imports in several trades greatly reduced, without fully eliminating, the costly problem of empty imbalance movement experienced the previous year. US imports continued to grow, while the European economies also strengthened.

During 1999 P&O Nedlloyd increased its volumes lifted by 13% over 1998, against an increase in space provision of just 7% and a growth in world containerised trade demand of 7%. Total P&O Nedlloyd volume for the year was 2.811 million teus.

Weaknesses in the South American economies and competitive pressures in the Australasian trades adversely affected the profitability of the North-South trades which are particularly important to P&O Nedlloyd. The North Atlantic trade also deteriorated significantly compared with the previous year. These adverse developments affected the results, mainly in the first half of the year and operating profit of US\$7 m was unsatisfactory, despite a considerable improvement in the second half (US\$47 m).

##### Revenues

Average revenues per teu for the year declined to US\$1,302, against US\$1,370 the year before. This was partly the result of difficult conditions on the North Atlantic and in certain North-South trades. Also, the Asian recovery led to increased traffic on the Asia inbound legs where lower freight rates apply. However, revenues did improve in the course of the year – in the second half of 1999 the average revenue per teu was 3.8% higher than in the first six months.

##### Cost reductions

Overall, P&O Nedlloyd was able to further reduce unit costs during the course of the year.

Bunker costs, which rose sharply in the latter part of the year, hampered further improvement on this figure, while necessary management attention and spending on Y2K systems changes also inhibited further savings in 1999.



#### *Service developments*

During 1999 an additional Trans-Pacific loop to the US West Coast was introduced, majoring on China and Korea. This was popular, profitable and successful. Other improvements included a new Europe-West Africa service replacing previous slot charters.

Apart from expanding these services, opportunity was also taken to rationalise and simplify various other routes, without lowering the overall quality of the network.

The business of Tasman Express Line was purchased at the beginning of the year, and this acquisition proved successful. During November, the company took over the Europe-East Africa operations of Harrison Line.

#### *Regulatory developments*

The appeal process with the European Court continues over the European Commission ruling against the Trans-Atlantic Conference Agreement, as mentioned in last year's report.

US deregulation under the new US Ocean Shipping Reform Act began in May. This had an initially detrimental effect on the North Atlantic trade but not in the Pacific. This new law permits confidential contract relationships between individual lines and their customers which should be of long term benefit to major, established lines.

There have been no recent formal developments on the European regulatory front, except that the Commission has published new draft consortia rules, which are broadly unchanged.

Chinese authorities licensed four additional P&O Nedlloyd forwarding offices in that country.

#### *Outlook*

We expect to see a significant improvement in profits in 2000 if bunker prices remain on average at about the same level as at the end of 1999 and if the overall supply and demand position is kept tight by continuing growth in world trade. We expect modest deterioration in Q1 revenue rates – this is traditionally a weak quarter. But the introduction of new, more cost effective tonnage, a positive rate environment and a stringent programme of cost savings should ensure a significantly better year for P&O Nedlloyd.

The Lord Sterling  
of Plaistow CBE

LJM Berndsen

Joint Chairmen, 13 April 2000

Our product is worldwide, port-to-port or door-to-door service using the most extensive global network in the industry. P&O Nedlloyd has over 70 established trade lanes and provides connections to more than 250 main ports.

These elements, combined with well-developed feeder lines, extensive inland transport capabilities and first-rate port facilities, form the base of our product. Such amenities are essential for those wishing to compete internationally in today's container shipping market. What distinguishes P&O Nedlloyd's product from its competitors' is the 'personal touch' provided by our experienced and dedicated staff. This is the heart of our product.

The P&O Nedlloyd product relies on essential 'hardware' and 'software'. Our essential 'hardware' consists of the ships and containers we use to deliver our product. With a fleet of 121 owned and chartered vessels, and a container fleet numbering some 625,000 owned and leased teus, P&O Nedlloyd is numerically speaking one of the largest players in the game. However quantity is only half the picture. High quality equipment is not only important because of the cost savings it provides, but also because it results in better-protected cargo and a more reliable product.

P&O Nedlloyd can boast of a thoroughly modern and well-maintained fleet. The first of P&O Nedlloyd's 5500 teu "Explorer Class", the P&O Nedlloyd Tasman, joined the fleet in early 2000. Another four "Explorers" will join the fleet in 2000. In addition, P&O Nedlloyd's order book also includes:

4 x 6788 teu

5 x 2472 teu

3 x 5514 teu

5 x 3430 teu

6 x 2530 teu

7 x 4100 teu.

Most of these ships will be time chartered for periods between five and eight years.

P&O Nedlloyd took delivery of 24,200 containers (48,400 teu) in 1999. The order

included a range of container types including 40' GP's, High Cubes, Reefers and 45's.

P&O Nedlloyd continues to invest in new container stock; since the beginning of year 2000 62,000 teus have been placed on order for delivery in 2000.

#### Product strategy

Over the year we made significant progress in defining our strategy and implementation plans regarding our front line product delivery in the regions. In particular, we have clearly defined our standards for service levels, audited our current abilities to maintain these globally, and established procedures to constantly review and improve our performance.

At the same time we have reviewed the provision of value added services to our customers, defined our strategy and reorganised our structure to deliver these products effectively. The newly created Value Added Services trade will manage value added products in a similar manner to the way we manage ocean trades generally in the company.

#### Electronic commerce

P&O Nedlloyd is committed to a programme of Internet-enabled product development in the field of E-Commerce in order to provide a high-quality service to those of our customers who prefer to conduct business with us via this medium. This programme builds upon and is complementary to the existing EDI initiatives which we have been supplying to the market for a number of years.

A suite of interactive E-Commerce products is accessible via P&O Nedlloyd's website, [www.ponl.com](http://www.ponl.com). These screens allow enquirers to track both the past and future port calls of any voyage on which P&O

Nedlloyd has loaded cargo and to make port-to-port schedule enquiries for future sailings.

In 1999, in response to market demand, the Company embarked upon building a suite of further E-Commerce products, beginning with Track & Trace which went live on the website in January 2000, allowing customers to track the cargo they have entrusted to P&O Nedlloyd 24 hours a day. Track and Trace is continuously updated in real time with the latest data available.

Forthcoming product deliveries will enable our customers to make Bookings and enter their Shipping Instructions direct to P&O Nedlloyd's internal systems via the website, to view the details of their current Bookings and Bills of Lading and to print full sets of original Bills of Lading on their own premises. All these E-Commerce products will be accessible via a secure Customer Registration facility on the website.

In addition, the website itself is being comprehensively redesigned in order to ensure that customer access to our E-Commerce products is as fast, efficient and reliable as possible.

P&O Nedlloyd is committed to delivering state-of-the-art E-Commerce products designed to meet the needs of the industry in general, and of our customers in particular, both now and for the foreseeable future.

#### **Research**

P&O Nedlloyd's Cargo Care Department provides our customers with a continually

improving product. Through advice and innovation, the people of Cargo Care pioneer new cargo carriage and stowage patterns. This allows us to deploy our resources with optimal efficiency.

Working with external organisations such as the Cambridge Refrigeration Standards Technology Institute and the University of Wageningen, the Cargo Care Department has ensured that we make optimum use of our existing resources. Developments such as Bulk Liner Bags and Dry-Bags have greatly extended the capabilities of the traditional General Purpose container resulting in further cost reductions and improved customer services.

#### **Customer service**

Working closely with clients, Cargo Care is also able to offer advice on the carriage of cargo thereby increasing customer satisfaction. Knowing where to stow cargo on board comes through years of experience in the container shipping business. This wealth of experience forms the basis of the Cargo Care Department's activities. Much of the Cargo Care Department's expertise is put to direct and immediate use, but it also records and passes on its knowledge through the creation and publication of various manuals and guides. In this way, Cargo Care keeps P&O Nedlloyd employees and customers up-to-date on the latest product developments and instructs them on their use. Through the work of the Cargo Care Department today's innovations become tomorrow's standards.

