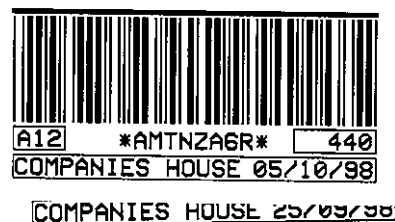


Annual Report and Accounts

for the year ended 31 December 1997

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Chairmen's Statement

P&O Nedlloyd Container Line Limited was formed through the union of P&O Containers Limited and Nedlloyd Lines BV. The new company, incorporated in the UK and 50:50 owned by The Peninsular & Oriental Steam Navigation Company and Royal Nedlloyd NV, was formed at the end of 1996 and has been in operation throughout 1997.

During the year the group carried 2,320,000 TEUs (1996: 2,273,000 for the two former lines).

Measured in standing slots, i.e. available capacity, the company ranked among the three largest carriers in the world. It has leading market positions in the Asia/Europe and the Atlantic trades and is the largest operator in the North/South trades.

1997 was a year of consolidation while the two constituent companies were being integrated. By the year end cost savings had been obtained at an annualised rate of over US\$200 million. These savings were the result of, inter alia, staff reduction, office integration, rationalisation of agencies, improved buying power (such as terminals, feeders, charters) and more efficient use of the combined ship and container fleets. By the end of the year almost all the company's business was booked on one common set of systems.

During the year, the group retained the customer base of its two constituent companies and was able to increase volumes in several trades. In its first full year on the TransPacific routes, the company gained market share and achieved high levels of space utilisation. On the TransAtlantic services, volumes fell slightly as a result of a

temporary loss of market share during the merger process. In the Asia/Europe trade, the effect of low freight rates was only partially offset by high volumes on the route.

The competitive environment remained generally unfavourable. Ongoing pressure on freight rates was observed in many trades due to aggressive introduction of new tonnage by some lines. The average revenue per TEU was US\$ 1,450 compared to US\$1,590 in 1996. There was, however, a trend towards greater stability in the overall average revenue per TEU in the latter part of the year.

New service developments in the course of the year included a new weekly service between North Europe and Canada, previously one of the few missing links in the company's global network, the upgrading of tonnage between Northern Europe and the Caribbean, a weekly improved service between Europe and the West Coast of India/Pakistan, a 10 day improved Far East/West Africa and a weekly improved Far East/East Africa service and an upgrade to the Europe/East Coast of South America service to weekly using modern container ships with a capacity of 2,400 TEUs.

The successful European rail shuttle activities, in which the group is working together with Maersk and Sea-Land, were further extended by adding shuttle trains to the services between Rotterdam and Italy and Germany.

At the beginning of 1997, P&O Nedlloyd was a member of two Alliances, one with NYK, Hapag Lloyd and NOL (the Grand Alliance) and the other with APL, OOCL and MOL (the Global Alliance). In June 1997, the group decided to join forces with NYK and Hapag Lloyd to form a new Alliance for the future. Later in the year OOCL and MISC announced their decision to join, making the new Grand Alliance stronger than its predecessor and any of its rivals globally. Transition to the new Alliance will have been completed by the end of the second quarter of 1998.

The group's prospects are positive. In a period of rapid change in the liner business the company's results are improving. In 1998 emphasis will be put on the transition to the new Alliance, the introduction of new tonnage ordered in 1996 (four vessels of 6,600 TEUs each) and 1997 (five chartered vessels of 2,900 TEUs each). A further order of five 5,000 TEU chartered vessels has just been placed for delivery during 1999 and 2000. On 9 February 1998, the group announced the takeover of Blue Star Line Limited, a company with a strong position in the market for refrigerated cargo from the southern to the northern Hemisphere. The acquisition will further reinforce the group's strong position in the North/South reefer trades.

The demand outlook remains encouraging while the overall industry supply and demand situation is forecast to come more into balance during the latter part of 1998 and thereafter.

The Lord Sterling of Plaistow

L. J. M. Berndsen

Joint Chairmen

31 July 1998

Report of the Directors

for the year ended 31 December 1997

1. **The directors present their report and accounts for the year ended 31 December 1997.**

2. **Results**

The results of the group are set out in detail on pages 8 to 11 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 1997.

