P&O Nedlloyd Container Line Limited

Annual report and accounts
31 December 2003
Registered number 3279820

Contents

P&O Nedlloyd Container Line, one of the world's leading shipping lines and an international logistics provider, is currently a 50:50 joint venture between The Peninsular and Oriental Steam Navigation Company and Royal Nedlloyd N.V.. P&O Nedlloyd is among the largest container shipping companies in the world, operating 154 vessels.

P&O Nedlloyd change of ownership

On 2 February 2004 it was announced that agreement had been reached for P&O Nedlloyd in effect to become independently listed under Royal Nedlloyd's existing listing. On completion of the transaction, to include a rights issue by Royal Nedlloyd, P&O will take a 25 per cent shareholding in Royal Nedlloyd N.V., which will be renamed Royal P&O Nedlloyd NV.

The transaction is subject to, among other things, approval by Royal Nedlloyd's and P&O's shareholders, completion of the rights issue, regulatory approvals and admission of the rights issue shares and the shares that are to be issued to P&O for listing on Euronext Amsterdam.

Upon completion of the transaction, P&O Nedlloyd will have an independent future with a coherent management structure enabling it to strengthen its position as one of the leading global container shipping companies. P&O Nedlloyd's operational headquarters will continue to be in London and Royal P&O Nedlloyd will have its head office in Rotterdam. The new management team - led by newly appointed P&O Nedlloyd CEO Philip Green - will be able to focus on positioning the company to capitalise on the current upswing in the container shipping industry cycle. Its parent company, Royal P&O Nedlloyd will have a one-tier board and one class of share capital.

The rights being issued and the shares being offered have not been and will not be registered under the U.S. Securities Act of 1933 (the "Securities Act") and may not be offered or sold in the United States absent registration or an applicable exemption from the registration requirements of the Securities Act.

Highlights of 2003

- A major improvement in profitability, with total operating profit of $77.0 million against a loss of $234.6 million in 2002.
- Appointment of Philip Green as the new Chief Executive Officer.
- Average 2003 freight rates were up 12 per cent from the previous year.
- Major progress achieved with the global roll-out of new business management and information system, "FOCUS".
- Three service centres in Pune and Chennai in India and Shenzhen in China are fully operational.
- Continuing strong growth in E-commerce transactions with 21 per cent of our business employing this technology. Growth in the usage of the container shipping industry internet portal "INTTRA" and good progress in the development of the 'youship' initiatives (see page 7).
- Complete retonnaging of the Australia/New Zealand - US East Coast trade with a new purpose built fleet; total replacement of the trade's specific blown air reefer box fleet with modern generic integral equipment.
- Innovative new Asia-Mexico-Caribbean-US Gulf service introduced.
- P&O Nedlloyd Logistics turnover grew substantially by continuing to expand and invest in retail and wine sectors and Pan European distribution
- Introduction of pioneering environmentally friendly ship recycling in China.
- Continued development of strong customer relationships - P&O Nedlloyd ships its 500,000th container for Panalpina.

Financial Highlights

	2003	2002
Throughputs (Teus '000)	3,743	3,560
Average Freight Revenue (US$ per Teu)	1,287	1,145
Results	**$m**	**$m**
Group turnover	5,510	4,655
Total operating profit/(loss)	77	(234)
Net interest payable and similar items	(45)	(47)
Profit/(loss) before tax	31	(293)
Profit/(loss) after tax	18	(305)
Statistics	**Teus '000**	**Teus '000**
Europe	1,616	1,554
Asia/Pacific	969	926
Americas	1,158	1,080
Total	3,743	3,560
Summary group balance sheet	**$m**	**$m**
Fixed Assets	1,881	2,009
Net working capital	(126)	(65)
Total	1,755	1,944
Equity shareholder funds	1,238	1,218
Equity minority interest	17	15
Net borrowings	500	711
Total	1,755	1,944

Chairmen's Statement

P&O Nedlloyd's 2003 result was a profit of $77.0 million at the total operating result level, against a loss of $234.6 million in 2002.

This major turnaround came primarily as a result of continued growth in world trade, and a revival of freight rate levels in East – West trades, especially during the second half of the year. Freight rates in the North – South and Cross trades improved more slowly, but are now rising.

P&O Nedlloyd's longer term initiatives were also fruitful; $301 million of annualised cost savings were achieved in 2002 - 2003; substantial progress was made with the rollout of our new FOCUS* systems and the transfer of back office functions to service centres in India and China. Not only is P&O Nedlloyd now reaping the benefits of this investment, it has also acquired a new set of tools for managing its business.

In December we were delighted to announce the appointment of Philip Green (formerly with Reuters and, before that, DHL) as Chief Executive with effect from 1 January 2004. This announcement coincided with the retirement of Haddo Meijer and Robert Woods (respectively Chairman of P&O Nedlloyd's Executive Committee and Group Managing Director) from executive roles in the company. We thank Haddo and Robert for their past work, and welcome Philip to the company.

After 33 years, Barry Williams will also retire from the company this year. During this period he has made a major contribution to the development of the company and we are grateful for all his efforts.

On 2 February 2004 it was announced that agreement had been reached for P&O Nedlloyd in effect to become independently listed under Royal Nedlloyd's existing listing. On completion of the transaction, to include a rights issue by Royal Nedlloyd, P&O will take a 25 per cent shareholding in Royal Nedlloyd N.V. which will be renamed Royal P&O Nedlloyd NV. As a result the company will have an independent future with a coherent management structure, enabling it to strengthen its position as one of the leading global container shipping companies. P&O Nedlloyd's operational headquarters will continue to be in London and Royal P&O Nedlloyd will have its head office in Rotterdam.

With the favourable trend in freight rates, and provided trade growth continues as in 2003, the outlook for the container shipping industry remains positive for 2004, although cost pressures remain from currency movements, high bunker prices and rising charter rates.

Given all the changes that took place in 2003, P&O Nedlloyd staff coped admirably and we thank them for their ceaseless commitment, loyalty and efforts during the year.

As a final note, as previously announced, we will be standing down as Co-Chairmen of P&O Nedlloyd when the company becomes Royal P&O Nedlloyd later in 2004.

Having had the pleasure, starting with a handshake, of creating this joint venture in 1996, it gives us great pleasure to see it come of age and in effect become an independent listed company as Royal P&O Nedlloyd NV. We would like to take this opportunity to wish the board and staff of the company a successful and prosperous future.

The Lord Sterling of Plaistow GCVO,CBE   *LJM Berndsen*

Joint Chairmen

5 March 2004

** Focus (Finance Operational and Customer Systems) is a business management and information system.*

Developments in 2003

Our strategy

During 2003 P&O Nedlloyd continued its programme to implement FOCUS, its business management and information system and transfer various back-office operations to service centres in India and China. P&O Nedlloyd also succeeded in getting cost savings through efforts in procurement, better operational management of its vessels and containers and the introduction of service centres.

At the same time P&O Nedlloyd has further developed its E-commerce initiatives. The level of E-commerce transactions grew four-fold on 2002, and in some regions 40 per cent of transactions (shipping orders, bills of lading etc) are now made electronically. With this rapid growth in activity, both P&O Nedlloyd and its customers are seeing real added value from these initiatives (see page 7).

P&O Nedlloyd's onshore logistics capabilities have been further improved, and substantial organic growth in logistics' turnover was achieved (see page 8).

One of P&O Nedlloyd's major objectives has been to modernise its fleet of ships and containers to achieve maximum efficiency. In 2003, with the replacement of the Europe/US East Coast – Australia/New Zealand ships, the average age of P&O Nedlloyd's operated ship capacity was brought down to just eight years.

Measures to comply with requirements to increase security have also had a high priority. During 2003, P&O Nedlloyd implemented systems to ensure compliance with the US Customs pre-clearance requirements for manifests for US bound vessels, and are well advanced in ensuring compliance of our vessels with the new International Ship and Port Facility Security Code.

Our results

P&O Nedlloyd achieved an operating profit of $77.0 million.

Average freight revenues rose from $1,145 per teu in 2002 to $1,287 per teu in 2003. The main increases in freight rates were seen in the Europe-Asia and Transpacific trade routes. The freight rates on the North-South trades were slower to improve, but are now rising.

P&O Nedlloyd 2003 volumes increased by 5 per cent overall on 2002, largely driven by volume on the dominant legs. Volume growth in the Europe-Asia and the Transpacific trades was mainly driven by the underlying shift in sourcing of goods supplying the US and European markets to China and elsewhere in Asia.

As the balance of trade widened and more empty containers had to be repositioned imbalance costs have increased. The decline in the value of the US$ against the euro, pound sterling and the Japanese yen and the increase in short-term charter rates and fuel prices have also increased operating costs. Nevertheless the level of profitability experienced in the latter part of the year was encouraging.

Cost savings

P&O Nedlloyd's total annualised savings in 2002-2003 were $301 million. Further savings will be created in 2004 through the optimisation of cargo selection and improved asset management. Full implementation of FOCUS in 2005 will provide substantial transactional efficiencies and underpin yet more savings.

