

P&O FINANCE PLC

REGISTERED NUMBER : 718022

DIRECTORS' REPORT AND ACCOUNTS

31 DECEMBER 2002



P&O FINANCE PLC**REPORT OF THE DIRECTORS**

The Directors present their annual report and accounts of the Company for the year ended 31 December 2002.

Principal activity and review of business:

The Company's principal activity is to enter into interest rate swaps, cross currency swaps, foreign currency forward contracts and fuel price swaps on behalf of the P&O Group. The results for the year are set out in the profit and loss account on page 5. The directors do not recommend the payment of a dividend (2001 - £nil).

Directors and directors' interests:

The directors of the Company during the year were:

A F Crowe	(Resigned 30 th January 2003)
R M Gradon	
N J Monteith	(Resigned 31 st May 2002)
S Scott	
P A Walker	(Appointed 31 st May 2002)

According to notifications received by the Company relating to the interests of the directors and their families in the share capital and debentures of group companies, there were the following interests in the stock of The Peninsular and Oriental Steam Navigation Company, the ultimate holding company,:

	Deferred	Stock		Deferred under Granted in year	Stock option Exercised in year	
	2002	2001	2002			2001
PA Walker	1,877	1,877*	89,760	89,760	-	-*
S Scott	60	60	53,196	19,048	-	34,148
A F Crowe	-	-	82,074	-	-	82,074

*at/from date of appointment.

R M Gradon is a director of The Peninsular and Oriental Steam Navigation Company, of which this company is a wholly owned subsidiary. His interests in shares and debentures of group companies and of his awards under the P&O Deferred Bonus and Co-Investment Matching Plan are disclosed in the directors' report of The Peninsular and Oriental Steam Navigation Company.

P&O FINANCE PLC

REPORT OF THE DIRECTORS (Cont'd)

Creditor payment policy

The Company's policy is to pay suppliers in accordance with terms and conditions agreed when the orders are placed or contracts negotiated.

Donations

During the year ended 31 December 2002 the Company contributed £654,199 (2001 - £665,467) for charitable purposes. The Company made no contributions to EU political parties (2001 - £nil).

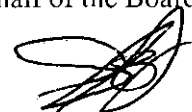
Auditors

Under section 385 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.

79 Pall Mall
London
SW1Y 5EJ

28 July 2003

On behalf of the Board



S. SCOTT
Secretary

P&O FINANCE PLC

DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE PREPARATION OF THE ACCOUNTS

The following statement, which should be read in conjunction with the statement of auditors' responsibilities included in the report of the independent auditors on page 4, is made with a view to distinguishing for shareholders the respective responsibilities of the directors and of the independent auditors in relation to the accounts.

The directors are required by the Companies Act 1985 to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss for the financial year.

In preparing the accounts on pages 5 to 12, the directors are required to select appropriate accounting policies and then apply them consistently, make judgements and estimates that are reasonable and prudent and state whether all accounting standards which they consider to be applicable have been followed. The directors are also required to use a going concern basis in preparing the accounts unless this is inappropriate.

The directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Company and which enable them to ensure that the accounts comply with the Companies Act 1985.

The directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF

P&O FINANCE PLC

We have audited the financial statements on pages 5 to 12.

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 directors' report and, as described on page 3, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the Company is not disclosed.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the 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 the Company's affairs as at 31 December 2002 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

London
28 July 2003



KPMG Audit Plc
Chartered Accountants
Registered Auditor

P&O FINANCE PLC
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2002

	Note	2002 £	2001 £
Administration costs		(654,199)	(665,467)
Operating loss		(654,199)	(665,467)
Interest swaps:			
Third party interest received	32,724,740	52,395,444	
Third party interest paid	(52,484,837)	(63,078,690)	
Exchange gains on currency swaps	681,186	519,216	
Fuel price swaps:			
Fuel price swap gains	3,364,323	692,232	
Fuel price swap losses	(3,360,773)	(692,421)	
Net interest and similar items		(19,075,361)	(10,164,219)
Loss on ordinary activities before taxation	2	(19,729,560)	(10,829,686)
Tax on loss on ordinary activities	3	5,127,000	3,346,543
Loss for the financial year		(14,602,560)	(7,483,143)
Profit and loss account brought forward		(8,732,716)	(1,249,573)
Profit and loss account carried forward		(23,335,276)	(8,732,716)

All the above transactions relate to continuing business activities.