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 company was formed on 13 November 1996 to act as the holding company for the union of P&O Containers Limited (now renamed P&O Nedlloyd Limited) and Nedlloyd Lines BV (now renamed P&O Nedlloyd BV).

To this end, the company acquired the whole of the issued share capital of P&O Containers Limited on 25 November 1996 and acquired the whole of the issued share capital of Nedlloyd Holding BV (which holds 99% of the issued capital of Nedlloyd Lines BV) on 31 December 1996.

As from 1 January 1997, 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.

The group now ranks as one of the top three liner operations in the world and the new company has the widest route network of any liner group. This results from the complementary strengths of the partners, especially in North/South trades into and out of the far East, in which field it is the leader. The group is also by far the largest in the Europe/Far East trade, needing only a fuller presence to be developed in the TransPacific trade to complement its other strengths. The union has provided considerable opportunity for major rationalisation which has enabled comfortably more than US\$200 million of annual costs to be saved. Further consolidation in the industry is expected.

The company's conservative debt/equity ratio provides a strong base for the future development of the business.

5. **Post balance sheet event**

On 1 April 1998 the group acquired the container shipping business of Blue Star Line Limited for approximately \$100 million.

6. 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

7. 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.

8. Employment Policies

The company has continued to develop arrangements for communication and consultation with employees. This is effected mainly through working groups which meet regularly and at which information about the company and matters affecting employees are communicated and discussed and through which employees' concerns and suggestions are considered. In addition:

- (a) elected amenities committees meet at regular intervals to discuss particular matters, such as staff restaurant and office accommodation facilities;
- (b) all employees receive a staff handbook and are informed of important developments and job opportunities through the internal e-mail system. Employees also receive monthly company newspapers, the appropriate issues of which include a summary of the relevant financial information.

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.

9. Donations

During the year ended 31 December 1997 the group contributed \$2,000 (1996: nil) for charitable purposes. No political contributions were made.

By Order of the Board


G. R. Cheeseman

Secretary

31 July 1998

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.

Group profit and loss account for the year ended 31 December 1997

		1997	1996 one month
	Notes	\$m	\$m
Turnover	2	3,839.3	181.9
Net operating costs	3	(3,871.1)	(176.8)
Share of pre tax results of associates		1.8	0.5
Operating profit before reorganisation costs		73.9	5.6
Reorganisation Costs		(103.9)	-
Operating (loss)/profit		(30.0)	5.6
Profit/(loss) on sale of fixed assets		0.3	(0.4)
(Loss)/profit on ordinary activities before interest		(29.7)	5.2
Net interest payable and similar items	6	(40.4)	(2.7)
(Loss)/profit on ordinary activities before taxation		(70.1)	2.5
Tax on (loss)/profit on ordinary activities	7	(9.3)	1.3
(Loss)/profit on ordinary activities after taxation		(79.4)	3.8
Equity minority interests	16	(3.3)	(1.7)
Retained (loss)/profit for the financial year	18	(82.7)	2.1

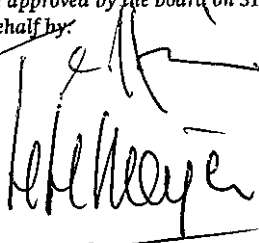
Group and company balance sheets as at 31 December 1997