Regulatory scene

Recent EU Commission and European Court decisions have further clarified the interpretation of the industry block exemption, Regulation 4056, as well as annulling the large fines imposed on TACA (Trans-Atlantic Conference Agreement) members in 1998. The Commission initiated a review of 4056 in 2003 which has not yet made significant progress.

The outlook

With relatively modest increases overall in industry ship supply expected for 2004, prospects for the year look favourable provided trade growth continues as in 2003.

The fall in the value of the US$ is likely to have some effects on cargo movements, with more growth in US exports and reduced growth in some US import markets.

The price of time charter vessels has continued to rise. P&O Nedlloyd is largely covered by its own fleet, and longer term committed vessels, but expects to experience some cost increases.

On the plus side, P&O Nedlloyd expects that the continuation of tight supply conditions should have a positive effect on freight revenues.

Management of change

P&O Nedlloyd is one of the world's leading providers of point-to-point container shipping services. To support this core business, it also offers a range of value-added logistics services, from relatively simple freight management to sophisticated supply chain management. P&O Nedlloyd's product is being constantly adapted and kept up to date through a process of continuous improvements. At the same time, in a highly competitive industry, P&O Nedlloyd is striving to improve process efficiency and minimise cost. As the FOCUS system continues to be implemented across P&O Nedlloyd's worldwide network, the company expects that it will provide increasingly useful levels of analytic capability, allowing P&O Nedlloyd to pursue, in parallel, the related goals of better yield management and improved customer service.

Our fleet

At the end of 2003 the total P&O Nedlloyd operated fleet including chartered tonnage consisted of 154 ships with a total standing slot capacity of 416,732 teu. A further 26 purpose built vessels are due to enter service with P&O Nedlloyd over the next four years.

Key developments in 2003 included:

- Delivery of five vessels to shipbreakers in China, for recycling in an environmentally responsible manner (see page 9).
- Approval by the UK Maritime and Coastguard Agency of the Ship Security Plan for the P&O Nedlloyd Southampton enabling the roll-out of the programme across the whole fleet.
- The establishment of Reederei Blue Star in Germany for the management of the German KG vessels.

P&O Nedlloyd's fleet consists of owned, long-term chartered and short-term chartered vessels.

Network review

Highlights of the year were the successful introduction of a new Asia – North Europe loop serving Chinese Yellow Sea ports, and an Asia – Mexico – Caribbean – US Gulf service (a new concept for the industry).

The year also saw the introduction of the new Australian/New Zealand – US East Coast – Europe services.

In view of continuing poor results P&O Nedlloyd's small Europe – West Africa service was discontinued, together with some loss making North Europe – East Mediterranean links. A number of other services were altered to limit the need for high cost time charter ships.

Systems development

The ability to process information accurately and quickly is fundamental to P&O Nedlloyd's position in the container shipping industry, which is characterised by the constant movement of thousands of individual items across a global network of sea and inland routes. The FOCUS business management and information system is designed to deliver an integrated global system supported by standard business processes allowing more efficient transaction execution, improved customer service, greater flexibility in where work is carried out and providing detailed macro and micro management information. FOCUS is expected to provide a capability for P&O Nedlloyd to manage both its costs and its revenues and maximise the contribution of each teu carried.

The FOCUS system is being implemented around the globe. The roll-out of the final integrated product is scheduled to be completed during 2004 in Asia Pacific, Latin America (Chile and Peru), North America and Europe. Implementation in Africa, the Middle East and the rest of Latin America will follow in 2005.

E-commerce

- ### *PONL.com*

Usage of P&O Nedlloyd's electronic commerce products increased by more than 400 per cent in 2003 and now accounts for 21 per cent of the company's business transactions. Execution of the shipment management functions is now rapidly becoming electronic as a consequence of change management programmes in customer and carrier organisations, together with a heightened appreciation of the value added through improved data integrity and speed of communication.

The introduction of "off line" products to areas where Internet connections are lacking and EDI is not a suitable option has proved very successful and broadens the number of options that our customers have to electronically transact with us. During 2004 our portfolio of products will expand further to include invoicing and payment products.

- ### *INTTRA*

P&O Nedlloyd continues to be actively involved in the development and continued expansion of INTTRA, the portal for the liner shipping industry. This strategic investment is continuing to pay off, particularly in the sector of large customer EDI connectivity.

In 2003, three additional carriers joined the portal, bringing total carrier membership to 17 container lines, together representing over 50 per cent of the global market. Seven carriers, including P&O Nedlloyd, a founding carrier, are equity participants in INTTRA.

- ### *'youship'*

During 2003 P&O Nedlloyd began a small trial of a new internet-based product on the Trans-Tasman service. 'youship' allows customers to define the rate and space availability on a vessel and book, pay and receive an 'E-ticket' online. With valuable lessons learnt in the trial, it is now being extended into key Asia markets in 2004.

Shared service centres

During 2003, transfers of activities from front offices to the three Shared Service Centres, Pune and Chennai in India and Shenzhen in China, have continued. The total number of staff employed reached almost 1,500 by the end of the year with equivalent savings achieved in the front offices. Transfers this year were predominantly from accounting departments.

Effort is now being concentrated on providing support to the FOCUS Programme, (see above) but transfers will continue through 2004.

With the numerous support activities and core documentation processing activities now located in the Shared Service Centres, these offices have become an integral part of the organisation.

Intermodal

Within Europe, the key intermodal developments have taken place within ERS, the European Rail Shuttle, in which P&O Nedlloyd holds a 50 per cent stake. ERS has seen its volumes grow by 13 per cent to a total of 412,000 teus in 2003.

By the end of 2003, more volume was transported via ERS's own equipment than through other partners and, in Germany, ERS is now the second largest rail company.

Within the UK and the United States, P&O Nedlloyd has introduced a number of improvements in its intermodal products.

P&O Nedlloyd Logistics

This year has been the first full year of trading as a seperately branded division for P&O Nedlloyd Logistics and it has achieved a substantial increase in turnover. Growth has been organic in the main markets of Europe, United States and Far East, and in other areas, like the Indian subcontinent, Africa and Latin America.

In the early part of the year we introduced two further additions to our network: P&O Nedlloyd Anadolu Logistics in Turkey and Lognet China, a joint venture with Lognet Inc from the United States.

Further investments in systems, people and facilities have enhanced P&O Nedlloyd Logistics' particular expertise in the Retail, Chemical, High Value Consumer Goods and Wines sectors. Retaining and building on established customers like Springs and Amer Sports, new business relationships have been successfully developed; for example, Pan European logistic services are now being provided for Kawasaki; wine distribution is being provided for Sainsbury's; and retail distribution has been organised for Peacocks.

Our domestic retail logistics brand in the US, The Gilbert Companies, announced the start of a business relationship with Wal-Mart during the first part of the year - the first significant new business for the new combination of The Gilbert Companies and P&O Nedlloyd Logistics.

Internal Control

P&O Nedlloyd's systems of internal control are designed to safeguard the group's assets against unauthorised use or disposition, to maintain proper accounting records and to communicate reliable financial information. The board is ultimately responsible for the group's system of internal control and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss. Principal features of this system include:

- Organisational structure supporting clear communication lines and tiered authority levels with delegation of responsibility and accountability;
- Business strategy development including review of risks in each operating area during annual budgeting/planning with quarterly re-forecasting review process;
- Appropriate evaluation procedures for major capital expenditure approval;
- Regular reporting and performance monitoring using operational statistics and monthly accounts, and highlighting variances from budgets and quarterly forecasts.

A corporate governance and risk management review was completed during 2003. Arising from the review, a Risk Management Committee has been formed.

Management of risk

P&O Nedlloyd uses derivative financial instruments to manage financial risks associated with the business. The main risks P&O Nedlloyd are exposed to are foreign currency, oil prices and interest rate risks. P&O Nedlloyd do not undertake speculative trading transactions.

P&O Nedlloyd reports its results in U.S. dollars. However significant costs and revenues are denominated in other currencies, primarily euros, pounds sterling and Japanese yen. P&O Nedlloyd's operating results are sensitive to movements in the exchange rate between the US dollar and these other currencies. Hedging these currency risks is carried out monthly on a 12 months rolling basis.

A similar hedging policy is employed to limit P&O Nedlloyd's exposure to the volatility of the fuel oil market. Hedging positions are taken on the Rotterdam and Singapore markets.

To protect the financial results against movements in interest rates, P&O Nedlloyd maintains a significant portion of borrowings at a fixed rate of interest. When closing a new lease finance arrangement P&O Nedlloyd would normally seek to hedge the interest rate risk, fixing the interest rate taking into account the term of the financing.

