P&O Nedlloyd Container Line Limited

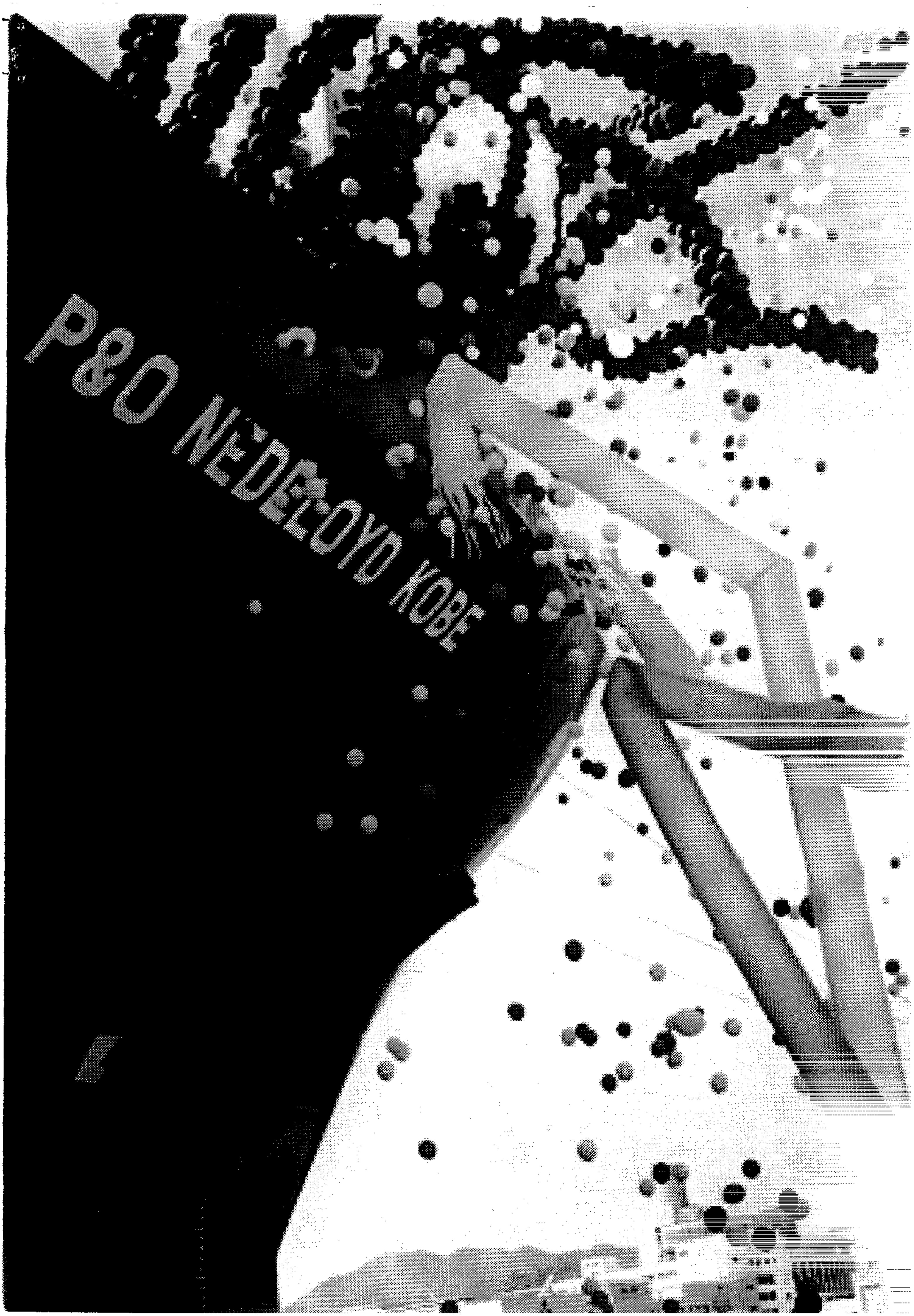
Company Number 3279820

Annual Review and Report and Accounts

for the year ended 31 December 1998

In every corner of the world

Contents


P&O NEDLLOYD KOBE

Financial highlights

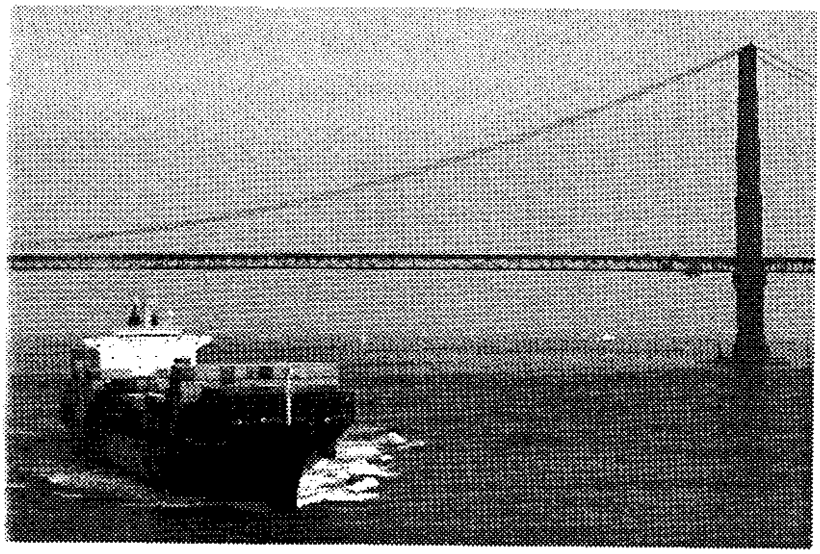
	1998	1997
Throughputs (Teus '000)	2,488.9	2,320.0
Average Freight Revenue (US$ per Teu)	1,370	1,450
Results - (US$ m)		
Turnover	3,939.9	3,839.3
Operating profit before reorganisation and remanning costs	81.7	72.1
Interest	(56.9)	(40.4)
Loss before Tax	(1.0)	(70.1)
Statistics (Teus '000)		
Europe/Asia	927.1	898.8
North/South & Cross Trades	894.2	903.2
North America	667.6	518.0
Total	**2,488.9**	**2,320.0**

Summary group balance sheet - (US$ m)	**1998**	**1997**
Fixed assets	2,318.6	2,217.1
Net working capital	7.2	(52.1)
Total	**2,325.8**	**2,165.0**
Equity shareholder funds	1,433.7	1,445.8
Equity minority interest	21.8	20.1
Borrowings	870.3	699.1
Total	**2,325.8**	**2,165.0**

P&O Nedlloyd Kobe *being named in September 1998.*

Chairmen's statement

P&O Nedlloyd Chicago, *sailing under the Bay Bridge, San Fransisco.*



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

P&O Nedlloyd has started 1999 in a strong position: 1998 operating profit of $81 m was up 11 per cent over 1997 and volumes increased by 7 per cent. The benefits of scale realised by the merger and the record throughputs have more than offset reduced rates on various routes.

Blue Star Line Ltd was acquired in April 1998, strengthening P&O Nedlloyd's presence in refrigerated trades from the southern hemisphere, and this has been fully integrated into the company's operations. Tasman Express Line was acquired on 1 January 1999, doubling P&O Nedlloyd's liftings in the Trans Tasman region.

Trading environment

The trading environment during the year for all carriers was heavily influenced by the effects of the economic problems in Asia. The imports of various South East Asian countries and Korea were significantly reduced; at the same time exports from the same and surrounding areas expanded rapidly, especially to North America and Western Europe. As a result the imbalance in full container movements between Asian exports and imports markedly increased, causing increased empty container movement.

Revenues

These imbalances also affected freight rates, with large declines experienced on the Asian import legs. Significant increases on Asian exports, largely offset this decline. Average freight revenue per TEU was $1370, compared to $1450 in 1997, which also reflects a poorer revenue situation on the North Atlantic and certain North/South trades.

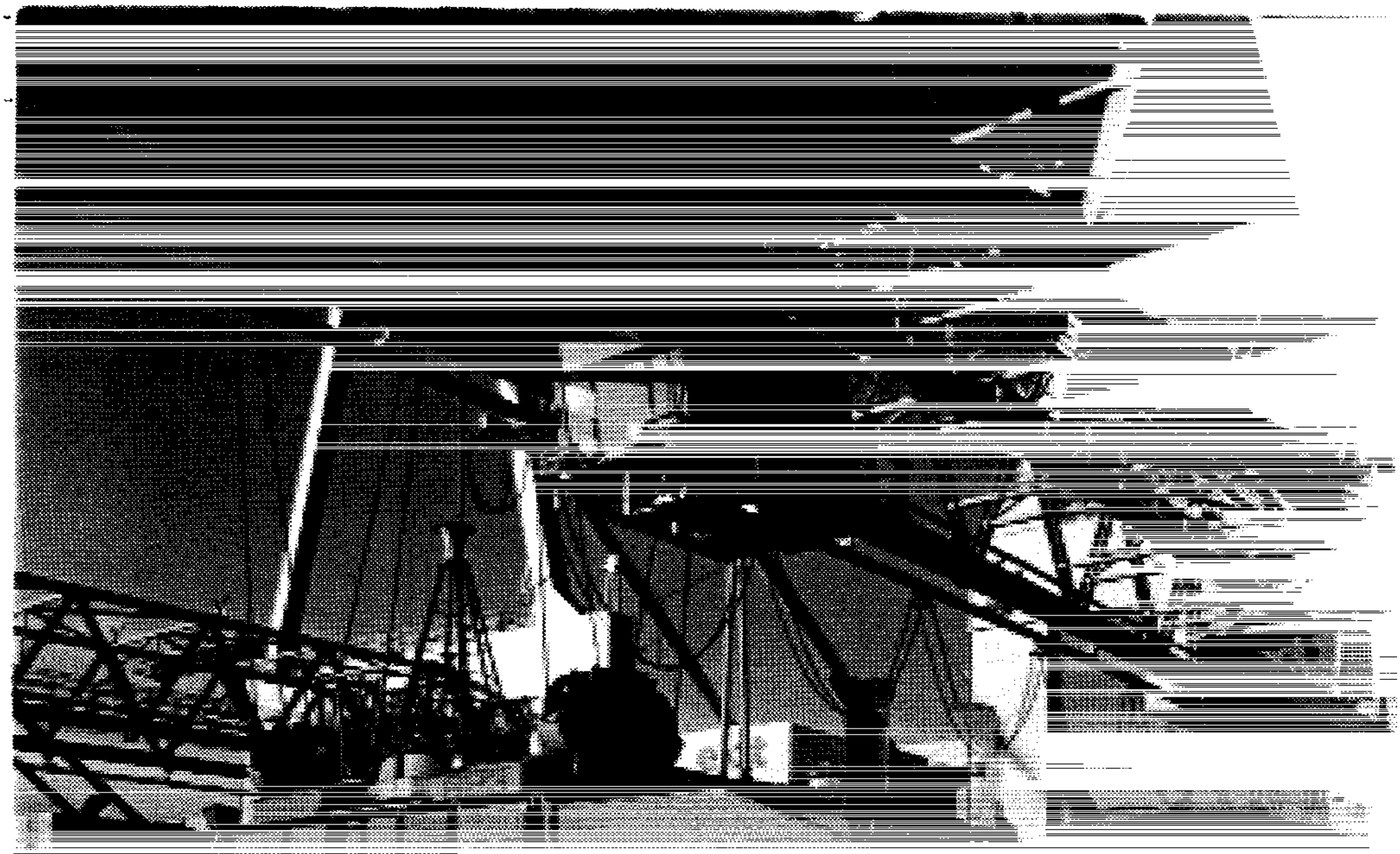
Cost reductions

On costs, despite the imbalance and an unfavourable currency situation, P&O Nedlloyd was able to make considerable reductions. There were further savings stemming from the original merger, lower costs resulting from the new Grand Alliance, and introduction of new tonnage, including four 6,690 TEU ships during the second half of the year. As a result several older, less efficient, vessels were withdrawn. In 1999 P&O Nedlloyd will have a full year of the savings implemented in 1998, giving a substantially reduced cost base, with further cost reductions in the pipeline. This should lead to improved margins.