	Notes	1997		1996	
		Group	Company	Group	Company
		\$m	\$m	\$m	\$m
<i>Fixed assets</i>					
Tangible assets	8	2,196.6	-	2,151.9	-
Investments	9	20.5	972.4	14.2	972.4
		<u>2,217.1</u>	<u>972.4</u>	<u>2,166.1</u>	<u>972.4</u>
<i>Current assets</i>					
Stocks and work in progress	10	187.5	-	188.6	-
Debtors	11	785.3	618.5	1,049.9	637.4
Investments	12	-	-	100.0	-
Cash at bank and in hand		82.8	-	39.2	-
		<u>1,055.6</u>	<u>618.5</u>	<u>1,367.7</u>	<u>637.4</u>
Creditors - amounts falling due within one year	13	(1,129.0)	(1.3)	(1,855.1)	(65.0)
Net current (liabilities)/assets		<u>(73.4)</u>	<u>617.2</u>	<u>(487.4)</u>	<u>572.4</u>
Total assets less current liabilities		<u>2,143.7</u>	<u>1,589.6</u>	<u>1,678.7</u>	<u>1,544.8</u>
Creditors - amounts falling due after more than one year	14	657.9	46.0	93.6	-
Provisions for liabilities and charges	15	19.9	-	20.4	-
Equity minority interests	16	20.1	-	17.7	-
<i>Capital and reserves</i>					
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	(99.0)	(1.2)	2.2	-
Equity Shareholders' funds		<u>1,445.8</u>	<u>1,543.6</u>	<u>1,547.0</u>	<u>1,544.8</u>
		<u>2,143.7</u>	<u>1,589.6</u>	<u>1,678.7</u>	<u>1,544.8</u>

These accounts were approved by the board on 31 July 1998 and signed on its behalf by:

T. C. Harris

H. H. Meijer



Group cash flow statement for the year ended 31 December 1997

	Notes	1997		1996	
		\$m	\$m	\$m	\$m
Net cash inflow from operating activities	19 (a)		93.5		7.5
<i>Returns on investments and servicing of finance</i>					
Interest received		12.0		-	
Interest paid		(31.3)		(2.2)	
Finance lease interest paid		(2.6)		-	
Investment income received		2.5		-	
Net cash (outflow)/inflow from returns on investments and servicing of finance			(19.4)		(2.2)
Taxation			(1.6)		-
<i>Capital expenditure and financial investment</i>					
Purchase of ships		(78.9)			
Purchase of investments and other fixed assets		(89.7)		(36.1)	
Sale of investments and other fixed assets		117.0		1.5	
Net cash outflow for capital expenditure and financial investment			(51.6)		(34.6)
Net cash inflow/(outflow) before financing			20.9		(29.2)
<i>Financing</i>					
Issue of share capital		-		197.4	
Loan drawdown		913.3		525.0	
Loan repayment		(838.0)		(670.7)	
Finance lease capital payments		(43.2)		(4.3)	
Net cash inflow from financing			32.1		47.4
Increase in cash	19 (b)		53.0		18.2

**Statement of group total recognised gains and losses for the year ended
31 December 1997**

	1997	1996 one month
	\$m	\$m
(Loss)/profit for the financial year attributable to shareholders	(82.7)	2.1
Currency translation - average to closing	(0.2)	0.1
Currency translation differences on foreign currency investments	(15.3)	-
Total recognised gains and (losses) for the financial year	<u>(98.2)</u>	<u>2.2</u>

**Reconciliation of movement in equity shareholders' funds for the year ended
31 December 1997**

	1997	1996 one month
	\$m	\$m
Total recognised gains and (losses) for the financial year	(98.2)	2.2
Goodwill written off	(3.0)	-
New shares issued	-	1,544.8
Net (reduction) in/addition to equity shareholders' funds	<u>(101.2)</u>	<u>1,547.0</u>
Equity shareholders' funds at beginning of the year	1,547.0	-
Equity shareholders' funds at the end of the year	<u>1,445.8</u>	<u>1,547.0</u>

1. Principal Accounting Policies

(a) Accounting convention

The accounts are prepared on the historical cost basis and in accordance with applicable United Kingdom accounting standards.

(b) Basis of consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries (including the UK partnership in which they participate) 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. Goodwill arising on consolidation is deducted from reserves. The profit or loss on sale of a previously acquired business includes the attributable goodwill. 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.

(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 1997 the US dollar: sterling exchange rate was 1:0.608 (1996: 1:0.584). 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, branches 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.

1. Principal Accounting Policies - Continued

- 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 3-5 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 or 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:

UK and the Republic of Ireland
Continental Europe
USA and Canada
Australasia and Pacific
Far East and Asia
Other areas

1997		1996	
Origin	Destination	Origin	Destination
\$m	\$m	\$m	\$m
389.4	439.5	25.3	23.2
1,094.2	1,096.7	47.4	44.9
267.2	248.4	20.2	17.4
424.6	419.5	23.1	20.9
1,335.3	1,052.3	60.3	70.8
328.6	582.9	5.6	4.7
3,839.3	3,839.3	161.9	181.9

All turnover relates to
continuing operations.