Meeting security requirements

In response to the terrorist attacks of 11 September 2001 and the perceived risks to ships from terrorist activities, the International Maritime Organisation has developed the International Ship and Port Facility Code (ISPS). In general, the regulations and the code will come into force from 1 July 2004. Compliance by P&O Nedlloyd will entail ship modifications, staff training, auditing of vessels and preparation of security plans followed by approval of the documentation by flag-state. P&O Nedlloyd is actively working with regulatory bodies, training organisations and the management of port facilities where calls are made to ensure compliance in good time before the regulations enter into force.

Environment

- ### *Health, Safety, Welfare*

  There is a P&O Nedlloyd combined group policy for health, safety, welfare and the environment, which is reviewed annually and communicated to all staff.

  A separate report on our environmental policy - "Always taking care" - is available by request from the Director Corporate Communications.

- ### *Ship recycling*

  In July 2003 the successful completion of the first phase of P&O Nedlloyd's ship recycling project was accomplished, using pioneering new environmentally friendly procedures, which have greatly improved conditions for workers at its yards in China. New Standard Operating Procedures on recycling were published during the year.

P&O Nedlloyd people

Our organisation succeeds because of our people. In 2003, the people of P&O Nedlloyd rose to meet the challenges of the economic environment and events with distinction and considerable success.

At P&O Nedlloyd we seek to recruit and develop our people internally where possible, to identify existing talent and retain talented people. The flexibility and loyalty of our people has proved invaluable during our recent change programmes in continuing to provide a high level of customer service.

Five Year Financial Record

Group profit and loss summary for the years ended 31 December	2003 $m	2002 $m	2001 $m	2000 $m	1999 $m
Group turnover	5,510.3	4,654.8	4,711.6	4,505.8	4,048.2
Group operating profit/(loss)	88.2	(208.5)	88.9	201.0	6.9
Share of operating results: joint ventures	(9.7)	(6.0)	(1.4)	(1.5)	-
associates	(1.5)	(20.1)	(0.2)	1.2	(0.1)
Total operating profit/(loss): group and share of joint ventures and associates	77.0	(234.6)	87.3	200.7	6.8
Profit/(loss) on sale of fixed assets	(1.1)	(11.4)	0.3	-	-
Profit/(loss) before interest	75.9	(246.0)	87.6	200.7	6.8
Net interest payable and similar items	(45.0)	(47.2)	(54.8)	(62.0)	(60.0)
Profit/(loss) before tax	30.9	(293.2)	32.8	138.7	(53.2)
Taxation	(13.2)	(11.9)	(10.6)	(10.8)	(8.3)
Equity minority interest	(3.0)	0.7	(1.4)	1.1	1.3
Profit/(loss) for the financial year	14.7	(304.4)	20.8	129.0	(60.2)

Group balance sheet summary at 31 December	2003 $m	2002 $m	2001 $m	2000 $m	1999 $m
Fixed assets	1,881.0	2,008.7	2,216.5	2,241.1	2,296.8
Net working capital	(125.4)	(64.8)	31.8	25.7	(27.5)
Net borrowings	(500.1)	(711.5)	(714.9)	(750.4)	(878.0)
Equity minority interests	(17.1)	(14.9)	(17.5)	(19.5)	(20.7)
Shareholders' funds	1,238.4	1,217.5	1,515.9	1,496.9	1,370.6

Group cash flow summary for the years ended 31 December	2003 $m	2002 $m	2001 $m	2000 $m	1999 $m
Net cash flows after interest and tax	324.1	74.5	288.6	299.7	160.6
Purchase of fixed assets and investments	(106.4)	(91.3)	(198.9)	(117.0)	(160.4)
Sale of fixed assets and investments	14.6	84.1	33.0	21.7	85.1
Purchase of businesses	-	(25.4)	1.5	(20.6)	(2.0)
Net cash inflow before financing	232.3	41.9	124.2	183.8	83.3

Management at March 2004

Board of P&O Nedlloyd Container Line Ltd

The Lord Sterling of Plaistow	Co-Chairman
LJM Berndsen	Co-Chairman
PN Green	Chief Executive Officer
N Kroes	Non-Executive Director
NL Luff	Non-Executive Director
HH Meijer	Non-Executive Director
RB Woods	Non-Executive Director
RPM van Slobbe	Director
BMV Williams	Director
GR Cheeseman	Company Secretary

Executive Management Team

PN Green	Chairman
BMV Williams	
RPM van Slobbe	
PA Windfield	
P Duifhuizen	
NS Pusey	
J Tas	
T Basi	
GP Samuel	Secretary to Executive Management Team

Report of the Directors

1. The directors present their report and accounts for the year ended 31 December 2003.

2. **Results**

The results of the group are set out in detail on pages 17 to 20 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 2003 *(2002: $nil).*

4. **Principal activities of the group 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.

A review of the group's activities is set out on pages 3 to 12.

5. **Directors**

The directors of the company during the year were:

The Lord Sterling of Plaistow
L.J.M. Berndsen
N. Kroes
Sir Bruce MacPhail (resigned 31 December 2003)
H.H.Meijer
R.P.M. van Slobbe
B.M.V.Williams
R.B.Woods

P.N.Green was appointed a director on 1 January 2004 and N.L. Luff on 8 January 2004.

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

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

Report of the Directors *(continued)*

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) an intranet web site has been introduced which provides a wide range of information on all aspects of the company's activities including 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 the intranet website with presentations to staff at least twice a year;

(e) a Staff Handbook is available on the company's intranet website providing information on arrangements relating to employment.

8. Donations

During the year ended 31 December 2003 the group contributed $2,750 *(2002: $28,300)* for UK charitable purposes. No UK political contributions were made.

9. Creditor payment policy

The group's policy is to pay suppliers in accordance with terms and conditions agreed when the orders are placed. Although the group does not follow any code or standard on payment policy, where payment terms have not been specifically agreed, the invoices dated in one calendar month are paid close to the end of the following month. This policy is understood by the purchasing and finance departments. The group has procedures for dealing promptly with complaints and disputes. The group had 26 days purchases outstanding at 31 December 2003 (excluding accruals).

10. Auditors

In accordance with section 384 of the Companies Act 1985 a resolution for the re-appointment of KPMG Audit Plc as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board

G.R. Cheeseman
Secretary

5 March 2004

Statement of directors' responsibilities

Company law requires the directors to prepare accounts 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 accounts, 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 accounts;
- prepare the accounts 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 accounts 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.

Report of the independent auditors to the members of P&O Nedlloyd Container Line Limited

We have audited the accounts on pages 17 to 46.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the annual report and, as described on page 15, the accounts 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 accounts give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the accounts, 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 group is not disclosed.

We read the other information accompanying the accounts 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 accounts.

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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the 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 accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company and the group as at 31 December 2003 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

8 Salisbury Square
London
EC4Y 8BB
5 March 2004

Group profit and loss account

for the year ended 31 December 2003

	Note	2003 $m	2002 $m
Turnover: group and share of joint ventures		5,550.9	4,691.3
Less: share of joint ventures' turnover		(40.6)	(36.5)
Group turnover	2	5,510.3	4,654.8
Net operating costs	3	(5,422.1)	(4,863.3)
Group operating profit/(loss)		88.2	(208.5)
Share of operating results of: joint ventures		(9.7)	(6.0)
associates		(1.5)	(20.1)
Total operating profit/(loss): group and shares of joint ventures and associates		77.0	(234.6)
Loss on sale of fixed assets		(1.1)	(11.4)
Profit/(loss) on ordinary activities before interest and taxation		75.9	(246.0)
Net interest payable and similar items	6	(45.0)	(47.2)
Profit/(loss) on ordinary activities before taxation		30.9	(293.2)
Tax on profit/(loss) on ordinary activities	7	(13.2)	(11.9)
Profit/(loss) on ordinary activities after taxation		17.7	(305.1)
Equity minority interests	16	(3.0)	0.7
Retained profit/(loss) for the financial year transferred to reserves	18	14.7	(304.4)

The results for the current and previous year arise from continuing operations.

A note on historical cost profits and losses has not been included as part of these accounts as there is no difference between the results as disclosed in the profit and loss account and the results on an unmodified historical cost basis.

