P&O Nedlloyd Container Line Limited

Annual report and accounts

31 December 2001

Registered number 3279820

Contents

P&O Nedlloyd Container Line, the premier global shipping line and international logistics provider, is a 50:50 joint venture between Peninsular and Oriental Steam Navigation Company and Royal Nedlloyd NV. P&O Nedlloyd is the world's second largest container shipping company by capacity operating with 148 vessels, totalling 386,000 teu. P&O Nedlloyd's global liner network offers 76 routes and 249 direct call ports. Since its formation in December 1996, P&O Nedlloyd has increased its volume by over 40 percent and continues to build solidly for the future.

Financial Highlights

	2001	2000
Throughputs (Teus '000)	*3,183.9*	*3,040.0*
Average Freight Revenue (US$ per Teu)	1,298	1,355
Results	**$m**	**$m**
Group turnover	4,711.6	4,505.8
Total operating profit	87.6	200.7
Net interest payable and similar items	(54.8)	(62.0)
Profit before tax	32.8	138.7
Profit after tax	22.2	127.9
Statistics	**Teus '000**	**Teus '000**
Europe/Asia	1,069.1	1,081.1
North/South & Cross Trades	1,169.9	1,085.0
North America	944.9	873.9
Total	3,183.9	3,040.0
Summary group balance sheet	**$m**	**$m**
Fixed Assets	2,216.5	2,241.1
Net working capital	31.8	25.7
Total	2,248.3	2,266.8
Equity shareholder funds	1,515.9	1,496.9
Equity minority interest	17.5	19.5
Borrowings	714.9	750.4
Total	2,248.3	2,266.8

Chairmen's Statement

In 2001 P&O Nedlloyd achieved an operating profit of $87 million, compared with a profit of $201 million in the previous year.

During the second half of last year, conditions in the industry deteriorated significantly. The slowdown in world trade growth, coupled with substantial increases in industry capacity have had a negative effect on revenue rates. Although there is more optimism now about the prospects for economic growth, and tentative signs on some trades that revenue rates may have bottomed out, the industry is expected to remain under pressure.

P&O Nedlloyd has shown considerable resilience and flexibility in its approach to these difficult conditions and has been building a successful track record in cost leadership. Annualised savings in 2001 topped $200 million, well ahead of the target. A major expansion and acceleration of those cost savings programmes is now under way, designed to yield $350 million per annum by the end of 2003, $150 million more than previously announced.

The benefits from these programmes are expected to be significant, boosting the company's competitive edge when economic conditions improve.

Much of the credit for P&O Nedlloyd's cost leadership achievements goes to the company's staff throughout the world. We thank them for their hard work during the past year.

The Lord Sterling of Plaistow CBE *LJM Berndsen*

Joint Chairmen

27 March 2002

Directors' Review

Strategy & Priorities

P&O Nedlloyd's strategy is to build on its global business, enhancing its back-office and management systems to achieve improved efficiency and cost-control, while at the same time offering improved products and quality for its customers.

During 2001 achievements included:

- Exceeding the $182 million annualised cost reduction target planned for late 2001;
- Significant broadening of the value added logistics service network in the regions;
- Major progress in respect of E-Commerce, including the operational launch of the new "INTTRA" portal;
- Completion of our new Atlantic-Mediterranean network, following the purchase of Farrell Lines the previous year;
- Substantial improvements in P&O Nedlloyd's shipping services linking Asia with South America, Africa and Middle East Gulf.

In 2002 priorities will be similar. A new target has been set for annualised cost reductions of $350 million by end 2003. At the same time implementation of stages 3 and 4 of P&O Nedlloyd's "Focus" programme to improve internal processing systems will commence. E-Connectivity and the INTTRA portal will continue to be developed. During the course of the year we shall also be replacing the older, now inefficient tonnage on our Europe/US East Coast Australia/New Zealand services, initiating a completely new network for these routes. At the same time, we will significantly enhance our business in refrigerated containers. Building for the future in this way, we expect to improve not only our products and services but also the cost-efficiency of our business.

Important Developments

Overall Trading

In 2001, many liner trades saw slow or no growth in contrast to previous years. A common feature was the way in which demand for electronic goods and other equipment related to information technology fell to low levels.

The 11th September terrorist outrage had little immediate effect on commercial shipping freight movements, but it fostered a mood of uncertainty and pessimism about the future. One direct development was an increase in insurance costs for shipping lines.

With the slow growth in trade, the optimistic building programmes of other liner companies have had an adverse effect on supply-demand relationships in all markets.

Despite these adverse factors, P&O Nedlloyd achieved an operating profit for 2001 of $87 million, with an overall growth in cargo liftings of 4.7 per cent. However a high proportion of this result was achieved in the first half of the year since when the trend has been downward.

Revenue and Costs

Average revenue in 2001 was $1,298 per teu ($1,355 in 2000). However in the last quarter average revenue was $1,209 per teu.