3. Net Operating Costs

	1997	1996 one month
	\$m	\$m
Cost of sales	3,186.7	157.7
Administration expenses	593.8	19.1
Reorganisation costs	103.9	-
Other income & expenses	(13.3)	-
	3,871.1	176.8

Net operating costs include:

	1997	1996 one month
	\$m	\$m
<i>Depreciation of tangible fixed assets:</i>		
Owned assets	167.4	3.0
Leased assets	20.5	0.9
	187.9	3.9
Hire of ships	298.7	4.9
Hire of plant and machinery	117.9	8.7
Property rentals	36.7	1.8
Auditors' remuneration - Group	3.2	0.1
- Company	-	-
Auditors' remuneration for non-audit work - Group	1.7	0.1

4. Employee Information

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

In the United Kingdom
Overseas
Sea Staff

1997	1996
1,593	1,626
6,966	3,496
1,952	1,039
10,511	6,161

The 1996 figures exclude the employees of Nedlloyd Lines BV who only joined the group on 31 December 1996.

Employment costs - all employees including executive directors:

Aggregate gross wages and salaries
Employers' national insurance contributions, or foreign equivalents
Employers' pension contributions (note 23)

\$m	\$m one month
343.4	17.6
49.3	1.5
8.8	0.7
401.5	19.8

Total direct cost of employment

5. Remuneration of Directors

Directors' emoluments
Amounts paid to third parties in respect of directors' services

1997	1996 one month
\$'000	\$'000
636	-
1,468	63
1997 Number	1996 Number

Retirement benefits are accruing to the following number of directors under:

Money purchase schemes
Defined benefit schemes

-	-
5	2

6. Net interest and similar items

	1997	1996 one month
	\$m	\$m
Bank loans and overdrafts	(44.7)	(0.3)
Interest element of finance leases and similar arrangements	(2.5)	(0.4)
Other loans	(4.9)	(2.2)
	(52.1)	(2.9)
Interest capitalised	2.0	0.1
Interest receivable and similar items	9.7	0.1
	(40.4)	(2.7)

7. Tax on profit on ordinary activities

	1997	1996 one month
	\$m	\$m
<i>This comprises:</i>		
<i>United Kingdom corporation tax</i>		
Current year at 31.5% (1996 - 33%)	(1.2)	-
<i>Overseas taxation</i>		
Current year	(8.0)	1.3
Share of associates' tax	(0.1)	-
	(9.3)	1.3

8. Tangible fixed assets

Group	Land and Buildings		Ships		Containers & Other Plant & Equipment		Total
	Freehold	Leasehold	Owne	Finance Leases	Owne	Finance Leases	
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<i>Cost</i>							
At 1.1.97	28.4	17.5	1,321.0	178.9	597.5	12.5	2,155.8
Exchange Adjustment	(1.0)	(0.5)	-	-	(4.4)	(0.4)	(6.3)
Additions	-	0.8	82.5	-	83.1	89.5	255.9
Disposals	(0.3)	(0.3)	(11.9)	(0.3)	(7.4)	(0.7)	(20.9)
Reclassification	-	-	(23.1)	23.1	(41.8)	41.8	-
At 31.12.97	<u>27.1</u>	<u>17.5</u>	<u>1,368.5</u>	<u>201.7</u>	<u>627.0</u>	<u>142.7</u>	<u>2,384.5</u>
<i>Depreciation</i>							
At 1.1.97	-	-	(1.3)	(0.8)	(1.7)	(0.1)	(3.9)
Exchange Adjustment	-	-	-	-	3.6	0.3	3.9
Reclassification	-	-	-	-	(4.8)	4.8	-
Charged for the year	-	(0.8)	(81.1)	(14.7)	(86.3)	(5.0)	(187.9)
At 31.12.97	<u>-</u>	<u>(0.8)</u>	<u>(82.4)</u>	<u>(15.5)</u>	<u>(89.2)</u>	<u>-</u>	<u>(187.9)</u>
<i>Net Book Value</i>							
At 31.12.97	<u>27.1</u>	<u>16.7</u>	<u>1,286.1</u>	<u>186.2</u>	<u>537.8</u>	<u>142.7</u>	<u>2,196.6</u>
<i>Net Book Value</i>							
At 31.12.96	<u>28.4</u>	<u>17.5</u>	<u>1,319.7</u>	<u>178.1</u>	<u>595.8</u>	<u>12.4</u>	<u>2,151.9</u>