Balance sheets

as at 31 December 2003

	Note	Group		Company	
		2003	2002	**2003**	2002
		$m	$m	**$m**	$m
Fixed assets					
Intangible assets	*8*	38.6	49.8	-	-
Tangible assets	*9*	1,782.4	1,912.7	-	-
Investments:	*10*				
Subsidiaries		-	-	972.4	972.4
Joint ventures					
Share of gross assets		99.6	84.6	-	-
Share of gross liabilities		(68.3)	(67.3)	-	-
		31.3	17.3	-	-
Associates		12.8	13.2	-	-
Trade investments		15.9	15.7	-	-
		60.0	46.2	972.4	972.4
		1,881.0	2,008.7	972.4	972.4
Current assets					
Stocks and work in progress	*11*	284.7	248.7	-	-
Debtors (group includes $57.6m (2002:$60.0m) due after more than one year)	*12*	965.7	838.9	565.0	565.0
Cash and short term deposits		242.2	161.9	-	-
		1,492.6	1,249.5	565.0	565.0
Creditors: amounts falling due within one year	*13*	(1,592.9)	(1,278.5)	-	-
Net current (liabilities)/assets		(100.3)	(29.0)	565.0	565.0
Total assets less current liabilities		1,780.7	1,979.7	1,537.4	1,537.4
Creditors: amounts falling due after more than one year	*14*	490.3	713.3	-	-
Provisions for liabilities and charges	*15*	34.9	34.0	-	-
Equity minority interests	*16*	17.1	14.9	-	-
Capital and reserves					
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*	(306.4)	(327.3)	(7.4)	(7.4)
Equity shareholders' funds		1,238.4	1,217.5	1,537.4	1,537.4
		1,780.7	1,979.7	1,537.4	1,537.4

These accounts were approved by the board of directors on 5 March 2004 and were signed on its behalf by:

H H Meijer

R B Woods

Group cash flow statement

for the year ended 31 December 2003

	Note	2003		2002	
		$m	$m	$m	$m
Net cash inflow from operating activities	19 (a)		380.5		135.9
Dividends from joint ventures and associates			0.8		0.5
Returns on investments and servicing of finance					
Interest received		4.6		4.7	
Dividends received		1.2		-	
Interest paid		(15.8)		(13.9)	
Finance lease interest paid		(34.7)		(38.0)	
Dividends paid to minority interests		-		(2.8)	
Net cash outflow from returns on investment and servicing of finance			(44.7)		(50.0)
Taxation			(12.5)		(11.9)
Capital expenditure and financial investment					
Purchase of fixed assets		(78.0)		(79.1)	
Purchase of investments		(28.4)		(12.2)	
Sale of fixed assets and investments		14.6		84.1	
Net cash outflow for capital expenditure and financial investment			(91.8)		(7.2)
Acquisitions					
Purchase of businesses	10(d)	-		(25.4)	
Net cash acquired		-		-	
Net cash outflow for acquisitions			-		(25.4)
Net cash inflow before financing			232.3		41.9
Financing					
Loan drawdown		108.2		273.8	
Loan repayment		(220.0)		(191.0)	
Finance lease capital payments		(47.1)		(32.2)	
Net cash (outflow)/inflow from financing			(158.9)		50.6
Increase in cash in the year	19 (b)		73.4		92.5

Statement of group total recognised gains and losses

for the year ended 31 December 2003

	2003 $m	2002 $m
Profit/(loss) for the financial year attributable to shareholders	14.7	(304.4)
Currency translation – average to closing	(0.7)	-
Currency translation differences on foreign currency investments	6.9	6.0
Total recognised gains and losses for the financial year	20.9	(298.4)

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

Reconciliations of movements in equity shareholders' funds

for the year ended 31 December 2003

	Group		Company	
	2003 $m	2002 $m	2003 $m	2002 $m
Total recognised gains and losses for the financial year	20.9	(298.4)	-	(1.2)
Equity shareholders' funds at beginning of the year	1,217.5	1,515.9	1,537.4	1,538.6
Equity shareholders' funds at the end of the year	1,238.4	1,217.5	1,537.4	1,537.4

Notes to the accounts

1 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 accounts. The group has complied with the transitional disclosure requirements of Financial Reporting Standard 17 "Retirement Benefits". The group has adopted the requirements of Financial Reporting Standard 5, Application Note G, in these financial statements. The comparative figures do not require restatement as the prior year adjustment is not material.

(a) Accounting convention

The accounts are prepared on the historical cost basis and in accordance with applicable accounting standards and The Companies Act 1985 except as stated in note 10 (c) (III) (1). Minor reclassifications have been made to the presentation of comparative figures to make them consistent with the current year.

(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 2003 together with the group's interest in its associates and joint ventures. Unless otherwise stated, the acquisition method of accounting has been adopted. Under this method, the results of subsidiaries acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

An associate is an undertaking in which the group has a long term interest, usually from 20 per cent to 50 per cent of the equity voting rights and over which it exercises significant influence. The group's share of the profits less losses of associates is included in the consolidated profit and loss account and its interest in their net assets (other than goodwill) is included in investments in the consolidated balance sheet.

A joint venture is an undertaking in which the group has a long-term interest and over which it exercises joint control. The group's share of the profits less losses of joint ventures is included in the consolidated profit and loss account and its interest in their net assets, other than goodwill, is included in investments in the consolidated balance sheet.

Under section 230(4) of The Companies Act 1985 the company is exempt from the requirement to present its own profit and loss account.

(c) Goodwill

Purchased goodwill (both positive and negative) arising on consolidation in respect of acquisitions before 1 January 1998, when Financial Reporting Standard 10 "Goodwill and intangible assets" was adopted, was written off to reserves in the year of acquisition. When a subsequent disposal occurs any related goodwill previously written off to reserves is written back through the profit and loss account as part of the profit or loss on disposal.

Purchased goodwill (representing the excess of the fair value of the consideration given plus any associated costs over the fair value of the separable net assets acquired) arising on consolidation in respect of acquisitions since 1 January 1998 is capitalised. Positive goodwill is amortised to nil by equal annual instalments over its estimated useful life, determined on each individual acquisition.

In the company's accounts, investments in subsidiary undertakings are stated at cost less amounts written off for any impairment.

Notes to the accounts *(continued)*

1 Accounting policies *(continued)*

(d) 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.

(e) Group operating profit

Group 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 2003 the US dollar: sterling exchange rate was 1:0.563 *(2002: 1:0.623)*. 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 that 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, associates and joint ventures that 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.

Notes to the accounts *(continued)*

1. Accounting policies *(continued)*

(g) *Fixed assets*

I) Properties are included in the accounts at their cost to the group. Freehold buildings are depreciated on a straight line basis over 50 years. Long leasehold buildings and short leasehold land and buildings are depreciated on a straight line basis over the remaining life of the lease or 50 years, whichever is the shorter.

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 years
- Containers and Trailers - 10-15 years
- Other Plant and equipment - 4-15 years
- Computer equipment & software - 4-7 years

(h) *Finance leases and similar arrangements*

Assets acquired under finance leases, being leases that transfer substantially all the risks and rewards of ownership of an asset to the lessee, 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.

Stocks comprise primarily bunker stocks held on board ship. Work in progress represents costs incurred on uncompleted voyages.

(j) *Dry-docking costs*

An element of the cost of an acquired ship is attributed at acquisition to its service potential reflecting its maintenance condition. This cost is amortised over the period to the next dry-docking or the remaining life of the ship. Costs incurred on subsequent dry-docking of ships are capitalised as part of tangible fixed assets and expensed over the period to the next dry-docking.

(k) *Cash and liquid resources*

Cash, for the purposes of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand. Liquid resources are current assets which are disposable without curtailing or disrupting the business and are either readily convertible into known amounts of cash at or close to their carrying values or traded in an active market. Liquid resources comprise term deposits (other than cash).

Notes to the accounts *(continued)*

1 **Accounting policies** *(continued)*

(l) ***Deferred taxation***

In accordance with Financial Reporting Standard 19 "Deferred Tax", deferred taxation is provided fully and on a non-discounted basis at future corporation tax rates in respect of timing differences between profits computed for taxation and accounts purposes.

(m) ***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:	**2003**		2002	
	Origin $m	**Destination $m**	Origin $m	Destination $m
Continuing operations				
UK and the Republic of Ireland	256.9	521.7	249.4	447.4
Continental Europe	1,149.7	1,192.0	1,024.1	1,012.5
USA and Canada	578.0	1,277.9	565.4	1,034.7
Australasia and Pacific	393.7	391.2	312.1	297.6
Far East and Asia	2,339.6	865.3	1,814.9	793.7
Other areas mainly Latin America and Africa	792.4	1,262.2	688.9	1,068.9
	5,510.3	5,510.3	4,654.8	4,654.8

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.

IV. Segmental reporting.

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

Notes to the accounts *(continued)*

3 Net operating costs

	2003 $m	2002 $m
Continuing operations:		
Cost of sales	4,704.6	4,241.8
Administration expenses	717.5	621.5
	5,422.1	4,863.3
Net operating costs include:		
Depreciation of tangible fixed assets:		
Owned assets	169.3	189.9
Leased assets	47.8	56.2
	217.1	246.1
Amortisation of goodwill	12.5	12.0
Loss on sale of containers	3.9	1.0
Hire of ships	548.3	497.6
Hire of plant and machinery	190.5	156.1
Property rentals	47.4	42.4
Foreign currency losses/(gains) on borrowings and deposits	9.0	9.8
Auditors' remuneration:		
- Group	2.6	2.3
- Company	-	-
Other fees paid to auditors and their associates	0.6	1.1

Other fees paid to auditors include $0.4m in respect of Risk Management reviews and $0.2m for tax compliance work.