**Quality and service  
in every corner of  
the world**  
Continued

*During 1999 revenue rates in P&O Nedlloyd trades overall declined in the first half of the year, but a revival began to be seen in the second half, especially in the last quarter. Utilisation on the light legs of several trades improved as the recovery in Asian countries gathered pace and, with continued growth on heavy legs, was generally high overall.*

The overall supply/demand position in the liner shipping industry tightened considerably in the course of the year, and the containership charter market in consequence also became more buoyant.

The position for 2000 is that although containership deliveries will exceed those in 1999, overall fleet growth is expected to be broadly in line with growth in trade so that the improved balance should continue.

Consolidation in the liner industry has continued with several recent developments, most notably the purchase of Sea-Land's international operations by A P Moller. We view these changes as being likely to lead to a more stable environment in the industry, although the process of consolidation has still some way to go.

Despite these generally positive signs, as noted elsewhere P&O Nedlloyd's results in 1999 were undermined by the unsatisfactory position in certain trades, most notably the North Atlantic, where low rates persisted despite strong volumes. The position in these trades is now beginning to improve as they become more affected by the generally positive industry trend.

During 1999 the new American Shipping Act was introduced, enabling confidential contracting to take place between shipping lines and their customers; the transition in most trades was achieved smoothly but may have created some uncertainties beforehand in the Atlantic market.

Traffic prospects for 2000 appear generally favourable at present, despite some increases in interest rates in the US and UK economies. The rapid revival in the East Asian countries continues while NW Europe is also showing healthy growth. Latin American imports are now improving too. In volume terms, 2000 has begun quite well in many of our trades and, barring any unexpected shocks, world trade in 2000 appears likely to be strong.

P&O Nedlloyd is a formidable player in the Asia-Europe trade and has a leading position in the Trans-Atlantic trade. In the North-South and Cross trades it has the widest range of routes of any in the industry, while the company is firmly established in the Trans-Pacific trade.

The 'Grand Alliance', of which P&O Nedlloyd is a member, offers five weekly loops between Asia and North Europe, a dedicated loop from Asia to Mediterranean ports, six Asia-West Coast North America loops, and two loops between Asia and East Coast North America. Apart from providing easily the most comprehensive Asia-Europe service in the business, the grouping enables P&O Nedlloyd to provide first class coverage of Chinese ports where growth continues apace.

The economies of Asian countries showed considerable improvement in 1999 and the Alliance introduced a new successful Pacific loop, the China Korea Express service. The Trans-Pacific trade now amounts to 11% of P&O Nedlloyd's 1999 volume. The Asia-Europe and related trades also benefited from improved trading conditions, particularly on the eastbound leg where volumes rose 21% in 1999 over 1998. Overall the Asia-Europe trades account for 35% of the annual P&O Nedlloyd volume.

In the Trans-Atlantic trade, strong trade growth, high utilisations westbound and a market share of over 8% were not sufficient to raise profitability in 1999.

Certain of our North-South and Cross trades were affected by declining rates.

However, in some others the position was encouraging and steps were taken to improve and expand these services. Early in the year, Tasman Express Line's business was taken over and this has been successfully integrated into our Australia-NZ services. Later in the year the Harrison Line Europe-East Africa trade was absorbed.

## Trade management

A market leader

### East/West

North Europe	→ Asia
Mediterranean	→ Asia
Europe	→ Red Sea/Gulf
Europe	→ South Asia
Europe	→ Bay of Bengal
Intra Europe	

### North America

North America	→ North Europe
North America	→ Mediterranean/Middle East
North America	→ Asia
North America	→ Latin America
North America	→ Australia/New Zealand

### North/South

Europe	→ Australia/New Zealand
Europe	→ South Africa
Europe	→ East Africa
Europe	→ West Africa
Gulf/South Asia	→ East Africa/South Africa
Europe	→ East Coast South America
Europe	→ West Coast South America
Europe	→ Caribbean

### Asia Cross Trades

Asia	→ Gulf/South Asia
Intra Asia	
Asia	→ South Africa
Asia	→ West Africa
Asia	→ East Africa
Asia	→ East Coast South America
Asia	→ West Coast South America
Asia	→ Caribbean

### Australia Cross Trades

P&O Swire Australia	→ Australia/East and North East Asia
P&O Swire New Zealand	→ New Zealand/East and North East Asia
Australia/New Zealand	→ South East Asia
Australia/New Zealand	→ South Asia/Gulf
Trans-Tasman	

P&O

#### Europe

Throughout 1999 we continued to implement strategic change based on our "Eurovision" objectives of building stronger customer relationships through industry focus groups and key account management programmes.

We have now adapted our European organisation with four business areas headquartered in Milan, Rotterdam, London and Hamburg.

Our inland infrastructure continues to be developed, including increasing our involvement in the development of rail services, most particularly into Eastern Europe.

Product enhancements include full introduction of a range of cohesive value added services throughout Europe plus innovative E-Commerce products. ISO9002 accreditation was successfully audited and retained.

#### Asia

With the smooth migration of our systems completed in 1999 we turned our focus to further improving the customer services we offer our client base in Asia. Through detailed analysis of customer demands and our work processes, we are reshaping our organisation and equipping our staff with the skills to meet the needs of our customers.

In 2000 we will continue with this process. We continue to improve the range of services we offer in the Asia region, from logistics licences in China and expanded value added services such as consolidation, to increased capacity on a number of our trade routes touching Asia.

#### North America

1999 was a year of ongoing growth in North America. Our volume continued to increase in the Pacific, including the addition of a new China/Korea express service to round out our extensive service portfolio.

Atlantic volumes and market shares were significantly increased throughout the year, as were volumes to and from Latin America. Volumes to Australia and New Zealand were weaker in the early part of 1999 but by the second half had recovered substantially. These increases in volume were coupled with further proportional increases in our USA inland intermodal flows as a result of changing business patterns.

Substantial work took place in the region on systems implementations and Y2K preparations, including installation of a major new equipment and operations system during the fourth quarter.

P&O Nedlloyd has rapidly developed its own identity, but it does have distinguished antecedents.

*The founding companies of P&O Nedlloyd have a long and pioneering past; their beginnings go far back into the early 19th Century and the very early days of the steam ship, when they initiated trading links between North Europe and the Mediterranean/Balkan regions.*

#### 19th Century

In 1837 the Peninsular Steam Navigation Company as it was then known signed its first commercial contract for carrying mail by sea between England, Portugal and Spain. By 1842 services extended to India carrying passengers and other goods as well as mail. In 1845 P&O added port calls at Singapore and Hong Kong to their network.

In 1856 the Koninklijke Nederlandsche Stoomboot-Maatschappij (KNSM) was launched by a group of enterprising Dutch men largely in response to the shipping shortages caused by the Crimean War. Alongside KNSM two other Dutch companies Stoomvaart Maatschappij Nederland (SMN) and Koninklijke Rotterdamsche Lloyd (KRL) were formed to carry passengers and mail between North Europe and Indonesia.

#### 20th Century

At the turn of the Century SMN and KRL extended their services into the Far East and South America. In 1908 they founded the Nederlandsche Scheepvaart Unie (NSU), aimed at co-operating where mutually beneficial.

By the beginning of the 20th Century P&O had developed into the premier UK shipping company with interests in passenger and cargo shipping mainly on eastern routes focused on India, East Asia, parts of Africa and Australia & New Zealand. Through a process of mergers and acquisitions their fleet expanded to nearly 500 vessels in the 1920's.

In the 1920's the NSU created a new company the Vereenigde Nederlandsche Scheepvaart Maatschappij (VNS) to reflect the growth in new deep-sea operations in the Far East and new trading links between Europe, Middle East and South East Asia.