The net book value of leasehold land and buildings comprises:

Long leases
Short leases

1997	1996
\$m	\$m
15.9	16.9
0.8	0.5
<u>16.7</u>	<u>17.5</u>

- (a) The directors estimate that if all properties were to be realised at their current book values no taxation liabilities would arise. (1996 \$ Nil).
- (b) Ships under construction included in the above totalled \$96,379,000 (1996 \$19,796,000).
- (c) The cost of ships shown above includes \$2,149,999 (1996 : \$123,890) in respect of capitalised interest charges.

9. Fixed Assets: Investments

(a) Summary

	1997		1996	
	Group	Company	Group	Company
	\$m	\$m	\$m	\$m
<i>Subsidiary undertakings</i>				
Shares at cost	-	972.4	-	972.4
<i>Associated undertakings</i>				
Shares	13.5	-	13.0	-
Associates' reserves	1.1	-	0.5	-
Loans	0.2	-	0.2	-
	<u>14.8</u>	<u>-</u>	<u>13.7</u>	<u>-</u>
<i>Other investments</i>				
Unlisted	5.7	-	0.5	-
Total fixed asset investments	<u>20.5</u>	<u>972.4</u>	<u>14.2</u>	<u>972.4</u>

(b) Movements in fixed asset investment

	\$m
<i>Interests in associated undertakings</i>	
At 1 January 1997	13.7
Exchange	(0.5)
Purchase of shares	3.1
Share of retained loss	(0.7)
Provisions	(0.8)
At 31 December 1997	<u>14.8</u>
<i>Other investments other than loans</i>	
	Unlisted
	\$m
At 1 January 1997	0.5
Exchange movements	0.2
Purchase of shares	5.0
At 31 December 1997	<u>5.7</u>

The net book value of shares in associated undertakings are shown net of provisions totalling \$0.8m (1996 \$nil)

9. Fixed Assets: Investments - Continued

(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. The following information relates to those companies which, in the opinion of the directors, principally affect the profits or assets of the group. Except where indicated the holdings are of ordinary shares and the country of incorporation is Great Britain.

	Notes	Percentage of Share Capital Held
<i>I. Subsidiaries</i>		
<i>Container Ship Operators</i>		
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		65.6
<i>Freight Forwarders</i>		
P&O Nedlloyd Global Logistics Limited		100.0
Damco Maritime International BV	2	100.0
<i>Depot Operators</i>		
Containerbase (Holdings) Limited		100.0
Containerbase Barking (Holdings) Limited		100.0

II. Notes

1. 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, such a treatment would not in the opinion of the directors show a true and fair view of the profits 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.
2. Company incorporated in the Netherlands
3. 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.

10. Stocks and work in progress

	1997		1996	
	Group	Company	Group	Company
	\$m	\$m	\$m	\$m
Raw Material and consumables	40.2	-	24.4	-
Work in progress	147.3	-	164.2	-
	<u>187.5</u>	<u>-</u>	<u>188.6</u>	<u>-</u>

11. Debtors

	1997		1996	
	Group	Company	Group	Company
	\$m	\$m	\$m	\$m
<i>Amounts falling due within one year</i>				
Trade debtors	554.0	-	419.9	-
Subsidiary undertakings	-	608.1	-	262.4
Promissory notes	-	-	375.0	375.0
Group relief receivable	-	0.6	-	-
Other debtors	103.7	9.8	125.2	-
Prepayments	126.2	-	117.3	-
	<u>783.9</u>	<u>618.5</u>	<u>1,037.4</u>	<u>637.4</u>
<i>Amounts falling due after more than one year</i>				
Advances	1.4	-	2.5	-
	<u>785.3</u>	<u>618.5</u>	<u>1,039.9</u>	<u>637.4</u>

12. Investments

The investment represents the group's 30% interest in Europe Combined Terminals BV which was re-acquired by Royal Nedlloyd NV during 1997 at book value.