Service developments

Service developments during the year included continued expansion of the Trans-Pacific trade with an extra weekly sailing, and enhancement of the Far

Working closely with our clients, our Cargo Care Department offers advice on the carriage of their cargo.




P&O Nedlloyd

Chairmen's statement

East-West Africa and South Africa trades, all to weekly. Three new American North South routes were added, including the two former Blue Star services from the US to Australia. The new Grand Alliance Far East-Europe schedule was successfully introduced, offering the best product available with six sailings per week. We believe P&O Nedlloyd is second to none in the quality and range of services provided to our customers. We intend to ensure that our services remain of the highest quality.

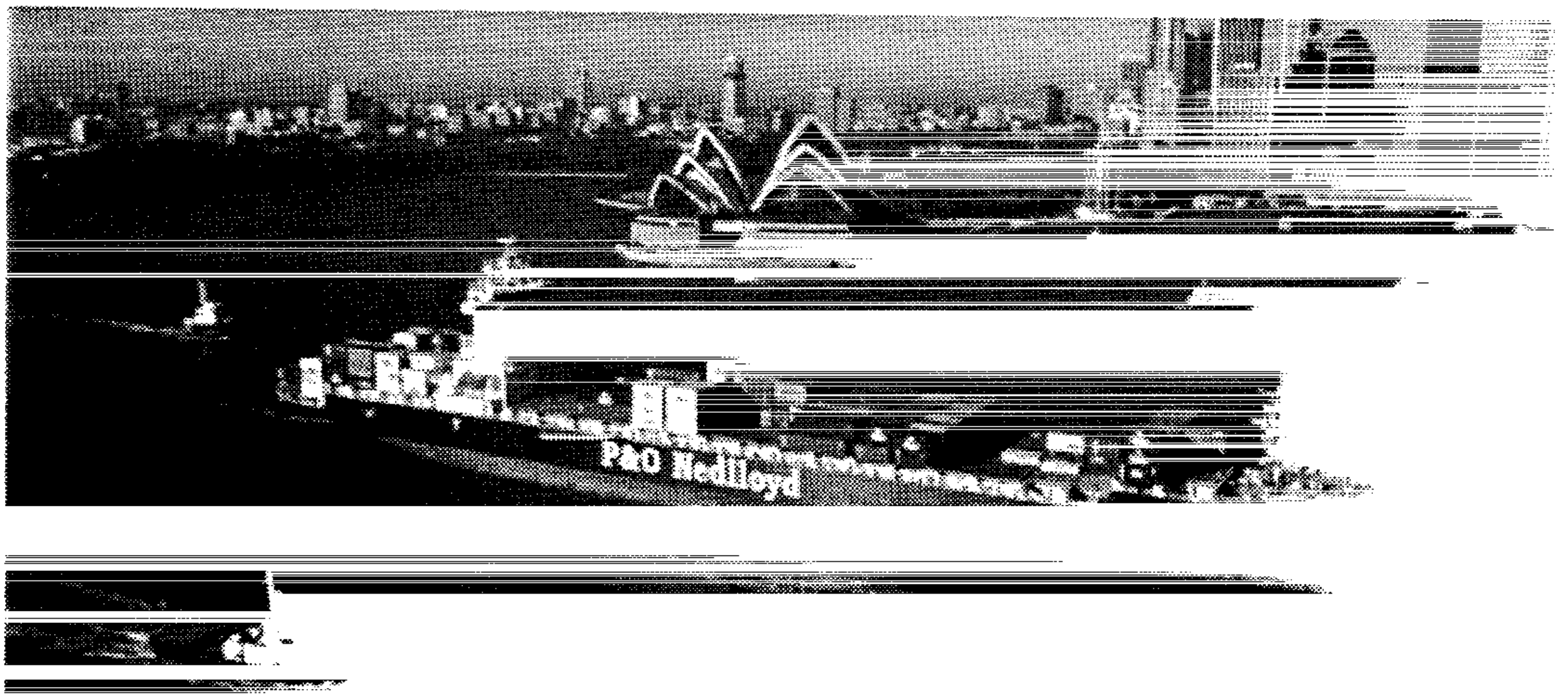
Regulatory developments

During the year the European Commission announced a decision regarding competition aspects of the TransAtlantic Conference Agreement, which led to the imposition of fines on its members, including P&O Nedlloyd. This ruling is to be appealed at the European Court and the Lines involved have received strong legal advice that the fines proposed by the Commission will not be upheld.

Deregulation in the US will arrive in May with the entry into force of the US Ocean Shipping Reform Act. In the European Union, the liner industry has made efforts to arrive at a workable compromise with the Commission on the European competitive regime. Shippers have been consulted on the proposal and we await the Commission's response.

Strategy 1999

Two years after the merger the integration of all P&O Nedlloyd operational systems is virtually complete. In 1999 the key priorities will be:



P&O Nedlloyd Sydney, *one of five new 2,890 TEU container ships, arriving in Sydney Harbour.*

- To build further on the economies of scale in order to achieve an improved performance against the industry norm;
- to pursue further efficiencies in organisation;
- to seek growth in the Pacific;
- to ensure year 2000 compliance with full contingency plans;
- to remain proactive in seeking industry consolidation.

The sale by the Royal Nedlloyd shareholder of its European Transport Division will not affect P&O Nedlloyd. The 50:50 partnership between two strong shareholders works well. Our ultimate goal remains – a public listing for the company.

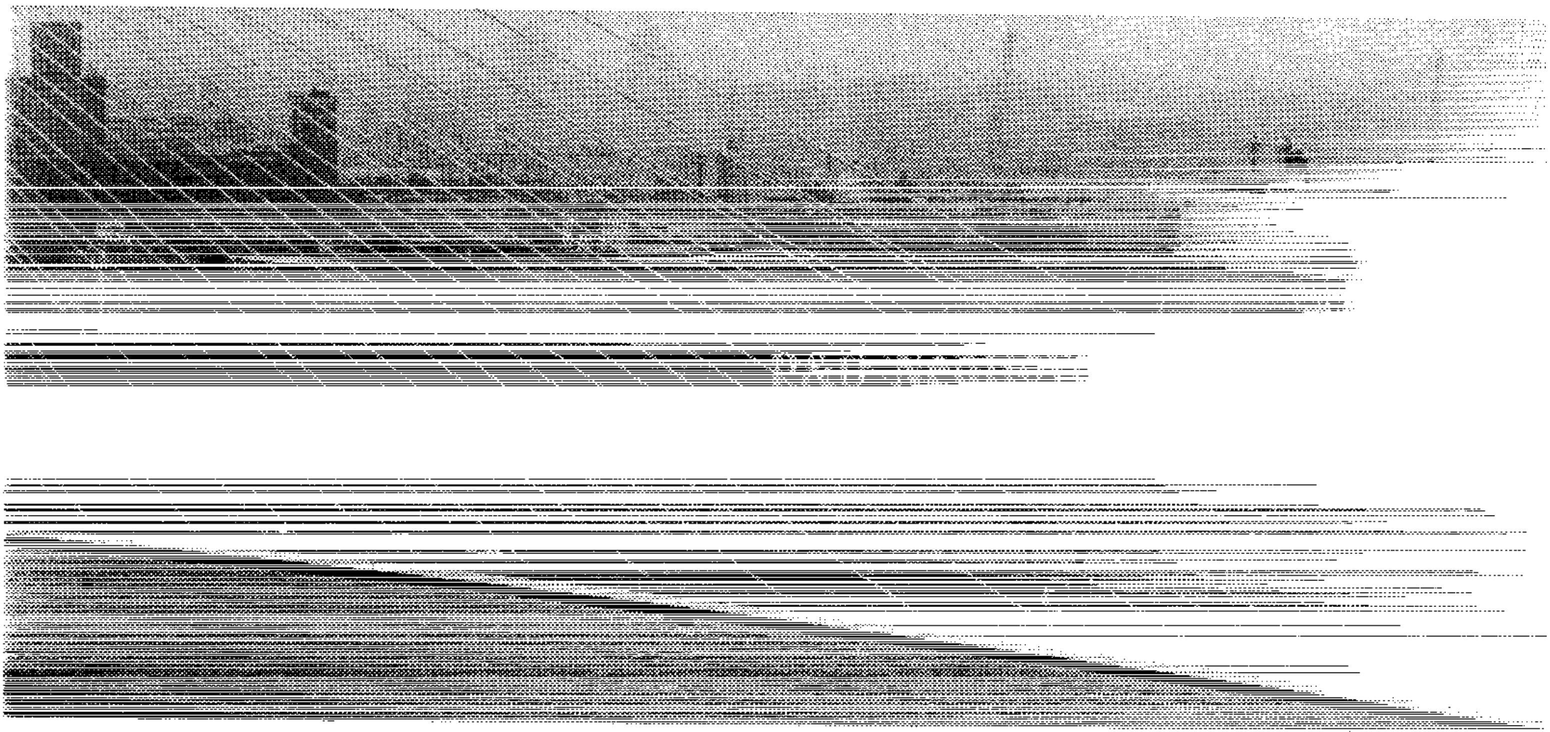
Supply and demand

For 1999, the overall industry supply position is expected to be more favourable, with a reduced delivery of new capacity into the market. Demand remains strong, with signs of reducing imbalances in some trades.

Millennium

Within P&O Nedlloyd, work to prepare for the impact of the Millennium on all our systems has the highest priority and is regularly reviewed by the Executive Committee. Date conversions and testing on all mission critical systems is in the process of being completed. Contingency plans will be in place ready to deal with any externally generated problems.