In total the P&O and NLL fleet numbered 950 vessels.

Following the end of the Second World War, both companies responded rapidly to the growth in World Trade in the 1950's and 60's. The changing environment led to further inter company rationalisation. In the 1960's P&O were founder members of

Overseas Containers Ltd (OCL). OCL developed the concept of door-to-door operations and launched the World's first panamax containerships. In 1970 various Dutch shipping companies joined forces in order to be prepared for the start of containerisation and the 'new' Nederlandsche Scheepvaart Unie was formed, in 1977 this was renamed the Royal Nedlloyd Group, Nedlloyd Lines being the ocean shipping arm.

In the 1985 OCL became P&O Containers. Throughout the 1980's and 90's both P&O Containers and Nedlloyd Lines steadily expanded and broadened their route networks to include new and rapidly growing Atlantic and Pacific Trades.

Royal Nedlloyd continued to re-examine its structure to focus its efforts on core markets and expand into logistics. In the process they pioneered many new initiatives such as the Hub & Spoke approach with mainline/feeder operations that remain a mainstay of the business today.

Prior to the merger P&O Containers and Nedlloyd Lines co-operated on several ventures including the Transatlantic Vessel Sharing Agreement, the European Rail Shuttle and North Sea Ferries. As our history has shown partnerships have come naturally to both companies in an industry that for years has brought people of different cultures and backgrounds together in the spirit of mutually beneficial trade. This spirit of co-operation was crystallised in the first cross border merger of two premier container shipping companies.

The history of success shared by P&O and Royal Nedlloyd is now being built upon by P&O Nedlloyd with new and innovative services to customers. In 1998 P&O Nedlloyd introduced some of the largest container ships in the Industry - the "Southampton Class" which are deployed on the Europe/Asia Trades. Since then, P&O Nedlloyd have continued to make investments in network enhancements. P&O Nedlloyd's fleet will continue to be renewed and strengthened by the delivery of new ships such as four more Southampton Class and eight 5,500 teu vessels. Now the company is involved in substantial development of E-Commerce products such as track and trace facilities, integrated website booking and electronic Bill of Lading systems.

**Board P&O Nedlloyd Container Line Limited****Management  
at March 2000**

The Lord Sterling of Plaistow	Co-Chairman
LJM Berndsen	Co-Chairman
Sir Bruce MacPhail	Non-Executive Director
VL Bijvoets	Non-Executive Director
TC Harris	Chief Executive Officer
HH Meijer	Chief Financial Officer
RB Woods	Managing Director
RPM van Slobbe	Director

GR Cheeseman	Company Secretary
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**Executive committee**

TC Harris	Chief Executive Officer
HH Meijer	Chief Financial Officer
RB Woods	Managing Director
RPM van Slobbe	Director

GP Samuel	Secretary to Excom
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**Senior management committee**

TS Basi	Director Information Technology
TS Boardley	Director Europe-Asia Trades
P Duifhuizen	Director Latin America
NP Henry	Director Business Systems
Caroline Kass	Head of Human Resources
AJ Mason	Director Europe-North/South
HF Meurs	Director Australasia
RE van Meurs	Director Treasury
GP Samuel	Director of Corporate Communication
MJS Seymour	Director North America
RE Speld	Director Asia
T Steenbeek	Director Fleet Management
A Uytendaal	Director International Container Management
PA Walker	Director Corporate Accounting
BMV Williams	Director Europe, Change Manager

**P&O**

**1. The directors present their report and accounts for the year ended 31 December 1999.**

**2. Results**

The results of the group are set out in detail on pages 22 to 25 and in the accompanying notes.

**3. Dividends**

The directors do not propose the payment of a dividend in respect of the year ended 31 December 1999 (1998: \$ nil).

**4. Principal activities of the company and review of the year**

The principal activity of the group is the operation of container through transport and related services.

The group's principal shipping activities have been carried on through a UK partnership under the name of P&O Nedlloyd. The members of this partnership are P&O Nedlloyd Limited and P&O Nedlloyd BV, both of which are the company's subsidiaries.

In February 1999 the group took over the business of Tasman Express Line Auckland.

In October 1999, the group took over Harrison Line's interests in the Europe/Red Sea/East Africa trade.

A review of the group's activities is set out on pages 2 to 17.

**5. Directors**

The directors of the company during the year were:

The Lord Sterling of Plaistow  
L. J. M. Berndsen  
V. L. Bijvoets  
T. C. Harris  
Sir Bruce MacPhail  
H. H. Meijer  
R. P. M. Van Slobbe  
R. B. Woods

**6. Directors' interests in group companies**

According to the register of directors' interests kept under Section 325 of the Companies Act 1985, no directors had a disclosable interest in either the shares of the company or of any other group company at the end of the year.

**7. Employment policies**

P&O Nedlloyd Container Line Limited is committed to ensuring that no discrimination is practised against any

employee or prospective employee on grounds of colour, race, creed or sex. In particular the group employs registered disabled persons and has a policy of giving full and fair consideration to applications for employment from registered disabled people. In cases where disablement occurs whilst in service, company policy is, as far as possible, to continue employment and to arrange for any necessary re-training facilities. Opportunities for training, career development and promotion apply equally across the group to disabled and non-disabled alike.

The company has developed harmonised arrangements for communication and consultation with employees. Presently the following arrangements are in place:

- (a) electronic mail is used to convey announcements relating to key issues e.g. appointments, business developments, vacancies;
- (b) various employee committees exist within each site to discuss particular matters such as office facilities, health and safety etc;
- (c) staff newsletters and magazines are provided on an international, regional and department basis;
- (d) financial results are communicated on a quarterly basis via electronic mail with senior management briefings to staff on a regular basis.
- (e) all employees are provided with a Staff Handbook providing information on arrangements relating to employment.

**8. Donations**

During the year ended 31 December 1999 the group contributed \$19,000 (1998: \$3,000) for charitable purposes. No political contributions were made.

**9. Year 2000**


The group has completed an active programme for dealing with issues connected with computer systems and embedded chips in relation to the Year 2000. This involved identifying where modifications may have been necessary within systems developed and maintained by the group, making similar identifications and subsequent monitoring of systems and equipment supplied to the group and testing the results of any modifications. Where necessary normal upgrading work was accelerated to ensure the systems concerned were Year 2000 compliant.

The conclusions of these reviews and assessments were monitored centrally with regular reports prepared for the audit committee and the Board. The group undertook a further programme to seek the necessary assurances from key suppliers and gave assurance to its customers as appropriate.

Following the date change of 1 January 2000 no significant problems have been identified although the directors recognise that there can be no guarantee that problems arising from the date change will not occur in the future.

During 1999, the cost to the group of the Year 2000 project was \$20m.

By Order of the Board  
G. R. Cheeseman  
Secretary



13 April 2000

**Statement of  
directors'  
responsibilities**

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and the group and of the profit or loss for that period. In preparing those financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

We have audited the financial statements on pages 22 to 38.

**Respective responsibilities of directors and auditors**  
The directors are responsible for preparing the directors' report and, as described on page 20, 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. 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.