The Company had no recognised gains or losses other than those detailed above.

P&O FINANCE PLCBALANCE SHEET AT 31 DECEMBER 2002

	Note	2002 £	2001 £
Current assets			
Debtors	4	16,064,944	11,301,965
Creditors: amounts falling due within one year	5	(35,400,220)	(16,034,681)
		<hr/>	<hr/>
Net current liabilities and net liabilities		(19,335,276)	(4,732,716)
		<hr/>	<hr/>
Capital and reserves			
Called up share capital	6	4,000,000	4,000,000
Profit and loss account		(23,335,276)	(8,732,716)
		<hr/>	<hr/>
Equity shareholders' deficit		(19,335,276)	(4,732,716)
		<hr/>	<hr/>

The financial statements were approved by the Board on 28 July 2003 and were signed on its behalf by P A Walker.



P A WALKER
Director

P&O FINANCE PLCRECONCILIATION OF MOVEMENTS IN SHAREHOLDERS'
FUNDS FOR THE YEAR ENDED 31 DECEMBER 2002

	Year ended 31 Dec 2002 £	Year ended 31 Dec 2001 £
Total recognised gains and losses for the financial year	(14,602,560)	(7,483,143)
Shareholders' (deficit)/funds at the beginning of the year	(4,732,716)	2,750,427
	<hr/>	<hr/>
Shareholders' deficit at the end of the year	(19,355,276)	(4,732,716)
	<hr/>	<hr/>

P&O FINANCE PLC**NOTES TO THE ACCOUNTS AT 31 DECEMBER 2002****1 Accounting policies***Basis of preparation of accounts*

The accounts have been prepared on the historical cost basis and in accordance with the Companies Act 1985.

The accounts have been prepared in accordance with applicable United Kingdom accounting standards, including Financial Reporting Standard 19 (Deferred tax), which has been adopted for the first time in these accounts. No prior year adjustment has resulted from the adoption of this standard.

The financial statements have been prepared on a going concern basis as the parent company has undertaken to provide the Company with sufficient funds as are necessary for it to meet its liabilities as they fall due, for at least the next 12 months. The directors have no reason to believe that the parent company will not be in a position to provide the support referred to above and, accordingly they have prepared the financial statements on the going concern basis.

As the Company is a wholly owned subsidiary of the Peninsular and Oriental Steam Navigation Company, the Company has taken advantage of the exemption contained in FRS8 and has therefore not disclosed transactions or balances with entities which form part of the Group or investees of the Group qualifying as related parties.

Under Financial Reporting Standard 1 (revised 1996), the Company is exempt from the requirement to prepare a cash flow statement as it is a wholly owned subsidiary undertaking of a parent undertaking which has produced a group cash flow statement in accordance with the provisions of the standard.

The Company is a wholly owned subsidiary of The Peninsular and Oriental Steam Navigation Company and as a reporting entity with no capital instruments that are listed or publicly traded is not required to make disclosures under Financial Reporting Standard 13.

Interest swaps

Gross amounts payable and receivable in respect of interest rate swaps are recognised in the profit and loss account over the period of the contracts.

Cross currency swaps

Exchange gains and losses in respect of cross currency swaps are recognised in the profit and loss account as payment falls due.

Fuel price swaps

The Company enters into fuel price swaps on behalf of other group companies. Back to back arrangements with group companies are established for each third party contract. The gains and losses on each fuel price swap are recognised in the profit and loss account as payment falls due.

Foreign currency forward contracts

The Company enters into foreign currency forward contracts on behalf of other group companies. Gains or losses on forwards are recognised when the currency contracts mature.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the contracted rate or the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Deferred taxation

Deferred tax is recognised without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet dates except as otherwise required by Financial Reporting Standard 19 (Deferred tax).

P&O FINANCE PLC**NOTES TO THE ACCOUNTS AT 31 DECEMBER 2002 (cont'd)****2 Profit and loss account**

- (a) The basis of charging intra group interest is agreed between the parties from time to time.
- (b) The directors do not receive any remuneration for their services to the Company; their emoluments for work within the group are paid by other group companies and are dealt with in the accounts of those companies (2001 - £nil).
- (c) The Company had no employees during the year (2001 - none).
- (d) Auditors' remuneration is dealt with on a group basis and no amount has been specifically recharged to this Company (2001 - £nil).