4. Employee information

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

	2003	2002
In the United Kingdom	1,657	1,739
Overseas	8,425	7,823
Sea Staff	1,586	1,829
	11,668	11,391

Employment costs – all employees including executive directors:

	2003 $m	2002 $m
Aggregate gross wages and salaries	393.5	364.4
Employers' national insurance contributions, or foreign equivalents	32.9	27.6
Employers' pension contributions (note 23)	47.8	22.1
Total direct cost of employment	474.2	414.1

Notes to the accounts *(continued)*

5. Remuneration of directors

	2003 **$'000**	2002 $'000
Directors' emoluments	2,288	1,854

Directors' emoluments include $856,783 *(2002:$695,850)* paid to third parties in respect of directors' services.

	2003 **Number**	2002 Number
Retirement benefits are accruing to the following number of executive directors under:		
Defined benefit schemes	3	4
Defined contribution schemes	1	-

Total contributions paid under a defined contribution pension scheme were $63,205 *(2002: nil)*.

There were two highest paid directors who were paid $658,236 each *(2002: $558,261 each)*. Each is a member of a different defined benefit pension scheme under which the accrued pension at year end for one was $245,482 *(2002: $203,910)* and the other $471,351 *(2002: $398,160)*.

6. Net interest payable and similar items

	2003 **$m**	2002 $m
Bank loans and overdrafts	(10.6)	(12.9)
Interest element of finance leases and similar arrangements	(34.8)	(38.0)
Other loans	(3.2)	(1.0)
Interest payable and similar charges	(48.6)	(51.9)
Interest receivable	4.6	4.7
Investment income	1.2	-
	(42.8)	(47.2)
Joint ventures	(2.0)	-
Associates	(0.2)	-
Net interest payable and similar items	(45.0)	(47.2)

Notes to the accounts *(continued)*

7. Tax on profit/(loss) on ordinary activities

(a) Analysis of charge for the year	**2003 $m**	2002 $m
Current tax comprises:		
United Kingdom corporation tax	(1.9)	(1.9)
United Kingdom corporation tax adjustments in respect of previous periods	(1.1)	(1.0)
	(3.0)	(2.9)
Overseas tax	(10.6)	(9.0)
Share of associates' tax	(0.3)	(0.2)
Total current tax	(13.9)	(12.1)
Deferred tax comprises:		
Origination and reversal of timing differences	0.7	0.2
Total deferred tax	0.7	0.2
Tax on profit/(loss) on ordinary activities	(13.2)	(11.9)

(b) Factors affecting tax charge for the year

The tax assessed for the year is higher than the standard rate of corporation tax in the UK. The differences are explained below:-

	2003 $m	2002 $m
Profit/(loss) on ordinary activities before tax	30.9	(293.2)
Profit/(loss) on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30 per cent *(2002: 30 per cent)*	(9.3)	88.0
Effects of:-		
Tonnage tax charge	(5.7)	(90.6)
Expenses not deductible for tax purposes	0.8	(0.5)
Capital allowances in the period in excess of/(less than) depreciation	1.0	(0.6)
Other timing differences	(0.8)	-
Utilisation/(origination) of tax losses	1.8	(7.2)
Higher rates of tax on overseas earnings	(0.1)	(0.2)
Adjustments to the current UK tax charge in respect of previous periods	(1.6)	(1.0)
Current tax charge for the year	(13.9)	(12.1)

Notes to the accounts *(continued)*

8. **Intangible fixed assets**

Group	Goodwill $m
Cost	
At 1 January 2003	81.8
Additions	1.3
At 31 December 2003	83.1
Amortisation	
At 1 January 2003	(32.0)
Charge for the year	(12.5)
At 31 December 2003	(44.5)
Net book value	
At 31 December 2003	38.6
Net book value	
At 31 December 2002	49.8

The amortisation period is considered separately for each individual acquisition. Goodwill arising on acquisitions to date is being amortised over periods of between 5 and 10 years. This period represents the estimated remaining useful life of the major revenue earning assets or trades acquired. Refer to note 10(d) *for details of additions.*

Notes to the accounts *(continued)*

9. Tangible fixed assets

Group	**Land and buildings**		**Ships**		**Containers & other plant & equipment**		**Total**
	Freehold	**Leasehold**	**Owned**	**Finance Leases**	**Owned**	**Finance Leases**	
Cost	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**
At 1 January 2003	9.8	31.2	1,178.1	429.2	945.1	416.4	3,009.8
Exchange adjustment	2.0	1.3	-	-	4.4	3.1	10.8
Additions	0.8	1.9	2.2	1.4	68.8	24.7	99.8
Disposals	-	(0.8)	(24.1)	(0.6)	(10.4)	(29.9)	(65.8)
Reclassification	-	-	0.1	-	1.0	(1.1)	-
At 31 December 2003	12.6	33.6	1,156.3	430.0	1,008.9	413.2	3,054.6
Depreciation							
At 1 January 2003	(1.1)	(7.2)	(355.8)	(87.0)	(492.0)	(154.0)	(1,097.1)
Exchange adjustment	(0.8)	(0.2)	-	-	(2.9)	(1.4)	(5.3)
Charged for year	(0.4)	(2.5)	(58.9)	(20.8)	(107.5)	(27.0)	(217.1)
Disposals	-	0.3	16.7	0.4	5.6	24.3	47.3
Reclassification	-	-	(0.1)	-	(0.3)	0.4	-
At 31 December 2003	(2.3)	(9.6)	(398.1)	(107.4)	(597.1)	(157.7)	(1,272.2)
Net book value							
At 31 December 2003	10.3	24.0	758.2	322.6	411.8	255.5	1,782.4
Net book value							
At 31 December 2002	8.7	24.0	822.3	342.2	453.1	262.4	1,912.7

The net book value of leasehold land and buildings comprises:	**2003** **$m**	2002 $m
Long leases	1.5	1.5
Short leases	22.5	22.5
	24.0	24.0

a) Ships under construction included in the above totalled $3.6m *(2002:$3.5m)* all of which appears under owned ships.

b) The cost of ships shown above includes $3.7m *(2002: $3.7m)* in respect of capitalised interest charges.

c) The net book value of containers and other plant and equipment is made up as follows:-

	2003 **$m**	2002 $m
Containers	372.4	412.2
Computer equipment and software	223.1	236.6
Other assets	71.8	66.7
	667.3	715.5

Notes to the accounts *(continued)*

10. Fixed assets: Investments

(a) Summary

	Group		Company	
	2003	2002	**2003**	2002
	$m	$m	**$m**	$m
Subsidiary undertakings				
Shares at cost	-	-	972.4	972.4
Joint ventures				
Cost of investment	51.9	26.2	-	-
Share of post acquisition retained losses	(20.6)	(8.9)	-	-
	31.3	17.3	-	-
Associated undertakings				
Shares	31.6	28.8	-	-
Share of post acquisition retained losses	(29.8)	(23.7)	-	-
	1.8	5.1	-	-
Other investments				
Unlisted	15.9	15.7	-	-
Total investments	49.0	38.1	972.4	972.4
Fixed asset investments	60.0	46.2	972.4	972.4
Current liabilities	(11.0)	(8.1)	-	-
	49.0	38.1	972.4	972.4

The net book value of shares in associated undertakings are shown net of provisions totalling $0.2m *(2002: $0.2m)*.

The balance within current liabilities relates to an associate.

(b) Movements in the group's fixed asset investments

	Joint *Ventures*	**Associated *Undertakings***	**Other *Investments***
	$m	**$m**	**$m**
At 1 January 2003	17.3	5.1	15.7
Additions	25.7	2.8	0.2
Share of retained (loss)/profit	(11.7)	(5.2)	-
Dividends received	-	(0.9)	-
At 31 December 2003	31.3	1.8	15.9

Notes to the accounts *(continued)*

10 Fixed assets: Investments *(continued)*

(c) Particulars of subsidiary and associated undertakings

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.

	Notes	Percentage of share capital held
I. Subsidiaries		
Container Ship Operators		
P&O Nedlloyd Limited	*3*	100
P&O Nedlloyd BV	*1,2,3*	99
P&O Swire Containers Limited		75
Farrell Lines Incorporated	*4*	100
Freight Forwarders		
P&O Nedlloyd Logistics LLC	*4*	100
Damco International BV	*2*	100
Transport and Depot Operators		
Roadways Container Logistics Limited		100
II. Joint Ventures and Associates		
Port Newark Container Terminal LLC	*4*	50
Inttra Inc	*4*	27

III. 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, 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.

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". Under Statutory Instrument 1820 the partnership is exempted from the requirement to file partnership accounts at Companies House. The partnership's registered office is Beagle House, Braham Street, London E1 8EP.

4.) Company incorporated in the United States of America.

Notes to the accounts *(continued)*

10 Fixed assets: Investments *(continued)*

(d) Acquisition of businesses

During the year the group reviewed the 2002 acquisition of a Nigerian based stevedoring business. The review generated an addition to goodwill of $0.8m. A revision to the goodwill arising on the 2002 acquisition of a group of logistics companies based in the United States of America resulted in an additional $0.5m of goodwill being recognised.