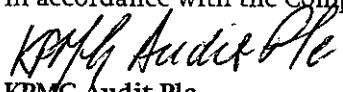
We read the other information accompanying the financial statements and consider whether it is consistent with these statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

**Basis of audit 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 group'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 affairs of the company and the group as at 31 December 1999 and of the loss of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

  
KPMG Audit Plc  
Chartered Accountants  
Registered Auditor  
London

13 April 2000

**Report of the auditors**

KPMG Audit Plc to the members of  
P&O Nedlloyd Container  
Line Limited

P&O

**Group profit and  
loss account**  
for the year ended  
31 December 1999

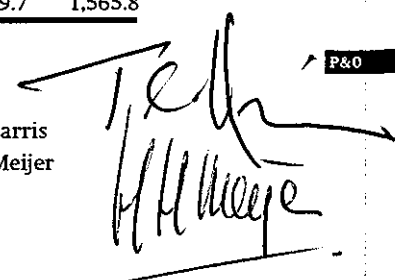
	Notes	1999 \$m	1998 \$m
Turnover	2	4,048.2	3,939.9
Net operating costs	3	(4,041.5)	(3,868.8)
<b>Group operating profit</b>			
Operating profit before remanning costs		6.7	81.7
Remanning costs		-	(10.6)
Group operating profit		6.7	71.1
Share of operating loss in associates		(0.1)	(1.5)
Total operating profit		6.6	69.6
Profit/(loss) on sale of fixed assets		0.2	(13.7)
Profit on ordinary activities before interest		6.8	55.9
Net interest payable and similar items	6	(60.0)	(56.9)
Loss on ordinary activities before taxation		(53.2)	(1.0)
Tax on loss on ordinary activities	7	(8.3)	(10.8)
Loss on ordinary activities after taxation		(61.5)	(11.8)
Equity minority interests	16	1.3	(2.0)
Retained loss for the financial year	18	(60.2)	(13.8)

The results for the year arise from continuing operations.

	Notes	1999		1998	
		Group \$m	Company \$m	Group \$m	Company \$m
<b>Fixed assets</b>					
Intangible assets	8	7.6	-	9.6	-
Tangible assets	9	2,238.4	-	2,298.3	-
Investments	10	12.6	972.4	10.7	972.4
		2,258.6	972.4	2,318.6	972.4
<b>Current assets</b>					
Stocks and work in progress	11	225.7	-	203.4	-
Debtors	12	752.3	620.6	733.9	619.4
Cash at bank and in hand		106.8	-	84.4	-
		1,084.8	620.6	1,021.7	619.4
<b>Creditors - amounts falling due within one year</b>	13	(1,162.5)	(28.8)	(1,170.6)	(26.0)
<b>Net current (liabilities)/assets</b>		(77.7)	591.8	(148.9)	593.4
<b>Total assets less current liabilities</b>		2,180.9	1,564.2	2,169.7	1,565.8
<b>Creditors - amounts falling due after more than one year</b>	14	759.3	23.0	684.9	23.0
<b>Provisions for liabilities and charges</b>	15	30.3	-	29.3	-
<b>Equity minority interests</b>	16	20.7	-	21.8	-
<b>Capital and reserves</b>					
Called up share capital	17	1.6	1.6	1.6	1.6
Share premium account		1,543.2	1,543.2	1,543.2	1,543.2
Profit and loss account	18	(174.2)	(3.6)	(111.1)	(2.0)
<b>Equity shareholders' funds</b>		1,370.6	1,541.2	1,433.7	1,542.8
		2,180.9	1,564.2	2,169.7	1,565.8

These accounts were approved by the board on 13 April 2000 and signed on its behalf by:

T C Harris  
H H Meijer

  
P&O

**Group cash flow statement**  
for the year ended  
31 December 1999

	Notes	1999 \$m	1998 \$m
Net cash inflow from operating activities	19 (a)	212.8	183.4
<b>Dividends from associates</b>		0.8	-
<b>Returns on investments and servicing of finance</b>			
Interest received		6.7	7.1
Interest paid		(39.4)	(47.6)
Finance lease interest paid		(24.0)	(16.2)
Dividends paid to minority interests		(0.2)	-
Net cash outflow from returns on investments and servicing of finance		(56.9)	(56.7)
<b>Taxation</b>		(10.7)	(9.0)
<b>Capital expenditure and financial investment</b>			
Purchase of ships		(41.9)	(231.6)
Purchase of investments and other fixed assets		(103.9)	(52.3)
Sale of fixed assets and investments		85.1	310.8
Net cash (outflow)/inflow from capital expenditure and financial investment		(60.7)	26.9
<b>Acquisitions</b>			
Purchase of businesses		(2.0)	(77.3)
Net cash acquired		-	11.2
Net cash outflow for acquisitions		(2.0)	(66.1)
Net cash inflow before financing		83.3	78.5
<b>Financing</b>			
Loan drawdown		98.4	123.4
Loan repayment		(131.5)	(164.9)
Finance lease capital payments		(23.9)	(24.0)
Net cash outflow from financing		(57.0)	(65.5)
Increase in cash in the period	19 (b)	26.3	13.0

**Statement of group  
total recognised  
gains and losses**  
for the year ended  
31 December 1999

	1999 \$m	1998 \$m
Loss for the financial year attributable to shareholders	(60.2)	(13.8)
Currency translation - average to closing	(0.1)	(0.1)
Currency translation differences on foreign currency investments	(2.8)	1.8
<b>Total recognised gains and (losses) for the financial year</b>	<b>(63.1)</b>	<b>(12.1)</b>

There are no material recognised gains or losses of associates that are not shown in the group profit and loss account.

**Reconciliation of  
movement in equity  
shareholders' funds**  
for the year ended  
31 December 1999

	1999 \$m	1998 \$m
<b>Total recognised gains and (losses) for the financial year</b>	<b>(63.1)</b>	<b>(12.1)</b>
Equity shareholders' funds at beginning of the year	1,433.7	1,445.8
<b>Equity shareholders' funds at the end of the year</b>	<b>1,370.6</b>	<b>1,433.7</b>

# 1. Principal accounting policies

The following principal accounting policies have been applied consistently in dealing with items which are considered material in relation to the group's financial statements.

## (a) Accounting convention

The accounts are prepared on the historical cost basis and in accordance with applicable United Kingdom accounting standards except as stated in note 10(c)(II)(1).

## (b) Basis of consolidation

The consolidated accounts include the accounts of the company and its subsidiaries (including the UK partnership in which they participate) made up to 31 December 1999 together with the group's interest in its associates. Results of subsidiaries and associates acquired or sold during the year are included from or to the effective date of acquisition or sale. In accordance with section 230 of the Companies Act 1985, a separate profit and loss account dealing with the results of the company only is not presented.

Goodwill arising on consolidation in respect of acquisitions before 1 January 1998, when FRS 10 was adopted, was written off to reserves in the year of acquisition. When a subsequent disposal occurs, the profit or loss on sale includes the attributable goodwill.

Goodwill arising on consolidation in respect of acquisitions since 1 January 1998 is capitalised and written off by equal annual instalments over its estimated useful life (assessed at the date of each acquisition). When a subsequent disposal occurs the profit or loss on sale is calculated after taking account of the unamortised amount of any related goodwill.

The company's associates have been accounted for on the basis of FRS9.

## (c) Turnover

Turnover represents the amounts invoiced to customers, excluding VAT and similar sales taxes, in respect of shipping and transport operations completed during the accounting period.

## (d) Segmental reporting

The directors regard all group activities as relating to the container through transport business.

I. The analysis of turnover by origin is derived by allocating revenue to the area in which the cargo originated. The analysis of turnover by destination is derived by allocating revenue to the area in which the cargo is delivered.

II. Operating profit resulting from turnover generated in each geographical area according to origin/destination is not disclosed as it is neither practical nor meaningful to allocate the group's operating expenditure on this basis.

III. Geographical analysis of net assets.

The major revenue-earning assets of the group are comprised of the ship and container fleets, the majority of which are registered in the United Kingdom and the Netherlands. Since the group's fleets are employed flexibly across its worldwide route network, it is not

appropriate to allocate such assets and related liabilities to geographical segments.

## (e) Operating profit

Operating profit includes the results of all shipping and transport operations completed during the accounting period. Revenue and costs in respect of such operations which are not complete at the end of the period are carried forward as "Deferred Income" and within "Stocks and Work in Progress" respectively. The company participates in certain operating arrangements with other shipping lines. The results thereof are accounted for on an accruals basis, estimates being used to the extent that final information is not available.