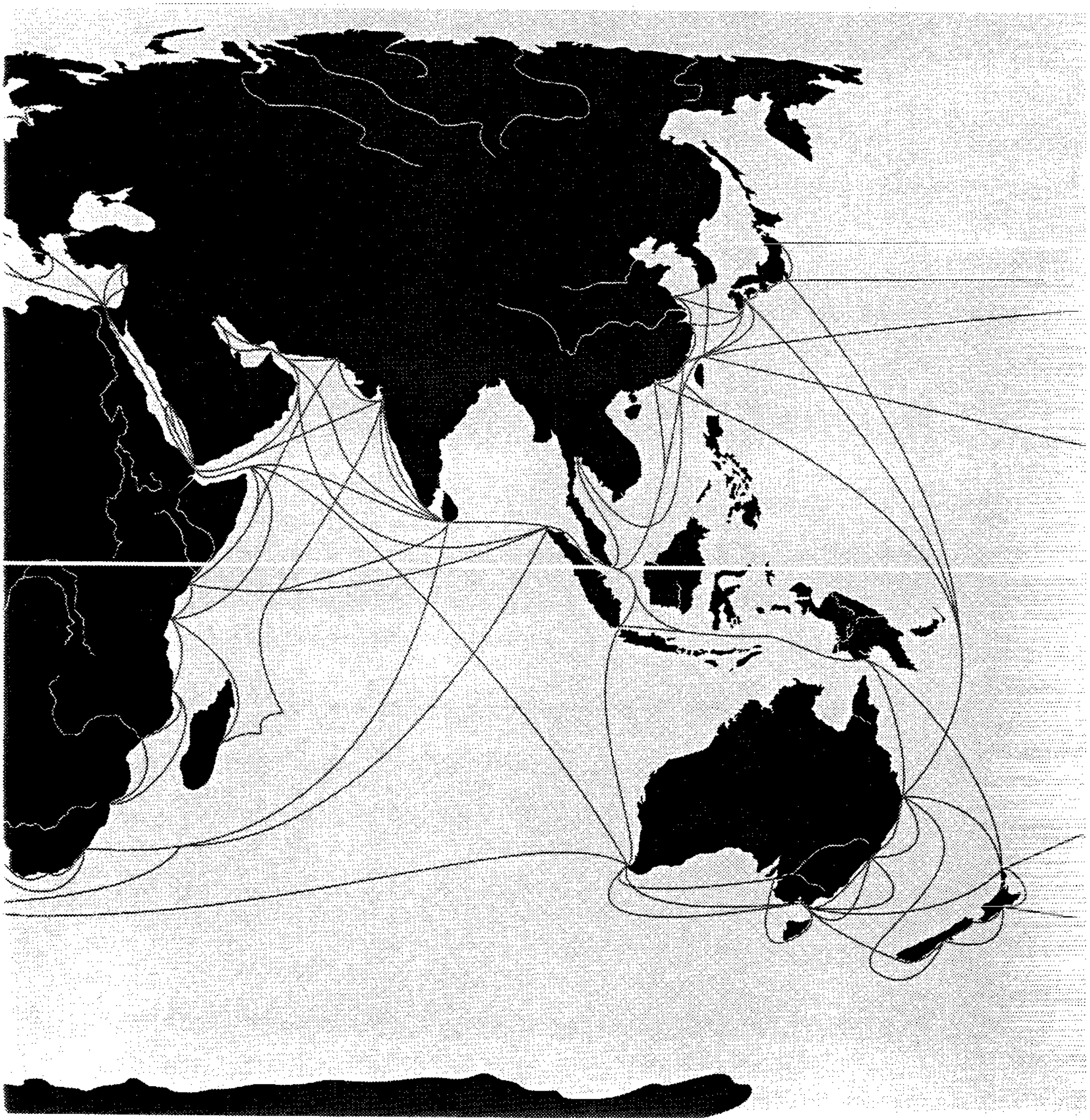
The Lord Sterling of Plaistow CBE
LJM Berndsen Joint Chairmen, May 1999



The naming of P&O Nedlloyd Rotterdam, *one of four new 6,690 TEU container ships, with an impressive operating speed of 24.5 knots.*

Shipping is our world

In 1998 P&O Nedlloyd had 114 vessels and 583,000 containers operating in 250 main ports, covering 70 trade routes in 140 countries




P&O

Port-to-port, door-to-door

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

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

The P&O Nedlloyd product relies on essential 'hardware' and 'software'. Our essential 'hardware' consists of the ships and containers we use to deliver our product. With a fleet of 114 owned and chartered vessels, and a container fleet numbering some 583,000 owned and leased TEUs, P&O Nedlloyd is numerically speaking one of the largest players in the game. However quantity is only half the picture. High quality equipment is not only important because of the cost savings it provides, but also because it results in better-protected cargo and a more reliable product.

P&O Nedlloyd can boast thoroughly modern and well-maintained ships and containers. Four new 6,690 TEU and five new 2,890 TEU ships introduced in 1998 together with five new 5,000 TEU container ships for 1999/2000 and the expansion of our reefer container fleet are just a few examples of our ongoing commitment to quality 'hardware'.

Essential 'software' refers to the information technology and people our product depends on. A

P&O Nedlloyd – the most extensive global network in the industry.

Our people make our product what it is and set it above the rest.

smooth and reliable flow of documents and information is vital to the day-to-day business of container shipping. To facilitate this, P&O Nedlloyd has a well-developed electronic data information (EDI) system in place. We also offer modern services such as on-booking to some of our customers and are committed to further developments in this field. However, without good employees to make use of it, the benefits of technology are wasted. At the end of the day, our people make our product what it is. Whether it is offering advice on how to load cargo, or ensuring that tight deadlines are met, the knowledge and experience of P&O Nedlloyd workers are what solve customers' problems. Our commitment and friendliness keeps customers coming back to us. Simply put, it is the people of P&O Nedlloyd that define our product and set it above the rest.

P&O Nedlloyd also has a supply chain arm whose goal is to provide strategic solutions to complex and diverse logistical problems. Its key resources are the

Port-to-port, door-to-door

local knowledge, its people and the expertise it has developed all over the world. The basics of container shipping are fairly straightforward: make sure the right container gets to the right place at the right time. Of course, the realities are much more complicated. The strain of decreasing freight rates and the need for higher capacity utilisation are constant. Knowledge, experience and discipline are needed to ensure that the pressure to 'just fill the ships', does not override service quality and customer satisfaction. The people of P&O Nedlloyd form a peerless base upon which our product management relies heavily. Their invaluable expertise and commitment keep our product at the top of industry standards.

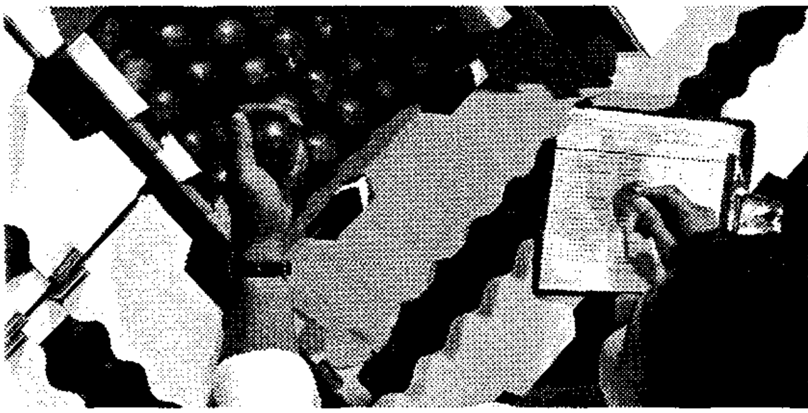
Research

P&O Nedlloyd's Cargo Care Department provides our customers with a continually improving product. Through advice and innovation, the people of Cargo Care pioneer new cargo carriage and stowage patterns. This allows us to deploy our resources with optimal efficiency.

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

Customer Service

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



Our reefer service provides specialist knowledge for perishable cargoes.

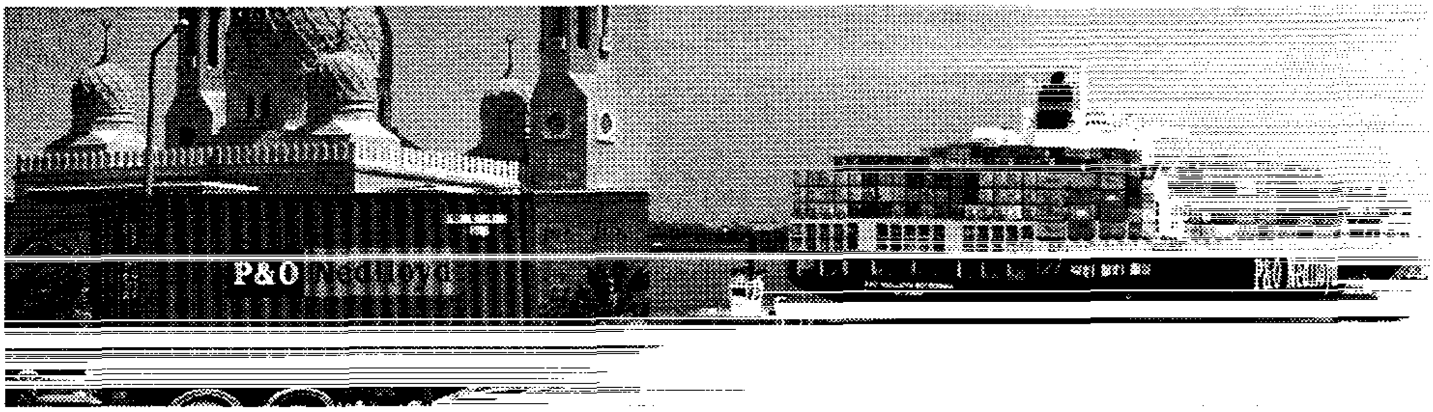
Our transport chain of rail, road and sea ensures reliable delivery world-wide.

P&O

Industry developments and prospects for 1999

Global service with a local approach.

One-stop shipping connects with 250 main ports.



During 1998, revenue rates in the liner industry continued to decline overall, especially on non-peak legs. This was despite high utilisations being achieved on the heavy legs of various major trades, where freight increases were obtained, with further augmentation expected in 1999.

With a reduced incidence of new containerships delivering in 1999 and 2000, and continued peak leg demand growth which in 1998 amounted to about 8%, the overall supply/demand position is expected to come into greater balance from now on, and the effect is likely to be positive for the industry.

The liner industry is still fragmented, although consolidation has been taking place, with a number of examples of mergers or take-overs occurring in the last few months. Clearly increased consolidation should make for a more stable and better based industry. P&O Nedlloyd has already demonstrated that it intends to take advantage of opportunities to consolidate its own position by acquiring Blue Star Line Ltd in 1998. Being among the world's three largest carriers (measured in operated ship standing slots) the company is well placed as a cost leader in respect of this process.

During 1999 a new American Shipping Act will come into force, and it is possible that discussions about regulatory issues in Europe may reach some conclusion. These developments are likely to benefit customers by improving their position in respect of confidential contracts.

Naturally any discussion of 1999 industry prospects comes back to the position of the world economy and world trade generally, although historically the liner container industry has expanded at higher rates of growth than the world economy. 1998 saw considerable changes in trade patterns as a result of the Asian turbulence, and much speculation about what these portended in the longer term. So far the signs for 1999 from movements to date are that the affected economies are showing some encouraging signs of revival, while Asian exports continue to move strongly. After a poor 1998 Latin America exports show signs of improving, which should mitigate any effects of reduced imports, particularly to Brazil. In all, assuming no further major shocks and no retreat towards general protectionism, there seem to be grounds for reasonable optimism that growth will be maintained.