11. Stocks and work in progress

	Group		Company	
	2003	2002	**2003**	2002
	$m	$m	$m	$m
Raw material and consumables	64.6	66.0	-	-
Work in progress	220.1	182.7	-	-
	284.7	248.7	-	-

12. Debtors

	Group		Company	
	2003	2002	**2003**	2002
	$m	$m	$m	$m
Amounts falling due within one year				
Trade debtors	727.9	604.8	-	-
Subsidiary undertakings	-	-	564.0	564.0
Group relief receivable	-	-	0.8	0.8
Deferred tax	0.7	-	-	-
Other debtors	93.1	104.4	0.2	0.2
Prepayments and accrued income	86.4	69.7	-	-
	908.1	778.9	565.0	565.0
Amounts falling due after more than one year				
Advances	13.8	8.2	-	-
Prepayments	43.8	51.8	-	-
	57.6	60.0	-	-
	965.7	838.9	565.0	565.0

Other debtors includes $10.1m *(2002:$9.3m)* advanced to Global Alliance K BV, an associate company.

Notes to the accounts *(continued)*

13. Creditors: amounts falling due within one year

	Group 2003 $m	Group 2002 $m	Company 2003 $m	Company 2002 $m
Short term component of long term debt				
Obligations under finance leases	54.2	44.9	-	-
Bank loans – secured	237.7	108.3	-	-
	291.9	153.2	-	-
Short term debt				
Bank loans and overdrafts - unsecured	-	6.9	-	-
	-	6.9	-	-
Trade and other creditors				
Trade creditors	216.1	187.7	-	-
Deferred income	392.1	309.6	-	-
Mainstream corporation tax	11.7	10.8	-	-
Social security	1.1	1.1	-	-
Other creditors	50.1	64.5	-	-
Accruals	629.9	544.7	-	-
	1,301.0	1,118.4	-	-
	1,592.9	1,278.5	-	-

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

	Group 2003 $m	Group 2002 $m	Company 2003 $m	Company 2002 $m
Bank loans - secured				
Payable between 1 and 2 years	9.2	256.0	-	-
Payable between 2 and 5 years	28.1	12.8	-	-
Payable after 5 years	-	0.1	-	-
Obligations under finance leases				
Payable between 1 and 2 years	48.2	47.8	-	-
Payable between 2 and 5 years	104.5	123.3	-	-
Payable after 5 years	260.4	273.3	-	-
Other creditors	39.9	-	-	-
	490.3	713.3	-	-

Notes to the accounts *(continued)*

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

a) Interest is payable on bank loans at varying commercial rates.

b) 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.

c) Some $126m *(2002: $101m)* of loans are secured on certain trade debtors. The remaining bank loans are secured on the major capital assets of the group.

15. Provisions for liabilities and charges

Group	Employee Benefits and Pensions $m	Dry Docking $m	Other Provisions $m	Total $m
Balance at 1 January 2003	24.2	3.6	6.2	34.0
Exchange movements	0.1	-	0.3	0.4
Provided during the year	10.4	0.6	4.1	15.1
Utilised during the year	(8.0)	(4.2)	(2.4)	(14.6)
Balance at 31 December 2003	26.7	-	8.2	34.9

Other provisions includes $4.8m *(2002:$2.5m)* in respect of onerous contracts, $1.4m *(2002:$2.1m)* in respect of overseas taxation, $0.8m *(2002: $0.8m)* for contractual disputes and others of $1.2m *(2002:$0.8m).*

Company

There are no provisions in the Company *(2002: nil).*

Deferred taxation

The group elected to enter UK Tonnage Tax with effect from 1 January 2001. This had the effect of eliminating related future potential tax liabilities on shipping profits in the United Kingdom. The regime includes a provision whereby a proportion of capital allowances previously claimed by the group can be subject to tax in the event of a significant number of assets being sold and not replaced. This contingent liability diminishes to nil over the seven year period following the entry into the tonnage tax regime. The contingent tax liability at 31 December 2003 was $33m *(2002: $78m)* under the assumption that all assets on which capital allowances have been claimed were sold at book value. On the basis that this liability is not expected to arise, no provision has been made.

Notes to the accounts *(continued)*

15. Provisions for liabilities and charges *(continued)*

Provision has been made in the accounts for deferred taxation in respect of non-shipping activities. The estimated potential liability is set out below and has been calculated at the UK corporation tax rate of 30 per cent *(2002: 30 per cent).*

	Group	
	2003 $m	2002 $m
Accelerated allowances on fixed assets	(0.7)	(0.1)
Short term timing differences	(0.3)	(0.3)
Tax losses	(0.1)	-
Less assets not recognised	0.4	0.4
Deferred tax asset	(0.7)	-

The movement in deferred tax during the year is as follows:

	$m
Opening balance of deferred tax liability at 1 January 2003	-
Amounts credited to the profit and loss account for the year	(0.7)
Closing balance of deferred tax asset at 31 December 2003	(0.7)

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.

There is no potential deferred tax liability in respect of the Company *(2002: nil).*

16. Equity minority interests

	2003 $m
As at 1 January 2003	14.9
Exchange movements	0.5
Proportion of profit on ordinary activities after taxation	3.0
Changes in composition and dividends paid	(1.3)
As at 31 December 2003	17.1

Notes to the accounts *(continued)*

17. Called up share capital

	2003 $m	2002 $m
Authorised, allotted, called up and fully paid:		
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 ordinary A and ordinary B shares rank equally in all respects. 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 2003	(327.3)	(7.4)
Retained profit for the year	14.7	-
Currency translation – average to closing	(0.7)	-
Currency translation on foreign currency net investment	6.9	-
Balance at 31 December 2003	(306.4)	(7.4)

At 31 December 2003 the cumulative goodwill written off on acquisitions prior to 1 January 1998 amounted to $3m *(2002:$3m).*

19. *Notes to group cash flow statement*

(a) Reconciliation of operating profit /(loss) to net cash flow from operating activities

	2003 $m	2002 $m
Group operating profit/(loss)	88.2	(208.5)
Depreciation and amortisation	229.6	258.1
Increase in stock and work in progress	(36.0)	(29.3)
Increase in debtors	(121.8)	(57.8)
Increase in creditors and provisions	220.5	173.4
Net cash inflow from operating activities	380.5	135.9

Notes to the accounts *(continued)*

19. Notes to group cash flow statement *(continued)*

(b) Reconciliation of net cash flow to movements in net debt

	2003 $m	2002 $m
Increase in cash in the year	73.4	92.5
Cash (inflow)/outflow from changes in loans and lease financing	158.9	(50.6)
Changes in net debt resulting from cash flows	232.3	41.9
New finance leases	(22.8)	(39.1)
Borrowings of businesses acquired	-	(1.5)
Exchange movement in net debt	1.9	2.1
Movement in net debt in the period	211.4	3.4
Net debt at 1 January 2003	(711.5)	(714.9)
Net debt at 31 December 2003	(500.1)	(711.5)

(c) Analysis of net debt

	At 1 January 2003 $m	Cash Flow $m	Other non cash movement $m	Exchange movement $m	At 31 December 2003 $m
Cash available on demand	134.2	66.5	-	10.9	211.6
Overdrafts	(6.9)	6.9	-	-	-
Loans due after one year	(268.9)	-	236.1	(4.5)	(37.3)
Loans due within one year	(108.3)	111.8	(238.9)	(2.3)	(237.7)
Finance leases due after one year	(444.4)	-	35.9	(4.6)	(413.1)
Finance leases due within one year	(44.9)	47.1	(55.9)	(0.5)	(54.2)
Short term deposits	27.7	-	-	2.9	30.6
Total	(711.5)	232.3	(22.8)	1.9	(500.1)

The net debt balances are represented by 'cash and short term deposits', 'bank loans-secured', 'bank loans and overdrafts – unsecured' and 'finance leases'.

Notes to the accounts *(continued)*

20. Capital expenditure and commitments

	Group 2003	Group 2002	Company 2003	Company 2002
	$m	$m	**$m**	$m
Expenditure on fixed assets				
Contracts placed but for which provision has not been made	4.2	14.8	-	-

The group has entered into foreign currency forward contracts amounting to $252.5m which were outstanding at 31 December 2003.

The group's share of its joint ventures' capital commitments is $4.4m *(2002:$4.4m).*

21. Obligations under operating leases

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

	2003 Group Land and buildings	2003 Group Other leases	2002 Group Land and buildings	2002 Group Other leases
	$m	**$m**	$m	$m
Operating leases which expire				
Within one year	9.1	97.1	3.6	71.3
In the second to fifth year inclusive	16.2	281.0	11.2	235.5
Over five years	18.0	230.0	22.1	216.6
	43.3	608.1	36.9	523.4

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

Other leases are in respect of ships $450.5m *(2002: $390.5m)*, containers $134.5m *(2002: $98.3m)* and other assets $23.1m *(2002:$34.6m).*

In addition, new vessels entering service during 2004 will add a further $12.9m to lease costs for that year.