13. Creditors: amounts falling due within one year

	1997		1996	
	Group	Company	Group	Company
	\$m	\$m	\$m	\$m
<i>Short term component of long term debt</i>				
Lease finance	11.2	-	24.7	-
Bank loans - secured	94.5	-	-	-
	105.7	-	24.7	-
<i>Short term debt</i>				
Shareholder loans (unsecured)	-	1.3	384.3	65.0
Bank loans and overdrafts (unsecured)	18.6	-	544.1	-
Loans from associated undertakings	0.8	-	2.2	-
	19.4	1.3	929.6	65.0
<i>Trade and other creditors</i>				
Trade creditors	410.2	-	328.6	-
Deferred income	253.5	-	266.1	-
Mainstream corporation tax	7.9	-	-	-
Social security	3.8	-	4.8	-
Other creditors - secured	21.7	-	-	-
Other creditors - unsecured	80.7	-	169.4	-
Accruals	226.1	-	192.9	-
	1003.9	-	900.8	-
	1,129.0	1.3	1,855.1	65.0

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

	1997		1996	
	Group	Company	Group	Company
	\$m	\$m	\$m	\$m
Shareholder loan (unsecured)	46.0	46.0	-	-
<i>Bank loans secured</i>				
Payable between 2 and 5 years	347.5	-	19.3	-
Payable after 5 years	130.1	-	-	-
<i>Lease finance</i>				
Payable between 2 and 5 years	87.1	-	26.3	-
Payable after 5 years	46.9	-	47.9	-
Other creditors	0.3	-	0.1	-
	657.9	46.0	93.6	-

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

- (a) The shareholder loan is repayable in two equal instalments in June 1999 and June 2000
- (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) The bank loans are secured on the major capital assets of the group.

15. Provision for liabilities and charges

	Group	Company
	\$m	\$m
Balance at 1 January 1997	20.4	-
Exchange	1.7	-
Transfer to profit and loss account	(0.5)	-
Applied during the year	(1.7)	-
	<u>19.9</u>	<u>-</u>

Provisions includes \$8.7 million (1996: \$10.3 million) in respect of pensions, \$2.6 million (1996: \$3.2 million) for holiday pay, \$3.8 million (1996: \$2.7 million) for reorganisation costs and \$1.7 million (1996: \$nil) for leased asset redelivery costs.

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 expected long-term tax rate of 30% (1996: 30%). The 1996 figures show the estimated potential liability of the group prior to the formation of the P&O Nedlloyd partnership. The 1997 figures reflect the formation of the partnership on 1 January 1997 at which date the estimated potential liability was \$120.0m.

	1997		1996	
	Group	Company	Group	Company
	\$m	\$m	\$m	\$m
Accelerated allowances on fixed assets	109.0	-	202.4	-
Short term timing differences	(3.0)	-	(5.0)	-
	<u>106.0</u>	<u>-</u>	<u>197.4</u>	<u>-</u>

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

	1997
	\$m
As at 1 January 1997	17.7
Exchange movement	0.2
Proportion of profit on ordinary activities after taxation	3.3
Changes in composition and dividends paid	(1.1)
	<u>20.1</u>

17. Called up share capital

	1997	1996
	\$m	\$m
<i>Authorised allotted, called up and fully paid share capital is as follows</i>		
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	-	-
	<u>1.6</u>	<u>1.6</u>

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	Company
	\$m	\$m
Balance at 1 January 1997	2.2	-
Retained loss for the year	(82.7)	(1.2)
Goodwill written off	(3.0)	-
Currency translation - average to closing	(0.2)	-
Currency translation on foreign currency net investment	(15.3)	-
Balance at 31 December 1997	<u>(99.0)</u>	<u>(1.2)</u>

Cumulative goodwill written off amounts to \$3million (1996: nil) and arises on the acquisition of third party agency businesses.