Celebrating the naming of P&O Nedlloyd Rotterdam.

A market leader

P&O Nedlloyd is the largest player in the Asia-Europe Trade and has a leading position in the Trans-Atlantic Trade. In the North-South and Cross Trades it has the widest range of routes of any in the industry, while the company is now firmly established in the Trans-Pacific trade, the world's largest trading route.

The new 'Grand Alliance', of which P&O Nedlloyd is a member, began services on East West routes in February 1998. The Alliance offers five weekly loops between Asia and North Europe, a dedicated loop from Asia to Mediterranean ports, five Asia-West Coast North America loops, and two loops between Asia and East Coast North America. Apart from providing easily the most comprehensive Asia-Europe service in the business, the new grouping enabled P&O Nedlloyd to considerably improve its coverage of Chinese ports where growth continues apace. Inevitably the situation in Asia affected several of our trades in 1998 with increased cargo imbalances, and various revenue effects. The Asia-Europe and related trades which accounted for 37% of P&O Nedlloyd's volumes and in which P&O Nedlloyd had a 13% share in 1998 were obviously affected, as was the Trans-Pacific Trade which now amounts to 10% of P&O Nedlloyd overall volume.

In the Trans-Atlantic trade, strong trade growth Westbound and recovery of market share to over 8% did not compensate for declining revenue rates, especially in the static Eastbound sector.

A number of our North-South and Cross Trades were affected by developments in Asia, and others by declining rates. However in several cases, the position was encouraging and steps were taken to improve and expand various services during the course of the year. In April 1998 Blue Star Line Ltd was taken over and this added various routes and cargoes to our portfolio, especially between the USA and Australia/New Zealand.

Trade Management

Trade Management centre / Europe-Asia

North Europe	➤ Far East
Mediterranean	➤ Far East
Europe	➤ Middle East
Europe	➤ Bay of Bengal
Europe	➤ South Asia
Intra Europe	

Trade Management centre / North-South

Europe	➤ Australia/New Zealand
Europe	➤ South Africa
Europe	➤ East Africa
South Asia	➤ East Africa
Europe	➤ West Africa
Europe	➤ South America

Trade Management centre / Cross Trades

Far East	➤ Middle East/South Asia
Intra Far East	
Far East	➤ South Africa
Far East	➤ West Africa
Far East	➤ East Africa
Far East	➤ South America

Trade Management centre / Australia

P&O Swire Australia	
P&O Swire New Zealand	
Australia/New Zealand	➤ South East Asia
Australia/New Zealand	➤ Middle East
Trans Tasman	
Blue Star Asia	

Trade Management centre / North America

North America	➤ Europe/Middle East
North America	➤ Far East
North America	➤ South America
North America	➤ Australia/New Zealand

Regional highlights

Europe

Throughout 1998 we implemented strategic change through our European Marketing Plan. The overall aim of the plan is to focus our sales and market effort on key industry segments with the object of building lasting and mutually beneficial partnerships with our key customers.

As part of a global project we have identified our core product and reshaped our organisation to support this in a more customer friendly way. Major projects underway include how best we brand and market our portfolio of value added services and the implementation of product enhancements relating to electronic commerce.

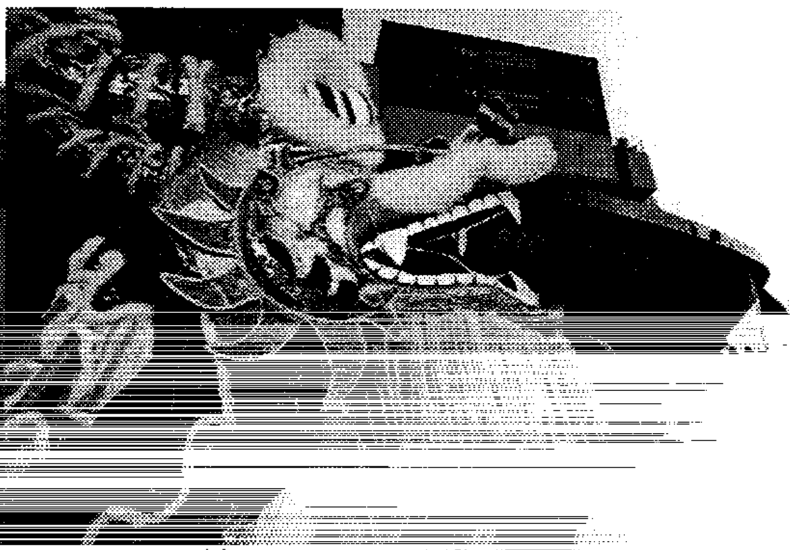
Asia

In Asia, P&O Nedlloyd has continued successfully to promote the global network concepts. Our customers are looking increasingly towards their shipping and transportation providers to cover the globe and provide landside and ocean based services, including Value Added Services. Through its dedicated Global Account Management programme P&O Nedlloyd is well positioned to meet market demands and 1998 became the year where we saw a number of new customers taking advantage of our extensive Global Network. Efforts will continue in 1999 to further enhance the P&O Nedlloyd service product, taking advantage of new technologies in the interface between our large network of offices and our customers.

North America

In North America during 1998, we made significant gains in a number of key markets. Our volumes in the Pacific grew substantially, we established a new and growing customer base in our North/South trades, re-gained Atlantic market share and consolidated our position in the Australia/New Zealand trade.

P&O Nedlloyd is now firmly established in the Trans-Pacific trade route.



Export cargo flows from Asia increased.

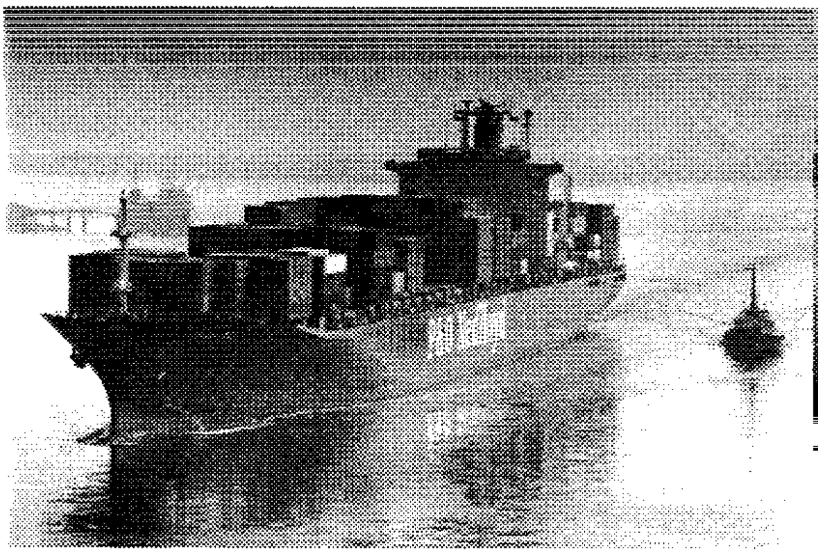
A long and distinguished past

Knowing where you are heading means knowing where you have come from. Both of P&O Nedlloyd's two founding companies have long and distinguished pasts dating back to the early 19th century. Throughout the years both organisations have witnessed, weathered and initiated changes that have given shape to the modern container shipping industry. From humble beginnings P&O Nedlloyd has grown into one of the three largest container shipping companies in existence operating in six continents, seven seas and 140 countries.

P&O grew out of a partnership born in the bellicose days of the Portuguese and Spanish civil wars of the early 1830s, a fact reflected in its quartered flag which bears the royal colours of those two countries to this day. In 1837 the 'Peninsular Steam Navigation Company', as it was then known, signed its first commercial contract for carrying mails by sea between England, Portugal and Spain. Such international contracts formed the basis of the company's business for the next 100 years.

By the beginning of the 20th century, P&O had developed into the premier British shipping company. Through a process of mergers and acquisitions the fleet expanded to nearly five hundred vessels in the mid-1920s. Following the Second World War P&O responded to the rapidly changing nature of the shipping industry and began to invest heavily in container shipping. In response to the boom in containerisation, Overseas Containers Ltd was established and later evolved into P&O Containers. In the late 1960s OCL began to develop the concept of door-to-door delivery of goods throughout Britain and Europe, combining onshore and seaborne means of transportation. Keenly responsive to the demands of a dynamic business environment, P&O has been a pioneer in the container shipping industry.

Royal Nedlloyd N.V.'s historical roots also have something of a martial nature. In response to shipping shortages caused by the Crimean War, a



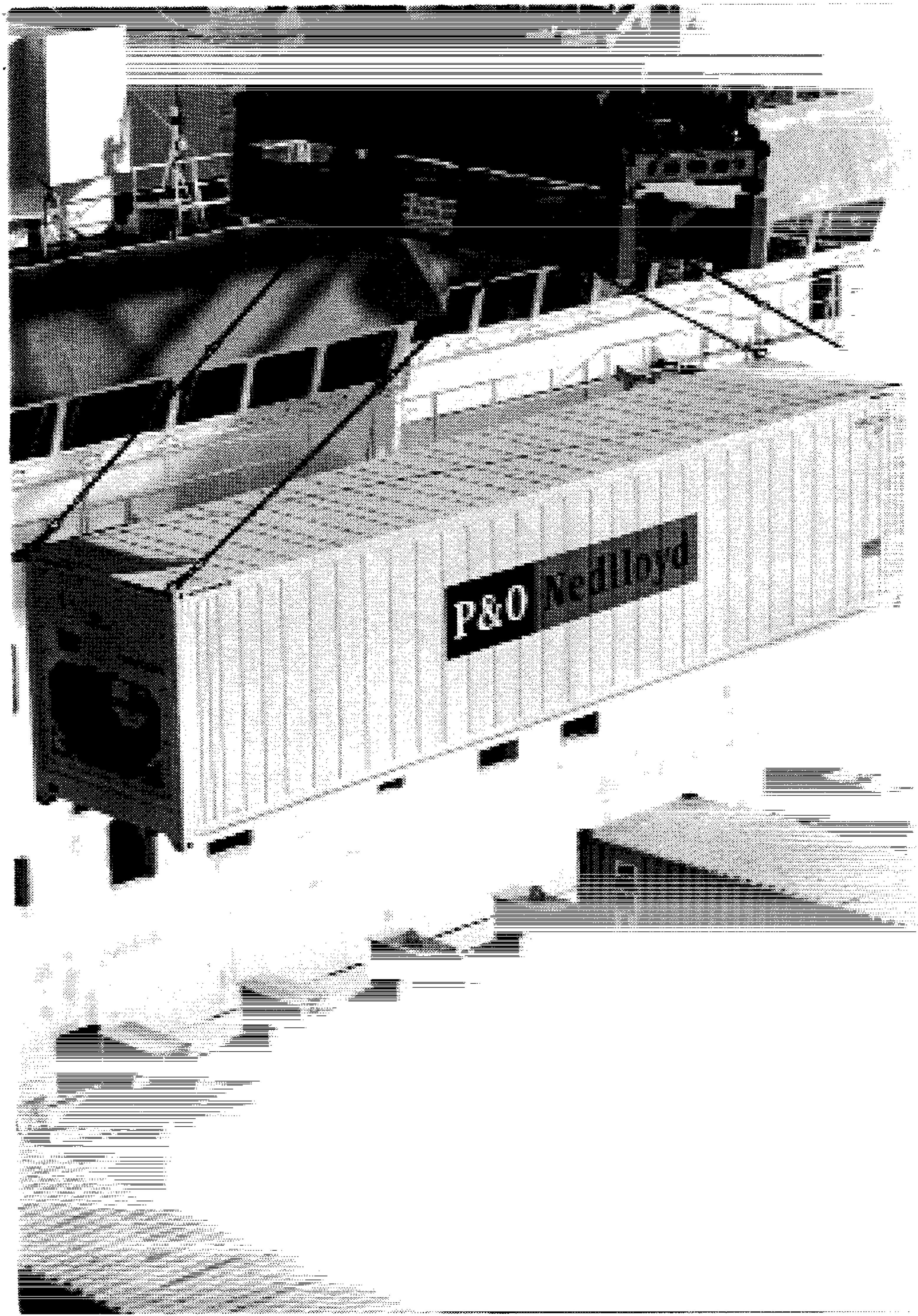
P&O Nedlloyd has grown into one of the three largest container shipping companies in existence, operating in 140 countries with a fleet of 114 vessels.