The company had no operating lease commitments in either year.

22. Contingent liabilities

The company and its subsidiary undertakings have given unsecured operational guarantees to third parties amounting to $72m *(2002: $53m).*

The company has guaranteed certain borrowings of its subsidiaries; the amount outstanding at the year end was $712m *(2002: $845m).* These borrowings are secured on the net assets of key subsidiaries.

The company has also guaranteed certain borrowings of its joint ventures; the amount outstanding at the year end was $62.5m *(2002: $60m).*

The company has guaranteed various operating lease arrangements entered into by its subsidiaries. The total future commitment under these arrangements as at the year end amounted to $2,020m *(2002: $2,209m).* Vessels currently under construction and due to enter service during 2004 and 2005 will be subject to operating lease arrangements guaranteed by the company. These commitments total $1,210m.

During 2003, the European Court annulled certain fines levied on members of the Trans-Atlantic Conference Agreement (TACA) by the European Commission in September 1998. P&O Nedlloyd Limited and P&O Nedlloyd BV were members of TACA.

Notes to the accounts *(continued)*

23. Pensions

The group operates and participates in a number of pension schemes throughout the world, both defined benefit and defined contribution. All defined benefit schemes are funded schemes. The principal schemes at 31 December 2003 are, in the UK, a scheme operated by The Peninsular and Oriental Steam Navigation Company (P&O Pension scheme), in the Netherlands a scheme operated by Royal Nedlloyd NV, in North America the P&O Nedlloyd North America scheme and in Hong Kong the P&O Nedlloyd Hong Kong scheme together with various industry wide schemes.

P&O Pension scheme

Formal actuarial valuations of the P&O Pension scheme, which is a defined benefit scheme that was closed to new members as from 1 January 2002, are carried out triennially, the latest being at 1 April 2003 by Watson Wyatt LLP, consulting actuaries, using the projected unit method. Under the projected unit method the current service cost will increase as members of the scheme approach retirement. The principal assumptions adopted were:

	Nominal % per annum
Price inflation	3.00
Investment return on existing assets	7.10
Investment return on future contributions	6.60
Earnings escalation	4.50
LEL escalation	3.00
Increases in accrued pensions on excess over Guaranteed Minimum Pensions	2.75
Increases in pensions to accrue in the future	3.00

The market value of the scheme's assets at 1 April 2003 was $1,571m and the actuarial value of those assets represented 86.3 per cent of the value of benefits accrued to members allowing for future increases in earnings. As a result of this valuation P&O Nedlloyd is making additional cash contributions of some $12.6m per annum which are scheduled to continue until 31 March 2015 but with a review of the level of these contributions to be undertaken at the next triennial valuation. The initial nine month catch up payment was made in January 2004 with monthly payments thereafter. The SSAP 24 pension charge for the year ended 31 December 2003 was $16.6m, which included a variation charge of $6.6m. The contribution rate for the scheme, excluding the variation charge mentioned above, was 21.2 per cent to 31 December 2003 and is an average of 19.3 per cent from 1 January 2004.

For the purposes of the accounting disclosure requirements of Financial Reporting Standard 17 the latest valuation of the P&O scheme has been updated to 31 December 2003 by qualified independent actuaries. The principal assumptions are included in the table below. The assumptions used by the actuaries are the best estimates chosen from a range of possible actuarial assumptions, which, due to the timescale covered, may not necessarily be borne out in practice.

	2003	*2002*	*2001*
	%	%	%
Rate of increase in salaries	4.2	3.8	4.0
Rate of increase in pensions	2.5	2.3	2.5
Discount rate applied to scheme liabilities	5.4	5.8	5.8
Inflation rate	2.7	2.3	2.5

The market value of the scheme's assets which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the scheme's liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain are set out below.

Notes to the accounts ***(continued)***

23.Pensions *(continued)*

	2003	
	Expected rate of return	**Market value**
	%	**$m**
Equities	8.3	432.9
Bonds	5.0	334.9
Other	3.7	13.6
		781.4
Present value of scheme liabilities		(1,000.7)
Deficit		(219.3)

Following the latest triennial valuation of the P&O scheme as a result of which deficit payments were individually attributed by the trustee to all contributing companies, it has been possible to allocate a share of underlying assets and liabilities of the scheme on a consistent and reasonable basis to all contributing companies including an allocation to P&O Nedlloyd of 38.5 per cent.

If FRS17 had been fully adopted in these accounts the pension costs for the P&O scheme would have been as follows:

	2003
	$m
Operating profit	
Current service cost	(10.9)
Past service cost	(2.3)
Total operating charge	(13.2)
Finance costs	
Interest costs	(49.3)
Expected return on scheme assets	46.6
Net finance costs	(2.7)
Group statement of total recognised gains and losses	
Actual less expected return on assets	54.9
Experience gains on scheme liabilities	2.5
Change in basis	(101.6)
Actuarial loss recognised in statement of total recognised gains and losses	(44.2)

Notes to the accounts ***(continued)***

23.Pensions *(continued)*

	2003
	%
Difference between the expected and actual return on scheme assets expressed as a percentage of the scheme assets	7.0
Experience gains and losses on pension scheme liabilities expressed as a percentage of the present value of scheme liabilities	0.2
Total actuarial loss recognised in the consolidated statement of total recognised gains and losses expressed as a percentage of the present value of the scheme liabilities	(4.4)

P&O Nedlloyd North America scheme

Formal actuarial valuations of the P&O Nedlloyd North America scheme, which is defined benefit, are carried out annually by Mass Mutual Retirement Services, consulting actuaries, using the projected unit method. The last formal actuarial valuation was carried out as at 31 December 2003. The major assumptions used in this valuation were:

	2003	2002	2001
	%	%	%
Rate of increase in salaries	5	5	5
Discount rate applied to scheme liabilities	7	7	8
Inflation rate	3	3	3

The market value of the scheme's assets was $32.4m and the actuarial value of these assets represented 75.9 per cent of the value of benefits accrued to members allowing for future increases in earnings. The pensions cost for the year, which represents net contributions payable to the scheme, for the year ended 31 December 2003 was $2.0m.

Whilst the group continues to account for pension costs in accordance with Statement of Standard Accounting Practice 24 "Accounting for Pension Costs", under FRS 17 the following additional transitional disclosures are required.

	2003		2002		2001	
	Expected rate of return	**Market value**	Expected rate of return	Market value	Expected rate of return	Market value
	%	**$m**	%	$m	%	$m
All assets	8	32.4	8	27.3	8	29.3
Present value of scheme		(42.7)		(36.7)		(33.4)
Deficit		(10.3)		(9.4)		(4.1)
Related deferred tax asset		3.6		3.3		1.4
Net pension liability		(6.7)		(6.1)		(2.7)

Notes to the accounts *(continued)*

23.Pensions *(continued)*

If FRS 17 had been fully adopted in these accounts the pension costs for the North America scheme would have been as follows:

	2003	2002
	$m	$m
Operating profit		
Current service cost	(1.7)	(1.5)
Finance costs		
Interest costs	(2.7)	(2.5)
Expected return on scheme assets	2.2	2.4
Net finance costs	(0.5)	(0.1)
Group statement of total recognised gains and losses		
Actual less expected return on assets	2.8	(5.0)
Experience gains on scheme liabilities	(1.2)	0.9
Change in basis	(2.3)	(2.4)
Actuarial loss recognised in statement of total recognised gains and losses	(0.7)	(6.5)

	2003	2002
	%	%
Difference between the expected and actual return on scheme assets expressed as a percentage of the scheme assets	8.6	(18.2)
Experience gains and losses on pension scheme liabilities expressed as a percentage of the present value of the scheme liabilities	(2.8)	2.5
Total actuarial loss recognised in the consolidated statement of total recognised gains and losses expressed as a percentage of the present value of the scheme liabilities	(1.6)	(17.7)

Notes to the accounts ***(continued)***

23.Pensions *(continued)*

Hong Kong scheme

A formal actuarial valuation of the Hong Kong scheme, which is defined benefit, was carried out at 31 December 2003 by Towers Perrin (Hong Kong), consulting actuaries. The major assumptions used in this valuation were:

	2003	2002	2001
	%	%	%
Rate of increase in salaries	1.5 – 3.5	0.0 – 3.0	0.0 – 4.0
Discount rate applied to scheme liabilities	4.5	4.5	6.0

The market value of the scheme's assets at 31 December 2003 was $15.8m and the actuarial value of those assets represented 89.5 per cent of the value of benefits accrued to members allowing for future increases in earnings. The pensions cost for the year, which represents net contributions payable to the scheme, for the year ended 31 December 2003 was $2.1m.

Whilst the group continues to account for pension costs in accordance with Statement of Standard Accounting Practice 24 "Accounting for Pension Costs", under FRS 17 the following additional transitional disclosures are required.