19. Notes to the Group cash flow statement

(a) Reconciliation of operating profit to net cashflow from operating activities

	1997 \$m	1996 \$m
Operating (loss)/profit	(30.0)	5.6
Depreciation	187.9	3.9
Profit on sale of fixed assets	(0.2)	-
Share of pre-tax profits of associates	(1.8)	(0.5)
Decrease in stock	0.7	-
Decrease in debtors	538.7	-
Increase in creditors and provisions	(601.8)	(1.4)
Net cash inflow from operating activities	<u>93.5</u>	<u>7.6</u>

(b) Reconciliation of net cash flow to movement in net debt.

Increase in cash in the period	53.0	18.2
Cash (inflow) from changes in loans and lease financing	<u>(32.1)</u>	<u>(47.4)</u>
Changes in net debt resulting from cash flows	20.9	(29.2)
New finance leases	(89.5)	-
Borrowings of subsidiaries acquired	-	(1,154.6)
Issue of share capital	-	197.4
Issue of promissory notes	-	375.0
Exchange movement in net debt	<u>0.9</u>	<u>-</u>
Movement in net debt in the period	(67.7)	(631.4)
Net debt at 1 January 1997	(631.4)	-
Net debt at 31 December 1997	<u>(699.1)</u>	<u>(631.4)</u>

(c) Analysis of net debt

	At 1 January 1997 \$m	Cash flow \$m	Other non cash movement \$m	Exchange movement \$m	At 31 December 1997 \$m
Cash available on demand	39.2	43.6	-	-	82.8
Overdrafts	(28.3)	9.4	-	0.3	(18.6)
Loans due after one year	(19.3)	(458.9)	-	0.6	(477.6)
Loans due within one year	(524.1)	429.6	-	-	(94.5)
Finance leases due after one year	(74.2)	29.7	(89.5)	-	(134.0)
Finance leases due within one year	(24.7)	13.5	-	-	(11.2)
Unsecured loan	-	(46.0)	-	-	(46.0)
Total	<u>(631.4)</u>	<u>20.9</u>	<u>(89.5)</u>	<u>0.9</u>	<u>(699.1)</u>

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

20. Capital Expenditure and Commitments*Expenditure on fixed assets*

Contracts placed but for which provision has not been made

1997		1996	
Group	Company	Group	Company
\$m	\$m	\$m	\$m
593.7	-	330.2	-

21. Obligations under Operating Leases

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

	1997		1996	
	Group		Group	
	Land and Buildings	Other Leases	Land and Buildings	Other Leases
	\$m	\$m	\$m	\$m
Operating leases which expire:				
Within one year	7.8	62.6	9.3	63.2
In the second to fifth year inclusive	21.2	175.8	21.2	210.2
Over five years	7.3	40.8	8.2	19.1
	36.3	279.2	38.7	292.5

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 1997 the amount outstanding under these guarantees was \$509 million (1996 : \$22 million). No losses are expected. The guarantees are secured over the net assets of key subsidiaries.

P&O Nedlloyd Container Line Limited is a member 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 large fine threatened by the Commission would in any event be severely reduced or quashed by the Court for various legal reasons. Accordingly the directors consider that no material liability will arise and 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 various industry wide schemes. 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.

The pension costs in respect of both The Peninsular and Oriental Steam Navigation Company scheme and the industry wide schemes are each based on the use of common rates for contributions payable by sponsoring employers. 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 divided 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 latest valuation of the schemes being as at 31 March 1996. The schemes' actuaries have advised that the actuarial value of the schemes' assets represents approximately 104 per cent of the value of the benefits accrued to members allowing for future increases in earnings.

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 1996 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 1996 was NLG2491m representing 137 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 NLG5210m, as at 31 December 1996, representing 133 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 and Royal Nedlloyd NV and comprises the container shipping businesses of the former P&O Containers Limited, and Nedlloyd Lines BV.

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:

	1997	1996 one month
	\$m	\$m
Interest receivable	2.9	-
Interest payable	(4.7)	-
<i>Net balance due (to)/from related parties at year end:</i>		
Unsecured loan	(46.0)	-
Promissory notes	-	375.0
Loans	-	(383.3)
Amounts due from shareholders	20.6	-
	(25.4)	(8.3)

25. Post Balance Sheet Event

On 1 April 1998, the group acquired the container shipping business of Blue Star Line Limited for approximately \$100 million.