## (f) Foreign currencies

The company's functional currency is the US dollar. At 31 December 1999 the US dollar: sterling exchange rate was 1:0.619 (1998: 1:0.601). Transactions denominated in foreign currencies are translated at the exchange rate ruling on the date on which each transaction occurs or at the rate specified in any related forward exchange contract. At each balance sheet date monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at that date or at the rates specified in any related forward exchange contracts. The results of subsidiaries and branches which have currencies of operation other than US dollars have been translated at average exchange rates.

Exchange differences arising from the translation of the opening net assets of subsidiaries and associates which have currencies of operation other than US dollars and any related loans are taken to reserves together with the differences arising when the profit and loss accounts are translated at average rates and compared with rates ruling at the year end. Other exchange differences are taken to the profit and loss account.

## (g) Fixed assets

- I. The properties are included in the accounts at their cost to the group. No depreciation is provided in respect of freehold land and buildings or leasehold land and buildings where the remaining life of the lease is 21 years or more as, in the opinion of the directors, any element of depreciation would be immaterial. Leasehold land and buildings are depreciated on a straight line basis over the remaining life of the lease where the remaining life of the lease is less than 21 years.
- II. Interest incurred in respect of payments on account of assets under construction is capitalised to the cost of the asset concerned.
- III. Depreciation of other fixed assets is calculated on a straight line basis so as to write off their cost, including interest capitalised during construction, less their estimated residual value over their expected useful lives, which are normally:
  - Container Ships 25-30 years
  - Containers and Trailers 10-15 years
  - Other Plant and Equipment 4-15 years
  - Software 5-7 years

(h) *Finance leases and similar arrangements*

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors. Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

(i) *Stocks and work in progress*

Stocks and work in progress are stated at the lower of cost and net realisable value.

(j) *Dry-docking costs*

Costs incurred on the dry-docking of ships are carried forward and expensed over the period to the next dry docking.

(k) *Deferred taxation*

Provisions are made for deferred taxation using the liability method, on short-term timing differences and all other material differences to the extent that it is probable that the liabilities will crystallise in the foreseeable future.

(l) *Pension schemes*

Contributions in respect of defined benefit pension schemes are calculated as a percentage, agreed on actuarial advice, of the pensionable salaries of employees. The cost of providing pensions is charged to the profit and loss account over the periods benefiting from the service of employees.

Contributions in respect of defined contribution pension schemes are charged to the profit and loss account when they are payable.

## 2. Analysis of turnover

### By geographical area

	1999		1998	
	Origin \$m	Destination \$m	Origin \$m	Destination \$m
<b>Continuing operations</b>				
UK and the Republic of Ireland	356.9	547.9	340.4	465.6
Continental Europe	834.5	1,187.3	960.0	971.2
USA and Canada	406.8	638.9	437.2	447.6
Australasia and Pacific	383.5	340.8	429.1	424.5
Far East and Asia	1,661.6	612.6	1,445.4	806.4
Other areas	404.9	720.7	327.8	824.6
	<b>4,048.2</b>	<b>4,048.2</b>	<b>3,939.9</b>	<b>3,939.9</b>

P&O

### 3. Net operating costs

	1999 \$m	1998 \$m
<b>Continuing operations</b>		
Cost of sales	3,418.7	3,262.0
Administration expenses	622.6	600.0
Remanning costs	-	10.6
Other income & expenses	0.2	(3.8)
	<b>4,041.5</b>	<b>3,868.8</b>

Net operating costs include:

	1999 \$m	1998 \$m
<b>Depreciation of tangible fixed assets:</b>		
Owned assets	163.2	165.8
Leased assets	37.7	27.0
	<b>200.9</b>	<b>192.8</b>
<b>Amortisation of goodwill</b>	<b>1.6</b>	<b>1.6</b>
Hire of ships	277.1	264.6
Hire of plant and machinery	145.2	149.6
Profit on sale of fixed assets	(2.6)	(3.6)
Property rentals	29.0	33.3
Auditors' remuneration - Group	2.6	3.1
- Company	-	-
Other fees paid to auditors and their associates	1.8	1.0

### 4. Employee information

The average number of persons employed by the group, including executive directors, was as follows:

	1999	1998
In the United Kingdom	1,636	1,720
Overseas	6,987	7,205
Sea Staff	1,810	1,938
	<b>10,433</b>	<b>10,863</b>

Employment costs - all employees including executive directors:

	\$m	\$m
Aggregate gross wages and salaries	362.5	354.3
Employers' national insurance contributions, or foreign equivalents	27.3	30.3
Employers' pension contributions (note 23)	14.7	15.9
Total direct cost of employment	<b>404.5</b>	<b>400.5</b>

### 5. Remuneration of Directors

	1999 \$'000	1998 \$'000
Directors' emoluments	765	813
Amounts paid to third parties in respect of directors' services	1,610	1,923

	1999 Number	1998 Number
Retirement benefits are accruing to the following number of executive directors under:		
Defined benefit schemes	4	4

The emoluments of the highest paid director were \$457,897 (1998: \$443,393).  
He is a member of a defined benefit scheme under which his accrued pension at year end was \$178,830 (1998: \$131,921).

## 6. Net interest and similar items

	1999 \$m	1998 \$m
Bank loans and overdrafts	(40.5)	(51.4)
Interest element of finance leases and similar arrangements	(23.8)	(16.6)
Other loans	(2.9)	(3.0)
	(67.2)	(71.0)
Interest capitalised	0.9	7.7
Interest receivable and similar items	6.3	6.4
	(60.0)	(56.9)

## 7. Tax on profit on ordinary activities

	1999 \$m	1998 \$m
<i>This comprises:</i>		
<b>United Kingdom corporation tax</b>		
Current year at 30.25% (1998 - 31%)	-	(1.1)
<b>Overseas taxation</b>		
Current year	(8.4)	(9.6)
Share of associates' tax	0.1	(0.1)
	(8.3)	(10.8)

The group tax charge arises mainly as a result of taxes which are based on turnover in overseas locations.

## 8. Intangible fixed assets

Group	Goodwill \$m
<b>Cost</b>	
At 1 January 1999	11.2
Additions	2.0
Adjustments to fair values	(2.4)
At 31 December 1999	10.8
<b>Amortisation</b>	
At 1 January 1999	(1.6)
Charge for the year	(1.6)
At 31 December 1999	(3.2)
<b>Net Book Value</b>	
At 31.12.99	7.6
<b>Net Book Value</b>	
At 31.12.98	9.6

Goodwill is being amortised over a period of 5 years. This period represents the estimated remaining useful life of the major revenue earning assets acquired. Refer to Note 10 for details of additions and adjustments to fair values.