3 Taxation

Taxation on ordinary activities is made up as follows:

	2002 £	2001 £
UK Corporation tax credit at 30%		
Current year	5,127,000	3,332,000
Adjustment in respect of prior years	-	14,543
	<hr/>	<hr/>
	5,127,000	3,346,543
	<hr/>	<hr/>

The current taxation credit is lower than (2001 higher than) the standard rate of corporation tax in the UK of 30% (2001 30%). The differences are explained below.

	2002 £	2001 £
Loss on ordinary activities before taxation	(19,729,560)	(10,829,686)
	<hr/>	<hr/>
Loss on ordinary activities before taxation multiplied by standard rate of corporation tax in the UK of 30% (2001 30%)	(5,918,868)	(3,248,906)
Effects of:		
UK expenses not deductible/(income not taxable) and other UK permanent adjustments	791,868	(83,094)
Adjustments in respect of prior years	-	(14,543)
	<hr/>	<hr/>
Current taxation credit for the period	(5,127,000)	(3,346,543)
	<hr/>	<hr/>

P&O FINANCE PLC**NOTES TO THE ACCOUNTS AT 31 DECEMBER 2002 (cont'd)****4 Debtors**

	2002 £	2001 £
Taxation	8,668,219	3,541,219
Other debtors and prepayments	7,396,725	7,760,746
	<hr/>	<hr/>
	16,064,944	11,301,965
	<hr/>	<hr/>

5 Creditors: amounts falling due within one year

	2002 £	2001 £
Amounts owed to fellow subsidiaries	23,065,228	4,628,519
Taxation	22,500	22,500
Other creditors and accruals	12,312,492	11,383,662
	<hr/>	<hr/>
	35,400,220	16,034,681
	<hr/>	<hr/>

6 Called up share capital

As at 31 December 2002 and 2001:

	Authorised	Allotted, called up and fully paid
Ordinary shares of 25p each	£10,000,000	£4,000,000
	<hr/>	<hr/>
Number of shares	40,000,000	16,000,000
	<hr/>	<hr/>

P&O FINANCE PLC**NOTES TO THE ACCOUNTS AT 31 DECEMBER 2002 (cont'd)****7 Future commitments**

The Company has entered into interest rate swap transactions in respect of group US dollar, Australian dollar, euro and sterling loans. At the year end, the Company had entered into interest rate swaps until 2014 in respect of the following principal amounts:

	2002 Fixed £m	2002 variable £m	2001 fixed £m	2001 variable £m
Third party sterling	387.3	18.0	305.5	36.0
	=====	=====	=====	=====
	US\$m	US\$m	US\$m	US\$m
Third party US dollar	405.0	-	342.7	-
	=====	=====	=====	=====
	AUS\$m	AUS\$m	AUS\$m	AUS\$m
Third party Australian dollar	245.0	-	70.0	-
	=====	=====	=====	=====
	€m	€m	€m	€m
Third party euro	204.5	204.5	204.5	204.5
	=====	=====	=====	=====
	HK\$m	HK\$m	HK\$m	HK\$m
Third party Hong Kong dollar	468.0	-	-	-
	=====	=====	=====	=====

In addition the Company has exposure to currency swaps and forward contracts to manage currency exposures within the P&O Group.

8 Related party transactions

During the year and as at 31 December 2002 the Company was party to interest rate swap agreements for a nominal value of €204.5m (2001 €204.5m), expiring in 2004, with the HTC Hanseatic Trade Center GmbH & Co. Grundbesitz KG, an associate of the Company's ultimate holding company. During the year amounts totalling €699,428 (2001 €2,074,926) were accrued to HTC in the year in respect of these transactions. At 31 December 2002 €210,905 (2001 €25,996) was receivable from HTC.

The Company has outstanding forward foreign exchange contracts with Associated Bulk Carriers (London) Ltd, an associate of the Company's ultimate holding company. During the year £273,429 (2001 £377,073) was received in respect of these transactions.

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NOTES TO THE ACCOUNTS AT 31 DECEMBER 2002 (cont'd)

9 Ultimate holding company

The Company's ultimate holding company is The Peninsular and Oriental Steam Navigation Company, incorporated by Royal Charter in Great Britain and therefore not registered. Its accounts are available to the public from the Registrar of Companies, Companies House, Crown Way, Cardiff, CF4 3UZ.