group of enterprising Dutchmen launched the Koninklijke Nederlandsche Stoomboot-Maatschappij (KNSM) in 1856. Two other Dutch companies, Stoomvaart Maatschappij 'Nederland' (SMN) and Koninklijke Rotterdamsche Lloyd (KRL) quickly joined the race capturing lucrative postal contracts. At the turn of the century, the efforts of these enterprises and their offspring had extended Dutch shipping to the Far East and South America. In 1908, they decided to consolidate these gains through the creation of the Nederlandsche Scheepvaart Unie (NSU).

Following the devastation and changes wrought by the Second World War, the Dutch shipping industry underwent several years of almost continual reorganisation. Finally, in 1970, various Dutch shipping companies joined forces in order to be prepared for the start of containerisation, and the 'new' Nederlandsche Scheepvaart Unie was formed, later renamed as Royal Nedlloyd Group. In the fiercely competitive 1980s and 1990s, Royal Nedlloyd continued to critically re-examine its structure cutting back in some areas and expanding in others with the aim of providing fully integrated logistics services. In the process, it pioneered many new initiatives within the shipping industry such as the main line/feeder concept that remains a mainstay of modern container shipping logistics.

Prior to the merger, P&O and Royal Nedlloyd had co-operated on several ventures including the Transatlantic Vessel Sharing Agreement, the European Rail Shuttle, and North Sea Ferries. Partnerships come naturally to an industry that, for years, has brought people of different cultures and backgrounds together in the spirit of mutually beneficial trade and commerce. This spirit of co-operation has been crystallised in the first cross-border merger of two premier container shipping companies of this size. The history of success shared by P&O and Nedlloyd promises to bring even further innovation and progress to container shipping in the 21st century.

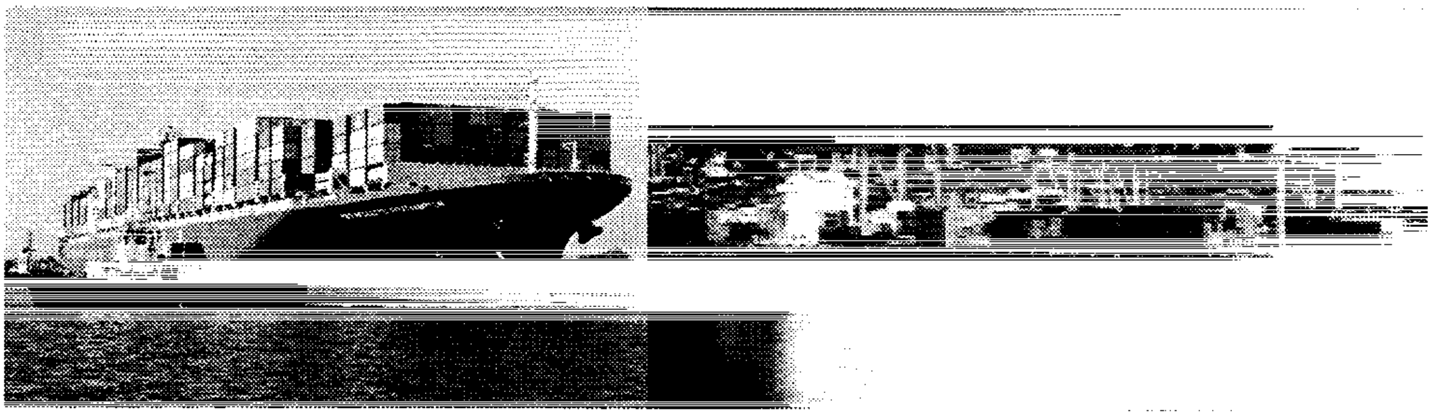
1998 saw a number of new customers taking advantage of P&O Nedlloyd's Global Network.


P&O Nedlloyd

Management

at March 1999

P&O Nedlloyd bring customers' products to the right place at the right time.



Board P&O Nedlloyd Container Line Ltd

The Lord Sterling of Plaistow	*Co-Chairman*
L J M Berndsen	*Co-Chairman*
Sir Bruce MacPhail	*Non-Executive Director*
V L Bijvoets	*Non-Executive Director*
T C Harris	*Chief Executive Officer*
H H Meijer	*Chief Financial Officer*
R B Woods	*Managing Director*
R P M van Slobbe	*Director*
G R Cheeseman	*Company Secretary*

Executive Committee

T C Harris	*Chief Executive Officer*
H H Meijer	*Chief Financial Officer*
R B Woods	*Managing Director*
R P M van Slobbe	*Director*
G P Samuel	*Secretary to Excom*

Senior Management Committee

T S Boardley	*Director Europe – Asia Trades*
P Duifhuizen	*Director Latin America*
N P Henry	*Director Business Systems*
A J Mason	*Director Europe – North/South*
H F Meurs	*Director Australasia*
R E van Meurs	*Director Treasury*
T S Basi	*Director Information Technology*
M J S Seymour	*Director North America*
R E Speld	*Director Asia*
T Steenbeek	*Director Fleet Management*
A Uytendaal	*Director Int. Container Management*
P A Walker	*Director Corporate Accounting*
B M V Williams	*Director Europe*

The new Grand Alliance Far East-Europe schedule was introduced offering the best option available with six sailings per week.

Report of the directors

for the year ended 31 December 1998

1. The directors present their report and accounts for the year ended 31 December 1998.

2. *Results*
   The results of the group are set out in detail on pages 26 to 29 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 1998.

4. *Principal activities of the company and review of the year*
   The principal activity of the group is the operation of container through transport and related services.

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

   In April 1998 the group acquired the whole of the issued share capital of Blue Star Line Limited.

   In August 1998, the group acquired the outstanding shares in Ellerman Harrison Container Line Limited.

   A review of the group's activities is set out on pages 4 to 21.

5. *Directors*
   The directors of the company during the year were:
   The Lord Sterling of Plaistow
   L. J. M. Berndsen
   V. L. Bijvoets
   T. C. Harris
   Sir Bruce MacPhail
   H. H. Meijer
   R. P. M. Van Slobbe
   R. B. Woods

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

7. *Employment policies*
   P&O Nedlloyd Container Line Limited is committed to ensuring that no discrimination is practised against any employee or prospective employee on grounds of colour, race, creed or sex. In particular the group employs registered disabled persons and has a policy of giving full and fair consideration to applications for employment from registered disabled people. In cases where disablement occurs whilst in service, company policy is, as far as possible, to continue employment and to arrange for any necessary re-training facilities. Opportunities for training, career development and promotion apply equally across the group to disabled and non-disabled alike.

   The company is continuing to develop harmonised arrangements for communication and consultation with employees to replace or supplement different methods of communication adopted before the creation of P&O Nedlloyd on 1 January 1997. Presently the following arrangements are in place:

(a) electronic mail is used to convey announcements relating to key issues e.g. appointments, business developments, vacancies;

(b) various employee committees exist within each site to discuss particular matters such as office facilities, health and safety etc;

(c) staff newsletters and magazines are provided on an international, regional and department basis;

(d) financial results are communicated on a quarterly basis via electronic mail with senior management briefings to staff on a regular basis.

(e) all employees are provided with a Staff Handbook providing information on arrangements relating to employment.

8. *Donations*
During the year ended 31 December 1998 the group contributed $3,000 (1997: $2,000) for charitable purposes. No political contributions were made.

9. *Year 2000*
The group has an active programme in place for dealing with issues connected with computer systems and embedded chips in relation to the Year 2000. This involves identifying where modifications may be necessary within systems developed and maintained by the group, making similar identifications and subsequent monitoring of systems and equipment supplied to the group and testing the results of any modifications. Where necessary normal upgrading work is being accelerated to ensure the systems concerned are Year 2000 compliant.

All parts of the group have completed the compliance reviews of their systems, assessed how critical they are and are now modifying and retesting these systems as appropriate. The conclusions of these reviews and assessments are monitored centrally with regular reports prepared for the audit committee and the Board. All divisions have their own target dates for completion and all of these dates are expected to be met. All the group's critical business systems are planned to be compliant by mid 1999. The group has undertaken a further programme to seek the necessary assurances from key suppliers and is giving assurance to its customers as appropriate.

Throughout the programme, approximately $16 million is expected to be incurred in assessing and testing the group's systems including direct modifications to existing systems. Approximately $4.5 million of this total has been incurred during 1998 with the balance falling into 1999.

10. *Auditors*
During the year KPMG Audit plc was appointed as auditor following the resignation of KPMG.

By Order of the Board
G. R. Cheeseman
Secretary

7th May 1999

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.

Report of the auditors

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

We have audited the financial statements on pages 26 to 47.