# 9. Tangible fixed assets

## Group

	Land and Buildings		Ships		Containers & Other Plant & Equipment		Total
	Freehold	Leasehold	Owned	Finance Leases	Owned	Finance Leases	
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Cost</b>							
At 1.1.99	26.9	19.9	1,336.4	389.8	685.9	172.0	2,630.9
Exchange Adjustment	(1.2)	(0.2)	-	-	(2.4)	(0.1)	(3.9)
Additions	0.1	1.1	33.2	8.8	118.2	84.6	246.0
Disposals	(2.8)	(0.7)	(43.8)	(14.1)	(45.0)	(6.7)	(113.1)
Reclassification	3.7	(3.7)	(7.3)	7.3	(15.9)	15.9	-
At 31.12.99	26.7	16.4	1,318.5	391.8	740.8	265.7	2,759.9
<b>Depreciation</b>							
At 1.1.99	-	(2.3)	(143.9)	(29.1)	(141.6)	(15.7)	(332.6)
Exchange Adjustment	-	0.1	-	-	1.7	-	1.8
Charged for the year	-	(0.5)	(75.2)	(18.8)	(87.5)	(18.9)	(200.9)
Disposals	-	0.6	-	3.7	5.4	0.5	10.2
Reclassification	-	-	0.9	(0.9)	1.2	(1.2)	-
At 31.12.99	-	(2.1)	(218.2)	(45.1)	(220.8)	(35.3)	(521.5)
<b>Net Book Value</b>							
At 31.12.99	26.7	14.3	1,100.3	346.7	520.0	230.4	2,238.4
<b>Net Book Value</b>							
At 31.12.98	26.9	17.6	1,192.5	360.7	544.3	156.3	2,298.3

	1999 \$m	1998 \$m
<b>The net book value of leasehold land and buildings comprises:</b>		
Long leases	13.2	15.8
Short leases	1.1	1.8
	14.3	17.6

- (a) The directors estimate that if all properties were to be realised at their current book values no taxation liabilities would arise. (1998: \$Nil).
- (b) Ships under construction included in the above totalled \$19.0m (1998: \$26.2m). Payments for ships under construction of \$26.8m were made during the year and \$41.4m has been recovered from lessors under leasing arrangements. In addition, a further \$11.6m will be recovered from lessors.
- (c) The cost of ships shown above includes \$3.7m (1998: \$3.7m) in respect of capitalised interest charges.
- (d) The net book value of containers and other plant and equipment consists of containers \$518.8m (1998: \$515.4m), computer equipment and software \$168.4m (1998: \$125.6m) and other assets \$63.2m (1998: \$59.6m).

## 10. Fixed Assets: Investments

### (a) Summary

	1999		1998	
	Group \$m	Company \$m	Group \$m	Company \$m
<b>Subsidiary undertakings</b>				
Shares at cost	-	972.4	-	972.4
<b>Associated undertakings</b>				
Shares	8.2	-	8.9	-
Associates' reserves	(1.8)	-	(1.1)	-
Loans	-	-	0.1	-
	6.4	-	7.9	-
<b>Other investments</b>				
Unlisted	6.2	-	2.8	-
<b>Total fixed asset investments</b>	<b>12.6</b>	<b>972.4</b>	<b>10.7</b>	<b>972.4</b>

The net book value of shares in associated undertakings are shown net of provisions totalling \$0.1m (1998: \$1.5m).

### (b) Movements in fixed asset investment

	\$m
<b>Interests in associated undertakings</b>	
At 1 January 1999	7.9
Exchange	(0.7)
Additions	0.4
Disposal of shares	(0.4)
Share of retained loss	-
Dividends received	(0.8)
At 31 December 1999	6.4
	Unlisted \$m
<b>Other investments</b>	
At 1 January 1999	2.8
Additions	3.4
At 31 December 1999	6.2

### (c) Particulars of Subsidiary and Associated Undertakings

The directors consider that to give full particulars of all subsidiary and associated undertakings included in these accounts would lead to a statement of excessive length. A full list of the company's subsidiaries is included in the company's annual return. The following information relates to those companies which, in the opinion of the directors, principally affect the results or assets of the group. Except where indicated the holdings are of ordinary shares and the country of incorporation is Great Britain.

**10. Fixed Assets: Investments - continued**

	Notes	Percentage of Share Capital Held
<b>I. Subsidiaries</b>		
<b>Container Ship Operators</b>		
P&O Nedlloyd Limited	3	100.0
P&O Nedlloyd BV	1,2,3	99.0
P&O Swire Containers Limited		75.0
Ellerman Harrison Container Line Limited		100.0
Blue Star Line Limited		100.0
<b>Freight Forwarders</b>		
P&O Nedlloyd Global Logistics Limited		100.0
Damco Maritime International BV	2	100.0
<b>Transport and Depot Operators</b>		
Roadways Container Logistics Limited		100.0

**II. Notes**

- The shares in P&O Nedlloyd BV which are not held by the company ("the access shares") are owned in equal proportions by the company's shareholders. The access shares enable one shareholder to receive its share of distributions of the group's profits made by way of dividends, or a surplus arising on a winding up, directly from P&O Nedlloyd BV. Under the Companies Act 1985 and accounting standards, the results and net assets attributable to such shares fall to be disclosed as minority interests in the consolidated profit and loss account and balance sheet. However, in the opinion of the directors such a treatment would not show a true and fair view of the results and state of affairs of the company since part of the shareholders' economic interest would be shown as a minority interest. Accordingly the interest attributable to such shares has been included within shareholders' funds and no minority interest has been shown in the profit and loss account. It is not possible to quantify the effect since the value of the shares is such that no fixed or determinable amount can be attributed to them.
- Company incorporated in the Netherlands
- P&O Nedlloyd Limited and P&O Nedlloyd BV operate their container shipping activities through a UK partnership under the name "P&O Nedlloyd". Advantage has been taken of the exemption allowed under Statutory Instrument 1820 not to file partnership accounts at Companies House. The partnership's registered office is Beagle House, Braham Street, London E1 8EP.

**(d) Acquisition of businesses**

In February 1999 the group acquired the business of Tasman Express Line Auckland for a total consideration of \$1.6m. No assets were acquired as part of this transaction and accordingly the payment of \$1.6m was added to goodwill.

In October 1999 the group acquired Harrison Line's interests in the Europe/Red Sea/East Africa trade for a consideration of \$0.3m. No assets were acquired as part of this transaction and accordingly the payment of \$0.3m was added to goodwill.

The impact of these acquisitions on the results for the year under review was to contribute turnover of \$16.8m and operating profit of \$0.4m.

**(e) Adjustments to prior year acquisitions**

Blue Star Line Limited was acquired on 1 April 1998 for a consideration of \$77.3m. Goodwill of \$10.8m was recognised. Since acquisition, adjustments to the provisional fair values have been made following a reappraisal of the carrying value of certain assets and taxation liabilities. The goodwill recognised on the acquisition has been reduced by \$2.4m accordingly.

# 11. Stocks and work in progress

	1999		1998	
	Group \$m	Company \$m	Group \$m	Company \$m
Raw Material and consumables	59.8	-	37.5	-
Work in progress	165.9	-	165.9	-
	225.7	-	203.4	-

# 12. Debtors

	1999		1998	
	Group \$m	Company \$m	Group \$m	Company \$m
<b>Amounts falling due within one year</b>				
Trade debtors	521.9	-	511.8	-
Subsidiary undertakings	-	618.4	-	616.8
Group relief receivable	-	1.4	-	1.0
Other debtors	80.6	0.8	80.0	1.6
Prepayments and accrued income	139.1	-	133.0	-
	741.6	620.6	724.8	619.4
<b>Amounts falling due after more than one year</b>				
Advances	10.7	-	9.1	-
	752.3	620.6	733.9	619.4

# 13. Creditors: amounts falling due within one year

	1999		1998	
	Group \$m	Company \$m	Group \$m	Company \$m
<b>Short term component of long term debt</b>				
Lease finance	27.2	-	20.5	-
Bank loans - secured	172.3	-	219.4	-
	199.5	-	239.9	-
<b>Short term debt</b>				
Shareholder loans (unsecured)	23.0	23.0	23.0	23.0
Bank loans and overdrafts (unsecured)	3.3	-	7.2	-
	26.3	23.0	30.2	23.0
<b>Trade and other creditors</b>				
Trade creditors	365.5	-	309.9	-
Deferred income	291.3	-	227.1	-
Mainstream corporation tax	3.9	-	10.9	-
Social security	0.8	-	2.6	-
Other creditors	49.0	-	74.0	-
Accruals	226.2	5.8	276.0	3.0
	936.7	5.8	900.5	3.0
	1,162.5	28.8	1,170.6	26.0

The company's banking arrangements enable it to draw down further loans to replace some \$90m (1998: \$140m) included in the secured loan balance above.