	2003		2002		2001	
	Expected rate of return	**Market value**	Expected rate of return	Market value	Expected rate of return	Market value
	%	**$m**	%	$m	%	$m
Equities	6.25	8.9	5	6.2	7	7.2
Bonds	5	5.9	4	4.5	5	4.6
Other	1	1.0	2	0.6	3	0.6
		15.8		11.3		12.4
Present value of scheme liabilities		(17.6)		(15.4)		(15.2)
Deficit		(1.8)		(4.1)		(2.8)
Related deferred tax asset		0.3		0.7		0.4
Net pension liability		(1.5)		(3.4)		(2.4)

Notes to the accounts *(continued)*

23.Pensions *(continued)*

If FRS 17 had been fully operative in these accounts the pension cost for the Hong Kong scheme would have been as follows:

	2003	2002
	$m	$m
Operating profit		
Current service costs	(0.8)	(0.7)
Finance costs		
Interest costs	(0.7)	(0.9)
Expected return on scheme assets	0.5	0.8
Net finance costs	(0.2)	(0.1)
Group statement of total recognised gains and losses		
Actual less expected return on assets	2.2	(1.4)
Experience gains on scheme liabilities	0.2	0.5
Change in basis	(1.3)	(0.9)
Actuarial gain/(loss) recognised in statement of total recognised gains and losses	1.1	(1.8)

	2003	2002
	%	%
Difference between the expected and actual return on scheme assets expressed as a percentage of the scheme assets	13.7	(12.9)
Experience gains and losses on pension scheme liabilities expressed as a percentage of the present value of the scheme liabilities	1.4	3.4
Total actuarial loss recognised in the consolidated statement of total recognised gains and losses expressed as a percentage of the present value of the scheme liabilities	6.3	(11.7)

Notes to the accounts *(continued)*

23. Pensions *(continued)*

Netherlands' schemes

The group participates in the Royal Nedlloyd Pension Fund in the Netherlands. Assets are held separately from the sponsoring companies. From 1 July 2001, the defined benefit plan ceased to be effective and the assets of the scheme were transferred to a new defined contribution plan. The contributions charged in the year were $14.9m.

Other schemes

The merchant navy officers' pension fund ("MNOPF") and the merchant navy ratings' pension fund ("MNRPF") are industry wide pension schemes in the UK and defined benefit schemes. The MNOPF is closed to new members and the latest valuation was at 31 March 2000. The scheme's independent actuary advised that the market value of the scheme's assets for the old section of the scheme represents approximately 111 per cent of the value of the benefits accrued to members, and for the new section of the scheme 100 per cent of the value of the benefits accrued to members allowing for future increases in earnings. A full valuation of the MNOPF is due at 31 March 2003 when it is expected that the position will have deteriorated since 31 March 2000. However until the valuation is finalised and a number of other matters are resolved it is not possible to assess with any certainty the implications for the group of any deficit that may arise. For FRS 17 purposes although the employer's contributions are affected by a surplus or deficit in the scheme, each employer is currently unable to identify its share of the underlying assets and liabilities on a consistent and reliable basis. Accordingly the group is treating the officers' scheme as a defined contribution scheme.

The MNRPF is a closed scheme and the full triennial actuarial valuation at 31 March 2002 carried out by an independent actuary showed that the scheme had exceeded its minimum funding requirement at that date, but was still in deficit on an ongoing basis. The valuation showed that the market value of assets was 84 per cent of the value of benefits accruing to members allowing for future increases. The group has settled its estimated share of the past deficit. Accordingly the group is treating the ratings' scheme as a defined contribution scheme.

Other industry schemes are mainly overseas multi-employer schemes, in which the group is unable to identify its share of the underlying assets and liabilities on a consistent and reliable basis. Accordingly, the group is treating these schemes as defined contribution schemes.

Notes to the accounts ***(continued)***

24. Related party transactions

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:

	2003	2002
	$m	$m
Operating costs	(11.6)	(12.1)
Net balance due to related parties at year end:		
Amounts due from/(to) shareholders	1.5	(0.8)

At the year end the group owed $3.2m to Port Newark Container Terminal LLC, a joint venture company *(2002: $2.3m)*. During 2003, the group paid Port Newark Container Terminal $17.1m for terminal services *(2002: $23.3m)*.
During the year, commission payments of $3.9m *(2002: $0.8m)* were made to Inttra Inc, an associate company.
At 31 December 2003 a balance of $10.1m *(2002: $9.3m)* was due from Global Alliance K BV, an associate company.

25. Post Balance Sheet events

(a) Change of ownership

On 2 February 2004, Royal Nedlloyd N.V. ("Royal Nedlloyd") and The Peninsular & Oriental Steam Navigation Company ("P&O") announced that agreement had been reached for Royal Nedlloyd to acquire P&O's 50 per cent interest in P&O Nedlloyd. Royal Nedlloyd N.V. will be renamed Royal P&O Nedlloyd N.V. upon completion of the transaction.

P&O will have a 25 per cent interest in Royal Nedlloyd post completion of a rights issue by Royal Nedlloyd.

The transaction is subject to approval by Royal Nedlloyd's and P&O's shareholders, completion of the rights issue, regulatory approvals and admission of the rights issue shares and the shares that are to be issued to P&O for listing on Euronext Amsterdam.

(b) Vessel refinancing

The group has announced its intention to refinance 14 vessels in the German KG market during 2004. The vessels will continue to be operated by the group under long term charter agreements and will be accounted for as a finance lease arrangement.

List of vessels, excluding time charters, as at 1 January 2004

Vessels	Year of building	Dwt	Teu
ARAFURA (74%)	1991	44,541	2,440
CITY OF CAPE TOWN	1977	47,197	2,984
COLOMBO BAY	1995	59,283	4,230
HEEMSKERCK	1978	49,730	3,126
JERVIS BAY	1992	59,283	4,230
NEDLLOYD AFRICA	1992	50,620	3,604
NEDLLOYD AMERICA	1992	50,620	3,604
NEDLLOYD ASIA	1991	50,620	3,604
NEDLLOYD CLARENCE	1983	38,351	2,515
NEDLLOYD CLEMENT	1983	37,581	2,470
GENUA EXPRESS (**)	1982	33,379	2,157
NEDLLOYD EUROPA	1991	50,620	3,604
NEDLLOYD HONG KONG	1994	55,238	4,181
NEDLLOYD HONSHU	1995	55,238	4,181
NEDLLOYD OCEANIA	1992	50,620	3,604
NEWPORT BAY	1993	59,283	4,230
ORIENTAL BAY (*)	1989	59,283	4,180
P&O NEDLLOYD ADELAIDE	1977	49,262	3,005
P&O NEDLLOYD AUCKLAND (*)	1998	38,250	2,890
P&O NEDLLOYD BARENTSZ (*)	2000	67,712	5,468
P&O NEDLLOYD BRISBANE	1985	53,726	2,686
P&O NEDLLOYD BUENOS AIRES	1984	29,930	1,779
P&O NEDLLOYD COOK (*)	2001	88,700	6,802
P&O NEDLLOYD DRAKE (*)	2000	67,712	5,468
P&O NEDLLOYD GENOA (*)	1998	38,250	2,890
P&O NEDLLOYD HOUSTON	1983	29,730	1,779
P&O NEDLLOYD HOUTMAN	2001	88,700	6,802
P&O NEDLLOYD HUDSON (*)	2000	67,712	5,468
P&O NEDLLOYD JAKARTA (*)	1998	38,250	2,890
P&O NEDLLOYD KOBE (*)	1998	88,669	6,690
P&O NEDLLOYD KOWLOON	1998	88,669	6,690
P&O NEDLLOYD LOS ANGELES	1980	23,678	1,548
P&O NEDLLOYD MARSEILLE (*)	1998	38,250	2,890
P&O NEDLLOYD MERCATOR (*)	2000	67,712	5,468
P&O NEDLLOYD NINA	1981	30,684	2,014
P&O NEDLLOYD ROTTERDAM (*)	1998	88,669	6,690
P&O NEDLLOYD SHACKLETON (*)	2001	88,700	6,802
P&O NEDLLOYD SOUTHAMPTON	1998	88,669	6,690
P&O NEDLLOYD STUYVESANT (*)	2001	88,700	6,802
P&O NEDLLOYD SYDNEY (*)	1998	38,250	2,890
P&O NEDLLOYD TARANAKI	1981	27,893	1,270
P&O NEDLLOYD TASMAN (*)	1999	67,902	5,468
P&O NEDLLOYD VERA CRUZ	1984	29,730	1,779
PENINSULAR BAY	1989	59,283	4,180

Vessels	Year of building	Dwt	Teu
PROVIDENCE BAY	1994	59,283	4,230
REPULSE BAY	1992	59,283	4,230
SHENZHEN BAY	1994	59,283	4,230
SINGAPORE BAY	1993	59,283	4,230

(74%)=Partly Owned
(*) = Bareboat vessels
(**) = Chartered out

Other vessels operated by P&O Nedlloyd are time chartered for periods of up to 8 years.