Respective responsibilities of directors and auditors

As described on page 24 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 1998 and of the loss of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit plc

KPMG Audit plc
Chartered Accountants
Registered Auditor
London

7 May 1999

Group profit and loss account for the year ended 31 December 1998

	Notes	1998 $m	1997 $m
Turnover			
Continuing operations		3,782.6	3,839.3
Acquisitions		157.3	-
Total turnover	2	3,939.9	3,839.3
Net operating costs	3	(3,868.8)	(3,871.1)
Group operating profit			
Continuing operations before reorganisation and remanning costs		81.0	72.1
Reorganisation costs		-	(103.9)
Remanning costs		(10.6)	-
		70.4	(31.8)
Acquisitions		0.7	-
Group operating profit/(loss)		71.1	(31.8)
Share of operating (loss)/profit in associates		(1.5)	1.8
Total operating profit/(loss)		69.6	(30.0)
(Loss)/profit on sale of fixed assets – continuing operations		(13.7)	0.3
Profit/(loss) on ordinary activities before interest		55.9	(29.7)
Net interest payable and similar items	6	(56.9)	(40.4)
Loss on ordinary activities before taxation		(1.0)	(70.1)
Tax on loss on ordinary activities	7	(10.8)	(9.3)
Loss on ordinary activities after taxation		(11.8)	(79.4)
Equity minority interests	16	(2.0)	(3.3)
Retained loss for the financial year	18	(13.8)	(82.7)

	Notes	1998 Group $m	1998 Company $m	1997 Group $m	1997 Company $m
Fixed assets					
Intangible assets	8	9.6	-	-	-
Tangible assets	9	2,298.3	-	2,196.6	-
Investments	10	10.7	972.4	20.5	972.4
		2,318.6	972.4	2,217.1	972.4
Current assets					
Stocks and work in progress	11	203.4	-	187.5	-
Debtors	12	733.9	619.4	785.3	618.5
Cash at bank and in hand		84.4	-	82.8	-
		1,021.7	619.4	1,055.6	618.5
Creditors - amounts falling due within one year	13	(1,170.6)	(26.0)	(1,129.0)	(1.3)
Net current (liabilities)/assets		(148.9)	593.4	(73.4)	617.2
Total assets less current liabilities		2,169.7	1,565.8	2,143.7	1,589.6
Creditors - amounts falling due after more than one year	14	684.9	23.0	657.9	46.0
Provisions for liabilities and charges	15	29.3	-	19.9	-
Equity minority interests	16	21.8	-	20.1	-
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	(111.1)	(2.0)	(99.0)	(1.2)
Equity shareholders' funds		1,433.7	1,542.8	1,445.8	1,543.6
		2,169.7	1,565.8	2,143.7	1,589.6

These accounts were approved by the board on 7 May 1999 and signed on its behalf by:

T. C. Harris

H. H. Meijer

	Notes	1998		1997	
		$m	$m	$m	$m
Net cash inflow from operating activities	19 (a)		183.4		93.5
Returns on investments and servicing of finance					
Interest received		7.1		12.0	
Interest paid		(47.6)		(31.3)	
Finance lease interest paid		(16.2)		(2.6)	
Investment income received		-		2.5	
Net cash outflow from returns on investments and servicing of finance			(56.7)		(19.4)
Taxation			(9.0)		(1.6)
Capital expenditure and financial investment					
Purchase of ships		(231.6)		(78.9)	
Purchase of investments and other fixed assets		(52.3)		(89.7)	
Sale of fixed assets and investments		310.8		117.0	
Net cash inflow/(outflow) from capital expenditure and financial investment			26.9		(51.6)
Acquisitions					
Purchase of subsidiaries		(77.3)		-	
Net cash acquired		11.2		-	
Net cash outflow for acquisitions			(66.1)		-
Net cash inflow before financing			78.5		20.9
Financing					
Loan drawdown		123.4		913.3	
Loan repayment		(164.9)		(838.0)	
Finance lease capital payments		(24.0)		(43.2)	
Net cash (outflow)/inflow from financing			(65.5)		32.1
Increase in cash in the period	19 (b)		13.0		53.0

Statement of group total recognised gains and losses for the year ended 31 December 1998

	1998 $m	1997 $m
Loss for the financial year attributable to shareholders	(13.8)	(82.7)
Currency translation - average to closing	(0.1)	(0.2)
Currency translation differences on foreign currency investments	1.8	(15.3)
Total recognised gains and (losses) for the financial year	(12.1)	(98.2)

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

Reconciliation of movement in equity shareholders' funds for the year ended 31 December 1998

	1998 $m	1997 $m
Total recognised gains and (losses) for the financial year	(12.1)	(98.2)
Goodwill written off	-	(3.0)
Net reduction in equity shareholders' funds	(12.1)	(101.2)
Equity shareholders' funds at beginning of the year	1,445.8	1,547.0
Equity shareholders' funds at the end of the year	1,433.7	1,445.8

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 except as stated in note 10(c)(II)(1).

(b) Basis of consolidation
The consolidated accounts include the accounts of the company and its subsidiaries (including the UK partnership in which they participate) made up to 31 December 1998 together with the group's interest in its associates. Results of subsidiaries and associates acquired or sold during the year are included from or to the effective date of acquisition or sale. In accordance with section 230 of the Companies Act 1985, a separate profit and loss account dealing with the results of the company only is not presented.

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

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

The company's associates have been accounted for on the basis of FRS9 and the comparative profit and loss figures have been re-presented accordingly.

(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 1998 the US dollar: sterling exchange rate was 1:0.601 (1997: 1:0.608). Transactions denominated in foreign currencies are translated at the exchange rate ruling on the date on which each transaction occurs or at the rate specified in any related forward exchange contract. At each balance sheet date monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at that date or at the rates specified in any related forward exchange contracts. The results of subsidiaries and branches which have currencies of operation other than US dollars have been translated at average exchange rates.

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

(g) Fixed assets
I. The properties are included in the accounts at their cost to the group. No depreciation is provided in respect of freehold land and buildings or leasehold land and buildings where the remaining life of the lease is 21 years or more as, in the opinion of the directors, any element of depreciation would be immaterial. Leasehold land and buildings are depreciated on a straight line basis over the remaining life of the lease where the remaining life of the lease is less than 21 years.

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

	1998		1997	
	Origin	Destination	Origin	Destination
	$m	$m	$m	$m
Continuing operations				
UK and the Republic of Ireland	317.3	442.6	389.4	439.5
Continental Europe	960.0	971.2	1,094.2	1,096.7
USA and Canada	384.1	392.9	267.2	248.4
Australasia and Pacific	367.9	364.8	424.6	419.5
Far East and Asia	1,437.3	798.3	1,335.3	1,052.3
Other areas	316.0	812.8	328.6	582.9
	3,782.6	3,782.6	3,839.3	3,839.3
Acquisitions				
UK and the Republic of Ireland	23.1	23.0	-	-
USA and Canada	53.1	54.7	-	-
Australasia and Pacific	61.2	59.7	-	-
Far East and Asia	8.1	8.1	-	-
Other areas	11.8	11.8	-	-
	157.3	157.3	-	-
	3,939.9	3,939.9	3,839.3	3,839.3

3. Net operating costs

	1998	[redacted]
	$m	[redacted]
Continuing operations		[redacted]
Cost of sales	3,118.0	[redacted]
Administration expenses	587.4	[redacted]
Reorganisation costs	-	[redacted]
Remanning costs	10.6	[redacted]
Other income & expenses	(3.8)	[redacted]
Acquisitions		[redacted]
Cost of sales	144.0	[redacted]
Administration costs	12.6	[redacted]
	3,868.8	[redacted]

Net operating costs include:

	1998	[redacted]
	$m	[redacted]
Depreciation of tangible fixed assets:		[redacted]
Owned assets	165.8	[redacted]
Leased assets	27.0	[redacted]
	192.8	[redacted]
Amortisation of goodwill	1.6	[redacted]
Hire of ships	264.6	[redacted]
Hire of plant and machinery	149.6	[redacted]
Property rentals	33.3	[redacted]
Auditors' remuneration - Group	3.1	[redacted]
- Company	-	[redacted]
Other fees paid to auditors and their associates	1.0	[redacted]

4. Employee information

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

	1998	1997
In the United Kingdom	1,720	1,593
Overseas	7,205	6,966
Sea Staff	1,938	1,952
	10,863	10,511

Employment costs - all employees including executive directors:

	$m	$m
Aggregate gross wages and salaries	354.3	343.4
Employers' national insurance contributions,or foreign equivalents	30.3	27.3
Employers' pension contributions (note 23)	15.9	8.8
Total direct cost of employment	400.5	379.5

5. Remuneration of Directors

	1998	1997
	$'000	$'000
Directors' emoluments	796	636
Amounts paid to third parties in respect of directors' services	1,923	1,468

	1998 Number	1997 Number
Retirement benefits are accruing to the following number of executive directors under:		
Defined benefit schemes	4	5

The emoluments of the highest paid director were $426,485 (1997: $344,000). He is a member of a defined benefit scheme under which his accrued pension at year end was $131,921 (1997: $85,696).

6. Net interest and similar items

	1998 $m	1997 $m
Bank loans and overdrafts	(51.4)	(44.7)
Interest element of finance leases and similar arrangements	(16.6)	(2.5)
Other loans	(3.0)	(4.9)
	(71.0)	(52.1)
Interest capitalised	7.7	2.0
Interest receivable and similar items	6.4	9.7
	(56.9)	(40.4)

7. Tax on profit on ordinary activities

	1998 $m	1997 $m
This comprises:		
United Kingdom corporation tax		
Current year at 31% (1997 - 31.5%)	(1.1)	(1.2)
Overseas taxation		
Current year	(9.6)	(8.0)
Share of associates' tax	(0.1)	(0.1)
	(10.8)	(9.3)

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

8. Intangible fixed assets

Group	Goodwill $m
Cost	
At 1 January 1998	-
Additions	11.2
At 31 December 1998	11.2
Amortisation	
At 1 January 1998	-
Charge for the year	(1.6)
At 31 December 1998	(1.6)
Net Book Value	
At 31.12.98	9.6
Net Book Value	
At 31.12.97	-

Goodwill is being amortised over a period of 5 years. This period represents the estimated remaining useful life of the major revenue earning assets acquired.

9. Tangible fixed assets

Group

	Land and Buildings		Ships		Containers & Other Plant & Equipment		Total
	Freehold	Leasehold	Owned	Finance Leases	Owned	Finance Leases	
	$m	$m	$m	$m	$m	$m	$m
Cost							
At 1.1.98	27.1	17.5	1,368.5	201.7	627.0	142.7	2,384.5
Exchange Adjustment	0.1	0.5	-	-	1.1	-	1.7
Additions	1.0	2.5	290.0	141.3	85.7	0.6	521.1
Acquisition of subsidiaries	0.1	-	67.1	-	41.6	-	108.8
Disposals	(1.4)	(0.6)	(335.9)	(6.5)	(38.0)	(2.8)	(385.2)
Reclassification	-	-	(53.3)	53.3	(31.5)	31.5	-
At 31.12.98	26.9	19.9	1,336.4	389.8	685.9	172.0	2,630.9
Depreciation							
At 1.1.98	-	(0.8)	(82.4)	(15.5)	(89.2)	-	(187.9)
Exchange Adjustment	-	-	-	-	(1.0)	-	(1.0)
Charged for the year	-	(1.5)	(81.4)	(14.5)	(82.9)	(12.5)	(192.8)
Disposals	-	-	19.9	0.9	26.3	2.0	49.1
Reclassification	-	-	-	-	5.2	(5.2)	-
At 31.12.98	-	(2.3)	(143.9)	(29.1)	(141.6)	(15.7)	(332.6)
Net Book Value							
At 31.12.98	26.9	17.6	1,192.5	360.7	544.3	156.3	2,298.3
Net Book Value							
At 31.12.97	27.1	16.7	1,286.1	186.2	537.8	142.7	2,196.6

	1998	1997
	$m	$m
The net book value of leasehold land and buildings comprises:		
Long leases	15.8	15.9
Short leases	1.8	0.8
	17.6	16.7

(a) The directors estimate that if all properties were to be realised at their current book values no taxation liabilities would arise. (1997 $ Nil).