**14. Creditors: amounts falling due after more than one year**

	1999		1998	
	Group \$m	Company \$m	Group \$m	Company \$m
Shareholder loans (unsecured)	23.0	23.0	23.0	23.0
<b>Bank loans secured</b>				
Payable between 1 and 2 years	82.3	-	82.3	-
Payable between 2 and 5 years	266.5	-	251.3	-
Payable after 5 years	-	-	2.3	-
<b>Lease finance</b>				
Payable between 1 and 2 years	33.5	-	20.2	-
Payable between 2 and 5 years	100.6	-	82.8	-
Payable after 5 years	252.1	-	222.3	-
Other loans (unsecured)	1.0	-	0.4	-
Other creditors	0.3	-	0.3	-
	<b>759.3</b>	<b>23.0</b>	<b>684.9</b>	<b>23.0</b>

- (a) The shareholder loan has been extended and is repayable in two equal instalments in June 2000 and June 2001.
- (b) Interest is payable on bank loans at varying commercial rates.
- (c) The interest elements of finance leases are fixed at various commercial rates reduced, in the case of leases with tax variation clauses, to reflect changes in the rate of corporation tax.
- (d) Some \$98m of loans are secured on certain trade debtors. The remaining bank loans are secured on the major capital assets of the group.

**15. Provision for liabilities and charges**

	Group \$m	Company \$m
Balance at 1 January 1999	29.3	-
Exchange	(0.3)	-
Transfer from profit and loss account	7.2	-
Applied during the year	(5.9)	-
	<b>30.3</b>	<b>-</b>

Provisions includes \$15.6m (1998: \$15.0m) in respect of pensions, \$5.3m (1998: \$3.8m) for holiday pay, \$0.8m (1998: \$1.4m) for reorganisation costs, \$1.1m (1998: \$1.8m) for property leases and \$4.4m (1998: \$3.5m) for contractual disputes.

**Deferred Taxation**

No provision is made in the accounts for deferred taxation. The estimated potential liability is set out below and has been calculated at the UK corporation tax rate of 30% (1998: 30%).

	1999		1998	
	Group \$m	Company \$m	Group \$m	Company \$m
Accelerated allowances on fixed assets	132.9	-	131.2	-
Short term timing differences	(5.6)	-	(5.9)	-
	<b>127.3</b>	<b>-</b>	<b>125.3</b>	<b>-</b>

No deferred tax has been provided in respect of the accumulated reserves of non-UK subsidiaries on the grounds that the potential deferred tax liability relating to these is unlikely to crystallise in the foreseeable future.

# 16. Equity minority interests

	1999 \$m
As at 1 January 1999	21.8
Proportion of loss on ordinary activities after taxation	(1.3)
Changes in composition and dividends paid	0.2
	20.7

# 17. Called up share capital

	1999 \$m	1998 \$m
<b>Authorised allotted, called up and fully paid share capital is as follows</b>		
800,000 Ordinary A Shares of \$1 each	0.8	0.8
800,000 Ordinary B Shares of \$1 each	0.8	0.8
1 Deferred share of £1	-	-
	1.6	1.6

The deferred share is a non-voting share which carries no rights to participate in any distribution of profits and upon liquidation or other return of capital would receive an amount not exceeding its par value.

# 18. Profit and loss account

	Group \$m	Company \$m
Balance at 1 January 1999	(111.1)	(2.0)
Retained loss for the year	(60.2)	(1.6)
Currency translation - average to closing	(0.1)	-
Currency translation on foreign currency net investment	(2.8)	-
Balance at 31 December 1999	(174.2)	(3.6)

At 31 December 1999 the cumulative goodwill written off on acquisitions prior to 1 January 1998 amounted to \$3m (1998: \$3m).

## 19. Notes to the group cash flow statement

	1999 \$m	1998 \$m
<b>(a) Reconciliation of operating profit to net cashflow from operating activities</b>		
Group operating profit	6.7	71.1
Depreciation and amortisation	202.5	194.4
Profit on sale of fixed assets	(2.6)	(3.6)
Increase in stock	(22.4)	(14.0)
(Increase)/Decrease in debtors	(19.7)	109.4
Increase/(Decrease) in creditors and provisions	48.3	(173.9)
Net cash inflow from operating activities	212.8	183.4
<b>(b) Reconciliation of net cash flow to movement in net debt</b>		
Increase in cash in the period	26.3	13.0
Cash outflow from changes in loans and lease financing	57.0	65.5
Changes in net debt resulting from cash flows	83.3	78.5
New finance leases	(94.4)	(214.4)
Borrowings of subsidiaries acquired	-	(35.6)
Exchange movement in net debt	3.4	0.3
Movement in net debt in the period	(7.7)	(171.2)
Net debt at 1 January 1999	(870.3)	(699.1)
Net debt at 31 December 1999	(878.0)	(870.3)

## (c) Analysis of net debt

	At 1 January 1999 \$m	Cash flow \$m	Other non cash movement \$m	Exchange movement \$m	At 31 December 1999 \$m
Cash available on demand	84.4	22.4	-	-	106.8
Overdrafts	(7.2)	3.9	-	-	(3.3)
Loans due after one year	(336.3)	(14.0)	-	0.5	(349.8)
Loans due within one year	(219.4)	47.1	-	-	(172.3)
Finance leases due after one year	(325.3)	24.0	(87.8)	2.9	(386.2)
Finance leases due within one year	(20.5)	(0.1)	(6.6)	-	(27.2)
Unsecured shareholder loans	(46.0)	-	-	-	(46.0)
Total	(870.3)	83.3	(94.4)	3.4	(878.0)

The net debt balances are represented by 'cash at bank and in hand', 'bank loans-secured', 'bank loans and overdrafts - unsecured', 'finance leases', 'shareholder loans' and 'other loans - unsecured'.

## 20. Capital expenditure and commitments

	1999		1998	
	Group \$m	Company \$m	Group \$m	Company \$m
<b>Expenditure on fixed assets</b>				
Contracts placed but for which provision has not been made	617.7	-	563.3	-

## 21. Obligations under operating leases

Annual commitments under non-cancellable operating leases at the balance sheet date were as follows:

	1999 Group		1998 Group	
	Land and Buildings \$m	Other Leases \$m	Land and Buildings \$m	Other Leases \$m
<b>Operating leases which expire</b>				
Within one year	3.9	107.5	7.7	101.9
In the second to fifth year inclusive	17.5	93.7	17.4	166.1
Over five years	7.0	80.9	9.7	80.8
	28.4	282.1	34.8	348.8

The majority of leases of land and buildings are subject to rent reviews.

The company has no operating lease commitments in either year.

## 22. Contingent liabilities

The company has entered into certain guarantees in respect of subsidiary and associated undertakings. At 31 December 1999 the amount outstanding under these guarantees was \$907m (1998: \$613m). No losses are expected.

The guarantees are secured over the net assets of key subsidiaries.

P&O Nedlloyd Limited and P&O Nedlloyd BV were members of the Trans-Atlantic Conference Agreement (TACA) against which the European Commission in May 1996 issued a Statement of Objections. The principal allegation was that the Conference Lines had a collective dominant position in the North Atlantic shipping market and that they had abused that position. Lawyers to the Conference have advised that

both these allegations but especially the latter can be rebutted and that as a result an adverse decision by the Commission would most probably be reversed by the European Court of Justice. They have also advised that a fine of ECU 41m (approximately \$41m) announced by the Commission in September 1998 would not be upheld by the Court for various legal reasons. In December 1998, a guarantee in respect of the fine was lodged with the Commission and an appeal was lodged with the European Court of First Instance in Luxembourg requesting annulment of the Commission's decision. The directors consider that no material liability will arise and accordingly no provision has been made.