Report of the auditors

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

We have audited the financial statements on pages 8 to 28.

Respective responsibilities of directors and auditors

As described on page 7 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements 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 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 1997 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

Chartered Accountants
Registered Auditors
London

31 July 1998

All vessels under management of P&O Nedlloyd Container Line Limited

at 28 February 1998

Leased or hire-purchased

	Year of building	Dead weight in tonnes	Capacity in TEUs
Botany Bay	1969	28,787	1,624
Encounter Bay	1968	27,787	1,624
Cardigan Bay	1972	47,442	3,043
P&O Nedlloyd Liverpool	1972	47,442	3,087
P&O Nedlloyd Texas	1972	47,442	3,043
City of Capetown	1977	47,197	2,984
Heemskerck	1978	49,730	3,230
Mairangi Bay	1978	38,757	2,344
Oriental Bay	1989	59,283	4,180
Peninsular Bay	1989	59,283	4,180
Singapore Bay	1993	59,283	4,230
		512,433	33,569

Owned

	Year of building	Dead weight in tonnes	Capacity in TEUs
Discovery Bay	1969	28,225	1,414
Moreton Bay	1969	28,225	1,414
Freshwater Bay (74%)	1970	23,415	1,244
Matilda Bay (=Chitral) (74%)	1970	23,009	1,436
P&O Nedlloyd Tokyo	1972	47,442	3,043
Berlin Express	1973	32,713	2,113
Lageno	1973	47,442	3,043
Nedlloyd Dejima	1973	46,989	3,174
Nedlloyd Delft	1973	46,989	3,174
Ariake (74%)	1976	34,346	1,748
Marin	1977	14,055	728
Nedlloyd Houtman	1977	49,262	3,005
Palliser Bay	1977	38,757	2,467
Resolution Bay	1977	38,757	2,536
New Zealand Pacific	1978	38,757	2,536
Pegasus Bay (65.625%)	1978	47,209	2,870
Nedlloyd Hoorn	1979	48,437	2,998
Nedlloyd Zeelandia	1980	23,648	1,548
Nedlloyd Colombo	1982	32,841	2,179
Nedlloyd Clarence	1983	38,351	2,340
Nedlloyd Clement	1983	37,897	2,205
Nedlloyd van Neck	1983	30,040	1,785
Nedlloyd van Diemen	1984	29,730	1,785

All vessels under management of P&O Nedlloyd Container Line Limited

at 28 February 1998 (continued)

Owned (continued)

	Year of building	Dead weight in tonnes	Capacity in TEUs
Nedlloyd van Noort	1984	29,730	1,781
P&O Nedlloyd Brisbane	1985	53,723	2,693
Arafura (74%)	1991	44,541	2,432
Nedlloyd Asia	1991	50,792	3,604
Nedlloyd Europa	1991	50,792	3,604
Jervis Bay	1992	59,283	4,230
Nedlloyd Africa	1992	50,792	3,604
Nedlloyd America	1992	50,792	3,604
Nedlloyd Oceania	1992	50,792	3,604
Repulse Bay	1992	59,283	4,230
Newport Bay	1993	59,283	4,230
Nedlloyd Hong Kong	1994	55,242	4,181
Providence Bay	1994	59,283	4,230
Shenzhen Bay	1994	59,283	4,230
Colombo Bay	1995	59,283	4,230
Nedlloyd Honshu	1995	55,242	4,181
		1,674,672	109,453

Ships on order

	Year of building	Dead weight in tonnes	Capacity in TEUs
Hull 011	1998	38,250	2,890
Hull 012	1998	38,250	2,890
Hull 014	1998	38,250	2,890
Hull 015	1998	38,250	2,890
Hull 016	1998	38,250	2,890
Hull 3088	1998	88,000	6,690
Hull 3089	1998	88,000	6,690
Hull 3090	1998	88,000	6,690
Hull 3091	1998	88,000	6,690
		543,250	41,210