(b) Ships under construction included in the above totalled $26,196,000 (1997: $96,379,000).

(c) The cost of ships shown above includes $3,739,029 (1997: $2,149,999) in respect of capitalised interest charges.

(d) The net book value of containers and other plant and equipment consists of containers $515.4 million (1997: $531.4 million), computer equipment and software $125.6 million (1997: $81.6 million) and other assets $59.6 million (1997: $67.5 million).

10. Fixed Assets: Investments

(a) Summary

	1998 Group	1998 Company	1997 Group	1997 Company
	$m	$m	$m	$m
Subsidiary undertakings				
Shares at cost	-	972.4	-	972.4
Associated undertakings				
Shares	8.9	-	13.5	-
Associates' reserves	(1.1)	-	1.1	-
Loans	0.1	-	0.2	-
	7.9	-	14.8	-
Other investments				
Unlisted	2.8	-	5.7	-
Total fixed asset investments	10.7	972.4	20.5	972.4

(b) Movements in fixed asset investment

The net book value of shares in associated undertakings are shown net of provisions totalling $1.5m (1997: $0.8m)

	$m
Interests in associated undertakings	
At 1 January 1998	14.8
Exchange	0.6
Disposal of shares	(5.0)
Share of retained loss	(1.8)
Provisions	(0.7)
At 31 December 1998	7.9

	Unlisted
Other investments	$m
At 1 January 1998	5.7
Exchange movements	0.3
Disposal of shares	(1.8)
Reclassification	(1.4)
At 31 December 1998	2.8

10. 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. Subsidiaries		
Container Ship Operators		
P&O Nedlloyd Limited	3	100.0
P&O Nedlloyd BV	1,2,3	99.0
P&O Swire Containers Limited		75.0
Ellerman Harrison Container Line Limited		100.0
Blue Star Line Limited		100.0
Freight Forwarders		
P&O Nedlloyd Global Logistics Limited		100.0
Damco Maritime International BV	2	100.0
Depot Operators		
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. The partnership's registered office is Beagle House, Braham Street, London E1 8EP.

10. Fixed Assets: Investments - continued

(d) Acquisition of subsidiaries

On 1 April 1998 the group acquired all of the Blue Star Line Limited group. The transaction has been accounted for using acquisition accounting.

	Book Value	Re-Valuation Note (i)	Accounting Policy alignment Note (ii)	Other Adjustments Note (iii)	Provisional Fair Value
	$m	$m	$m	$m	$m
Fixed assets	120.9	(6.9)	-	-	114.0
Current assets	46.0	-	5.8	-	51.8
Total assets	166.9	(6.9)	5.8	-	165.8
Creditors	(83.2)	-	9.6	(1.3)	(74.9)
Borrowings	(24.4)	-	-	-	(24.4)
Total liabilities	(107.6)	-	9.6	(1.3)	(99.3)
Net assets	59.3	(6.9)	15.4	(1.3)	66.5
Goodwill					10.8
Cash consideration					77.3

Notes

(i) The revaluation of ships and other fixed assets to reflect their fair value at acquisition.

(ii) The adoption of P&O Nedlloyd Container Line Limited accounting policies re (i) dry docking and (ii) a provision for trailer redelivery costs.

(iii) Other adjustments relate to provisions for surplus property costs and the reassessment of insurance claims.

(iv) In the period from 1 January 1998 to 31 March 1998 Blue Star Line Limited recorded a loss after tax and minority interests of $1.9 million (year to 31 December 1997: $10.1 million loss).

11. Stocks and work in progress

	1998		1997	
	Group	Company	Group	Company
	$m	$m	$m	$m
Raw Material and consumables	37.5	–	40.2	–
Work in progress	165.9	–	147.3	–
	203.4	–	187.5	–

12. Debtors

	1998		1997	
	Group	Company	Group	Company
	$m	$m	$m	$m
Amounts falling due within one year				
Trade debtors	511.8	–	554.0	
Subsidiary undertakings	–	616.8	–	608.1
Group relief receivable	–	1.0	–	0.6
Other debtors	80.0	1.6	103.7	9.8
Prepayments	133.0	–	126.2	–
	724.8	619.4	783.9	618.5
Amounts falling due after more than one year				
Advances	9.1	–	1.4	–
	733.9	619.4	785.3	618.5

13. Creditors: amounts falling due within one year

	1998		1997	
	Group	Company	Group	Company
	$m	$m	$m	$m
Short term component of long term debt				
Lease finance	20.5	-	11.2	-
Bank loans - secured	219.4	-	94.5	-
	239.9	-	105.7	-
Short term debt				
Shareholder loans (unsecured)	23.0	26.0	-	1.3
Bank loans and overdrafts (unsecured)	7.2	-	18.6	-
Loans from associated undertakings	-	-	0.8	-
	30.2	26.0	19.4	1.3
Trade and other creditors				
Trade creditors	309.9	-	410.2	-
Deferred income	227.1	-	253.5	-
Mainstream corporation tax	10.9	-	7.9	-
Social security	2.6	-	3.8	-
Other creditors - secured	-	-	21.7	-
Other creditors - unsecured	74.0	-	80.7	-
Accruals	276.0	-	226.1	-
	900.5	-	1,003.9	-
	1,170.6	26.0	1,129.0	1.3

The company's banking arrangements enable it to draw down further loans to replace some $140 million included in the secured loan balance above.

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

	1998		1997	
	Group	Company	Group	Company
	$m	$m	$m	$m
Shareholder loans (unsecured)	23.0	23.0	46.0	46.0
Bank loans secured				
Payable between 1 and 2 years	82.3	-	94.4	-
Payable between 2 and 5 years	251.3	-	253.1	-
Payable after 5 years	2.3	-	130.1	-
Lease finance				
Payable between 1 and 2 years	20.2	-	12.5	-
Payable between 2 and 5 years	82.8	-	74.6	-
Payable after 5 years	222.3	-	46.9	-
Other loans (unsecured)	0.4	-	-	-
Other creditors	0.3	-	0.3	-
	684.9	23.0	657.9	46.0

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 1998	19.9	-
Exchange	1.3	-
Transfer from profit and loss account	14.7	-
Applied during the year	(9.9)	-
Acquisition of subsidiaries	3.3	-
	29.3	-

Provisions includes $15.0 million (1997: $8.7 million) in respect of pensions, $3.8 million (1997: $2.6 million) for holiday pay, $1.4 million (1997: $3.8 million) for reorganisation costs and $1.8 million (1997: $nil) for property leases.

Deferred Taxation

No provision is made in the accounts for deferred taxation. The estimated potential liability is set out below and has been calculated at the UK corporation tax rate of 30% (1997: 30%).

	1998		1997	
	Group	Company	Group	Company
	$m	$m	$m	$m
Accelerated allowances on fixed assets	131.2	-	109.0	-
Short term timing differences	(5.9)	-	(3.0)	-
	125.3	-	106.0	-

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

	1998 $m
As at 1 January 1998	20.1
Proportion of profit on ordinary activities after taxation	2.0
Changes in composition and dividends paid	(0.3)
	21.8

17. Called up share capital

	1998 $m	1997 $m
Authorised allotted, called up and fully paid share capital is as follows		
800,000 Ordinary A Shares of $1 each	0.8	0.8
800,000 Ordinary B Shares of $1 each	0.8	0.8
1 Deferred share of £1	-	-
	1.6	1.6

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

18. Profit and loss account

	Group $m	Company $m
Balance at 1 January 1998	(99.0)	(1.2)
Retained loss for the year	(13.8)	(0.8)
Currency translation - average to closing	(0.1)	-
Currency translation on foreign currency net investment	1.8	-
Balance at 31 December 1998	(111.1)	(2.0)

Cumulative goodwill written off directly to reserves amounts to $3 million (1997: $3 million).

19. Notes to the group cash flow statement

	1998	1997
	$m	$m
(a) Reconciliation of operating profit to net cashflow from operating activities		
Group operating profit/(loss)	71.1	(31.8)
Depreciation and amortisation	194.4	187.9
Profit on sale of fixed assets	(3.6)	(0.2)
(Increase)/decrease in stock	(14.0)	0.7
Decrease in debtors	109.4	538.7
Decrease in creditors and provisions	(173.9)	(601.8)
Net cash inflow from operating activities	183.4	93.5
(b) Reconciliation of net cash flow to movement in net debt		
Increase in cash in the period	13.0	53.0
Cash outflow/(inflow) from changes in loans and lease financing	65.5	(32.1)
Changes in net debt resulting from cash flows	78.5	20.9
New finance leases	(214.4)	(89.5)
Borrowings of subsidiaries acquired	(35.6)	-
Exchange movement in net debt	0.3	0.9
Movement in net debt in the period	(171.2)	(67.7)
Net debt at 1 January 1998	(699.1)	(631.4)
Net debt at 31 December 1998	(870.3)	(699.1)

(c) Analysis of net debt

	At 1 January 1998	Cash flow	Subsidiaries acquired	Other non cash movement	Exchange movement	At 31 December 1998
	$m	$m	$m	$m	$m	$m
Cash available on demand	82.8	1.6	-	-	-	84.4
Overdrafts	(18.6)	11.4	-	-	-	(7.2)
Loans due after one year	(477.6)	166.4	(25.4)	-	0.3	(336.3)
Loans due within one year	(94.5)	(124.9)	-	-	-	(219.4)
Finance leases due after one year	(134.0)	-	(7.3)	(184.0)	-	(325.3)
Finance leases due within one year	(11.2)	24.0	(2.9)	(30.4)	-	(20.5)
Unsecured loan	(46.0)	-	-	-	-	(46.0)
Total	(699.1)	78.5	(35.6)	(214.4)	0.3	(870.3)

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

20. Capital expenditure and commitments

Expenditure on fixed assets

	1998		1997	
	Group	Company	Group	Company
	$m	$m	$m	$m
Contracts placed but for which provision has not been made	563.3	-	593.7	-

21. Obligations under operating leases

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

	1998		1997	
	Group		Group	
	Land and Buildings	Other Leases	Land and Buildings	Other Leases
	$m	$m	$m	$m
Operating leases which expire				
Within one year	7.7	101.9	7.8	62.6
In the second to fifth year inclusive	17.4	166.1	21.2	175.8
Over five years	9.7	80.8	7.3	40.8
	34.8	348.8	36.3	279.2

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 1998 the amount outstanding under these guarantees was $613 million (1997: $509 million). No losses are expected. The guarantees are secured over the net assets of key subsidiaries.