## 23. Pensions

The group participates in a number of pension schemes, including in the UK a scheme operated by The Peninsular and Oriental Steam Navigation Company and in the Netherlands a scheme operated by Royal Nedlloyd NV together with various industry wide schemes in both countries. One of the industry wide schemes is a defined contribution scheme, all others are of the defined benefit type with assets held in separate trustee administered funds.

Under the terms of the Sale and Purchase Agreement between The Peninsular and Oriental Steam Navigation Company and Royal Nedlloyd NV which created P&O Nedlloyd, the group's pension arrangements are being reassessed as from 1 January 2000.

The pension costs in respect of the industry wide schemes are based on the use of common rates for contributions payable by sponsoring employers. Under the terms of the Sale and Purchase Agreement between The Peninsular and Oriental Steam Navigation Company and Royal Nedlloyd NV which created P&O Nedlloyd, the group's pension contributions to the P&O Pension Scheme were capped for three years to 31 December 1999.

As from 1 January 2000 the contributions to this scheme have been made in accordance with actuarial recommendations. Formal actuarial valuations of The P&O Pension Scheme ('the Scheme') are carried

out triennially, the latest being as at 1 April 1997 by Watson Wyatt Partners, consulting actuaries, using the projected unit method. The principal assumptions adopted in the valuation were that, over the long term, the annual rate of return on investments would be 2.75 percentage points higher than the annual increase in total pensionable remuneration and 4.75 percentage points higher than the annual increase in present and future pension payments. The market value of the Scheme's assets at 1 April 1997 was £1,059m and the actuarial value of those assets represented 98 per cent of the value of the benefits accrued to members allowing for future increases in earnings. This valuation takes account of the removal of the ability of pension schemes to reclaim tax credits on dividend income.

The actuarial valuations of the industry wide schemes in the UK are carried out by Watson Wyatt Partners, consulting actuaries, using the projected unit method. The schemes' actuaries have advised that the actuarial value of the officers' scheme's assets represents approximately 105 per cent of the value of the benefits accrued to members allowing for future increases in earnings and 89 per cent in respect of the ratings' scheme. Discussions are taking place with the trustee as to the best means of dealing with the

**23. Pensions – continued**

deficit on the ratings' scheme. The latest valuations were at 31 March 1996 in respect of the officers' scheme and at 31 March 1998 in respect of the ratings' scheme.

The group participates in the Royal Nedlloyd Pension Fund in the Netherlands, a defined benefit plan with assets held separately from the sponsoring companies. The pension cost is, in respect of the Royal Nedlloyd Scheme, based on a common rate of contribution for each participating employer. However, presently employers enjoy a contribution holiday which is reviewed on an annual basis. Formal valuations are carried out annually by independent external consultants, the latest being at 31 December 1998 using the current unit method. The principal assumption is that, over the long term, the annual rate of return on investments would be 4 percentage points higher than the annual increase

in present and future pensions payments and accrued pensions. The market value of the Scheme's assets at 31 December 1998 was NLG2,991m representing 169 per cent of the value of the benefits accrued to members with no allowance for future increases in earnings.

The industry wide pension fund in the Netherlands has assets at market value of NLG6,275m, as at 31 December 1998, representing 138 per cent of the value of the benefits accrued to the members with no allowance for future increases in earnings. The principal assumption is that over the long term, the annual rate of return on investments would be 4 percentage points higher than the annual increase in present and future pensions. Formal valuations are carried out annually by independent external consultants.

**24. Shareholders**

P&O Nedlloyd Container Line Limited is owned 50:50 by The Peninsular and Oriental Steam Navigation Company (incorporated in England and Wales) and Royal Nedlloyd NV (incorporated in The Netherlands)

Under the terms of FRS 8 (Related Party Disclosures) both shareholders are considered to be related parties of the company. During the year there have been the following transactions with these parties:

	1999 \$m	1998 \$m
Interest receivable	0.7	1.8
Interest payable	(2.8)	(3.0)
Operating costs	4.1	(1.7)
<b>Net balance due to related parties at year end:</b>		
Unsecured loan	(46.0)	(46.0)
Amounts due from shareholders	16.8	3.8
	(29.2)	(42.2)

The Shareholders have settled certain claims relating to periods prior to the merger of P&O Containers Limited and Nedlloyd Lines BV by agreeing to pay \$15m to the company.

List of vessels	Year of building	Dwt	TEU	List of vessels
America Star	1971	27905	1334	Operated by
Arafura (74% Owned)	1991	44541	2440	P&O Nedlloyd as at
Aramac	1977	49262	3005	31 March 2000
Argentina Star	1979	23756	1230	
Ariake (74% Owned)	1976	34346	1968	
Berlin Express	1973	32713	2113	
City of Capetown	1977	47197	2984	
Colombo Bay	1995	59283	4230	
Columbia Star	1980	18250	991	
Heemskerck	1978	49730	3126	
Jervis Bay	1992	59283	4230	
Mairangi Bay	1978	38758	2344	
Marin	1977	14055	728	
Melbourne Star	1971	27905	1334	
Nedlloyd Hoorn	1978	48437	2993	
Nedlloyd Africa	1992	50620	3604	
Nedlloyd America	1992	50620	3604	
Nedlloyd Asia	1991	50620	3604	
Nedlloyd Clarence	1983	38351	2515	
Nedlloyd Clement	1983	37581	2470	
Nedlloyd Colombo	1982	32841	2179	
Nedlloyd Europa	1991	50620	3604	
Nedlloyd Hong Kong	1994	55238	4181	
Nedlloyd Honshu	1995	55238	4181	
Nedlloyd Oceania	1992	50620	3604	
New Zealand Pacific	1978	38757	2344	
Newport Bay	1993	59283	4230	
Oriental Bay*	1989	59283	4180	
Palliser Bay	1977	39712	2485	
Pegasus Bay	1978	47209	2870	
Peninsular Bay	1989	59283	4180	
Providence Bay	1994	59283	4230	
P&O Nedlloyd Auckland*	1998	38250	2890	
P&O Nedlloyd Brisbane	1985	53726	2686	
P&O Nedlloyd Buenos Aires	1984	29930	1779	
P&O Nedlloyd Genoa*	1998	38250	2890	
P&O Nedlloyd Houston	1983	29730	1779	
P&O Nedlloyd Jakarta*	1998	38250	2890	
P&O Nedlloyd Kobe*	1998	88669	6690	
P&O Nedlloyd Kowloon	1998	88669	6690	
P&O Nedlloyd Los Angeles	1980	23678	1548	
P&O Nedlloyd Lyttleton	1978	25254	1406	
P&O Nedlloyd Marseilles*	1998	38250	2890	
P&O Nedlloyd Napier (74% owned)	1970	23891	1244	
P&O Nedlloyd Piraeus	1981	30684	2014	
P&O Nedlloyd Rotterdam*	1998	88669	6690	
P&O Nedlloyd Southampton	1998	88669	6690	
P&O Nedlloyd Sydney*	1998	38250	2890	
P&O Nedlloyd Taranaki (74% owned)	1981	27893	1214	
P&O Nedlloyd Tasman*	1999	67550	5460	
P&O Nedlloyd Tauranga (74% owned)	1970	23016	1436	
P&O Nedlloyd Taurinaki	1981	30684	2014	
P&O Nedlloyd Texas	1972	47442	3043	
P&O Nedlloyd Vera Cruz	1984	29730	1779	
Queensland Star	1972	28037	1360	
Repulse Bay	1992	59283	4230	
Resolution Bay	1977	38758	2344	
Shenzhen Bay	1994	59283	4230	
Singapore Bay	1993	59283	4230	
Sydney Express*	1996	7480	592	
Sydney Star	1972	27905	1334	
Wellington Express*	1996	7480	592	

\*Bareboat charter

P&O

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