P&O Nedlloyd Limited and P&O Nedlloyd BV were members of the Trans-Atlantic Conference Agreement (TACA) against which the European Commission in May 1996 issued a Statement of Objections. The principal allegation was that the Conference Lines had a collective dominant position in the North Atlantic shipping market and that they had abused that position. Lawyers to the Conference have advised that both these allegations but especially the latter can be rebutted and that as a result an adverse decision by the Commission would most probably be reversed by the European Court of Justice. They have also advised that a fine of ECU 41 million (approximately $48 million) announced by the Commission in September 1998 would not be upheld by the Court for various legal reasons. In December 1998, a guarantee in respect of the fine was lodged with the Commission and an appeal was lodged with the European Court of First Instance in Luxembourg requesting annulment of the Commission's decision. The directors consider that no material liability will arise and accordingly no provision has been made.

23. Pensions

The group participates in a number of pension schemes, including in the UK a scheme operated by The Peninsular and Oriental Steam Navigation Company and in the Netherlands a scheme operated by Royal Nedlloyd NV together with various industry wide schemes in both countries. One of the industry wide schemes is a defined contribution scheme, all others are of the defined benefit type with assets held in separate trustee administered funds. Under the terms of the Sale and Purchase Agreement between The Peninsular and Oriental Steam Navigation Company and Royal Nedlloyd NV which created P&O Nedlloyd, the group's pension arrangements will be re-assessed as from 1 January 2000.

The pension costs in respect of the industry wide schemes are based on the use of common rates for contributions payable by sponsoring employers. Under the terms of the Sale and Purchase Agreement between The Peninsular and Oriental Steam Navigation Company and Royal Nedlloyd NV which created P&O Nedlloyd, the group's pension contributions to the P&O Pension Scheme were capped for three years to 31 December 1999. Formal actuarial valuations of The P&O Pension Scheme ('the Scheme') are carried out triennially, the latest being as at 1 April 1997 by Watson Wyatt Partners, consulting actuaries, using the projected unit method. The principal assumptions adopted in the valuation were that, over the long term, the annual rate of return on investments would be 2.75 percentage points higher than the annual increase in total pensionable remuneration and 4.75 percentage points higher than the annual increase in present and future pension payments. The market value of the Scheme's assets at 1 April 1997 was £1,059m and the actuarial value of those assets represented 98 per cent of the value of the benefits accrued to members allowing for future increases in earnings. This valuation takes account of the removal of the ability of pension schemes to reclaim tax credits on dividend income.

The actuarial valuations of the industry wide schemes in the UK are carried out by Watson Wyatt Partners, consulting actuaries, using the projected unit method. The schemes' actuaries have advised that the actuarial value of the officers' scheme's assets represents approximately 105 per cent of the value of the benefits accrued to members allowing for future increases in earnings and 89 per cent in respect of the ratings' scheme. Discussions are taking place with the trustee as to the best means of dealing with the deficit on the ratings' scheme. The latest valuations were at 31 March 1996 in respect of the officers' scheme and at 31 March 1998 in respect of the ratings' scheme.

The group participates in the Royal Nedlloyd Pension Fund in the Netherlands, a defined benefit plan with assets held separately from the sponsoring companies. The pension cost is, in respect of the Royal Nedlloyd Scheme, based on a common rate of contribution for each participating employer. However, presently employers enjoy a contribution holiday which is reviewed on an annual basis. Formal valuations are carried out annually by independent external consultants, the latest being at 31 December 1997 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 1997 was NLG2,720m representing 152 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 NLG5,643m, as at 31 December 1997, representing 129 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 Stream 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:

	1998	1997
	$m	$m
Interest receivable	1.8	2.9
Interest payable	(3.0)	(4.7)
Operating costs	(1.7)	2.5
Net balance due (to)/from related parties at year end:		
Unsecured loan	(46.0)	(46.0)
Amounts due (to)/from shareholders	(3.2)	20.6
	(49.2)	(25.4)

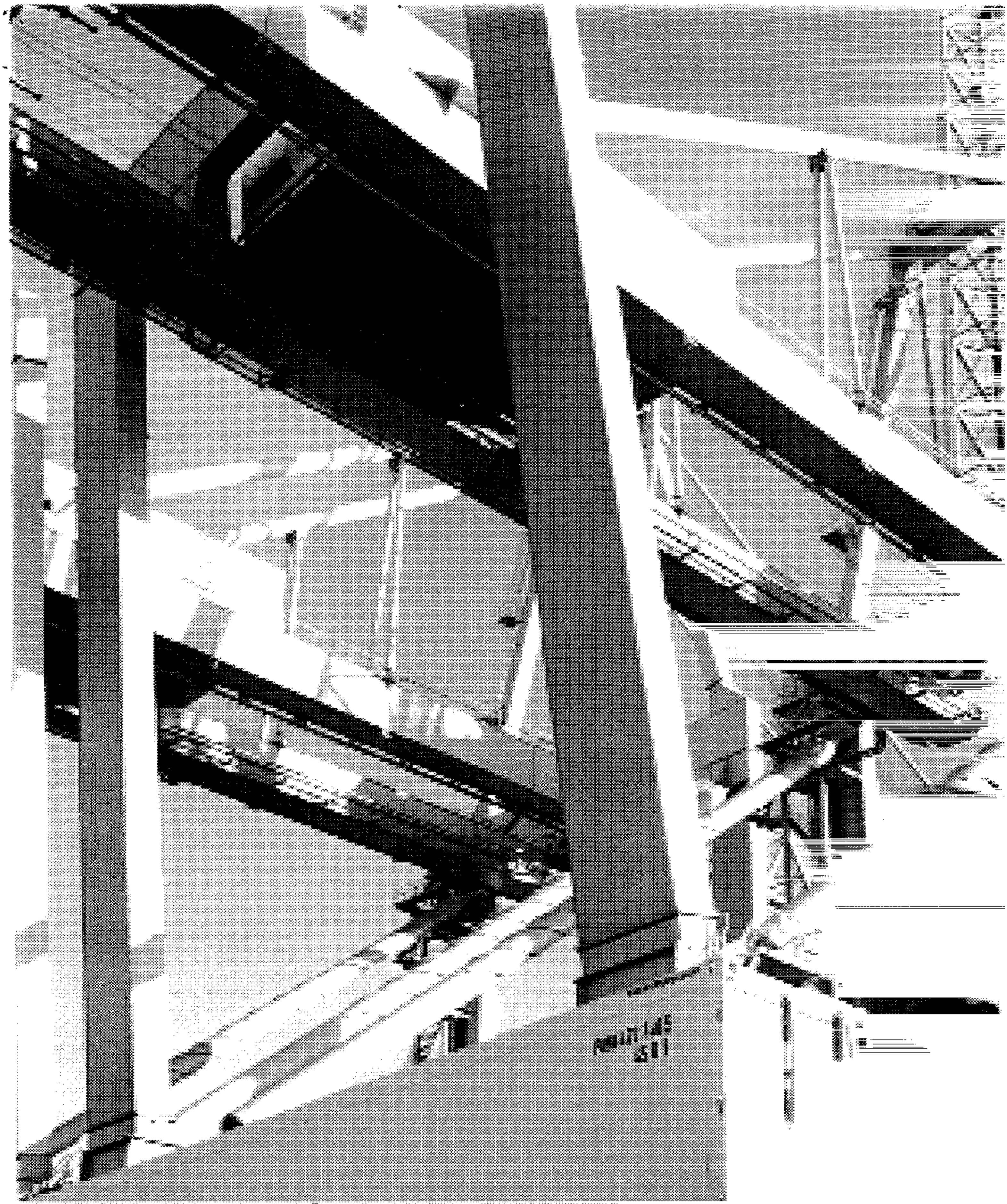
List of vessels

Operated by P&O Nedlloyd as of 31 March 1999

Vessel Name		Year of Building	Dwt	TEU
America Star		1971	27905	1334
Arafura	(74% Owned)	1991	44541	2440
Aramac		1977	49262	3005
Argentine Star		1979	23756	1232
Ariake	(74% Owned)	1976	34346	1968
Australia Star		1981	27893	1214
Berlin Express		1973	32713	2113
City of Capetown		1977	47197	2984
Colombia Star		1980	18250	991
Colombo Bay		1995	59283	4230
Heemskerk		1978	49730	3126
Jervis Bay		1992	59283	4230
Maersk Hakata		1981	30684	2014
Mairangi Bay		1978	38758	2344
Marin		1977	14055	728
Melbourne Star		1971	27905	1334
Nedlloyd Africa		1992	50620	3604
Nedlloyd America		1992	50620	3604
Nedlloyd Asia		1991	50620	3604
Nedlloyd Clarence		1983	38351	2515
Nedlloyd Clement		1983	37581	2470
Nedlloyd Colombo		1982	32841	2179
Nedlloyd Europa		1991	50620	3604
Nedlloyd Hong Kong		1994	55238	4181
Nedlloyd Honshu		1995	55238	4181
Nedlloyd Hoorn		1978	48437	2993
Nedlloyd Oceania		1992	50620	3604
New Zealand Pacific		1978	38757	2344
Newport Bay		1993	59283	4230
Oriental Bay *		1989	59283	4180
P&O Nedlloyd Auckland*		1998	38250	2890
P&O Nedlloyd Brisbane		1985	53726	2686
P&O Nedlloyd Buenos Aires		1984	29930	1779
P&O Nedlloyd Genoa*		1998	38250	2890
P&O Nedlloyd Houston		1983	29730	1779
P&O Nedlloyd Jakarta*		1998	38250	2890
P&O Nedlloyd Kobe*		1998	88669	6690

* = Bareboat charter

P&O Nedlloyd is one of the largest operators with a container fleet numbering 583,000 owned and leased TEUs.



List of vessels

Operated by P&O Nedlloyd as of 31 March 1999

Vessel Name	Year of Building	Dwt	TEU
P&O Nedlloyd Kowloon	1998	88669	6690
P&O Nedlloyd Los Angeles	1980	23678	1548
P&O Nedlloyd Lyttleton	1978	25254	1406
P&O Nedlloyd Marseilles*	1998	38250	2890
P&O Nedlloyd Napier (74% Owned)	1970	23891	1244
P&O Nedlloyd Rotterdam*	1998	88669	6690
P&O Nedlloyd Southampton	1998	88669	6690
P&O Nedlloyd Sydney*	1998	38250	2890
P&O Nedlloyd Tauranga (74% Owned)	1970	23016	1436
P&O Nedlloyd Texas	1972	47442	3043
P&O Nedlloyd Vera Cruz	1984	29730	1779
Palliser Bay	1977	39712	2485
Pegasus Bay	1978	47209	2870
Peninsular Bay	1989	59283	4180
Providence Bay	1994	59283	4230
Queensland Star	1972	28037	1360
Repulse Bay	1992	59283	4230
Resolution Bay	1977	38758	2344
Shenzhen Bay	1994	59283	4230
Singapore Bay	1993	59283	4230
Sydney Express*	1996	7480	592
Sydney Star	1972	27905	1334
Wellington Express*	1996	7480	592
* = Bareboat charter			

Captain Hans Muntjes at the naming of P&O Nedlloyd Auckland.

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