In the Asia Europe trade, revenue per teu in 2001 fell some 9 per cent against the 2000 level.

With falling costs for short-term chartered vessels and other bought in services, as well as P&O Nedlloyd's programme of internal cost savings, overall unit costs per teu were below 2000 levels, although the reduction was constrained by lower asset utilisation.

Significant Developments

1. INTTRA, the industry internet portal backed by 13 leading carriers and forwarders, and in which P&O Nedlloyd is a major shareholder, went live in 2001. It has achieved a leading position among global portals for customers for ocean based freight services (see page 6). Meanwhile P&O Nedlloyd has continued to develop its own E-Commerce range of web based facilities such as enhanced track and trace, while implementing further stages of its internal systems improvement programme.

2. P&O Nedlloyd's global Value Added/Logistics services available to customers.

3. During 2001 P&O Nedlloyd ordered 23,000 teus of reefer containers for 2002 delivery, with the principal purpose of updating the refrigeration system used in the Europe – Australia/New Zealand – East Coast North America trades.

4. P&O Nedlloyd was chosen as "Company of the Year" by the influential *Containerisation International* magazine, which cited our innovative programme of modernisation and service improvement for customers.

Regulatory Scene

The European Commission has given indications it will approve the latest version of the Trans Atlantic Conference Agreement, though this decision is still subject to some consultation processes. The appeal process against its ruling on an earlier agreement in the same trade is continuing; the three conference cases recently decided by the Court of First Instance in Luxembourg have no direct bearing on the fines levied in relation to that earlier agreement.

We will continue our policy of working in conference systems where they are perceived to be beneficial to the trade.

Internal Control

P&O Nedlloyd maintains systems of internal control designed to safeguard the group's assets against unauthorised use or disposition, to keep proper accounting records and to communicate reliable financial information for internal use or publication. 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 these systems 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 a 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;
- Corporate Reviews, using a system of divisional peer review, controlled by Head Office, with documented conclusions and recommendations. These are confirmed at local/regional management level before being reported to the Board by the audit committee.

Outlook

The current slowdown in world trade and the excess of supply over demand is expected to reduce revenues across the industry in the first half of 2002.

Although there is more optimism now about the prospects for economic growth than earlier this year, it is too soon to be specific.

The beneficial impact of the major new cost savings will to some extent cushion P&O Nedlloyd in the current adverse market conditions and ensure that it is well placed to benefit from the upturn in due course.

Management of change

Introduction

P&O Nedlloyd offers port to port and door to door liner services linking virtually all parts of the globe. In addition it provides high quality logistics and supply chain management services on an optional basis. P&O Nedlloyd's product is being constantly adapted and kept up to date, through the process of continuous improvement and change. At the same time, in a highly competitive industry, P&O Nedlloyd is striving to improve efficiency and minimise cost, by providing its managers with the best available systems through which to manage the business.

Cost savings

P&O Nedlloyd's cost savings programme for 2000 targeted $182 million on an annualised basis and the actual savings exceeded this target. Major initiatives included the introduction of shared service centres in China and Australia, and the relocation of many information technology and support functions to India. At the same time improvements in our asset management and procurement activities produced further significant savings.

A new target of $350 million annualised savings by end 2003 will involve the management of a considerable further programme of change. This will include the implementation of several planned improvements to internal systems ("Focus" programme), plus procurement and strategic operations, the move of back office operations to shared service centres and the loss of 1,000 non-seafaring jobs.

E-Commerce

P&O Nedlloyd's e-business vision, *"A totally e-enabled company with seamless open, connectivity to all its business partners, covering all transaction types"* was brought closer in 2001 by:

- Further enhancement of www.PONL.com with enhanced Track & Trace capability, on-line booking and bill registration;
- Active participation in INTTRA, (see below)
- A procurement auction programme with Freemarkets;
- A surge in EDI connections with inland suppliers accompanying the roll-out of new internal systems.

We intend to undertake many more e-business initiatives in the coming years.

INTTRA

As a founder member of the liner shipping industry's first Internet portal, P&O Nedlloyd has been closely involved in the swift development of INTTRA throughout 2001, and this will continue into the future. Through INTTRA, registered customers can view the schedules of any of the member lines, make bookings with any of those lines, view details of their bookings and track the progress of their shipments as they are carried across the world.

INTTRA was formally launched in October 2001 and by the end of the year had already registered over 2,200 users and assisted them in managing more than 82,000 bookings covering 134,000 containers. By the end of 2001, INTTRA supported transactions with 13 ocean carriers, including P&O Nedlloyd, covering about 40 per cent of the worldwide market.

In 2002 INTTRA will build additional functionality enhancing the transactional possibilities between customer and ocean carrier, and will continue to be fully supported by P&O Nedlloyd in growing further from this successful beginning.

Logistics

In 2001 our Value Added Services portfolio has been extended to all continents. The business of Value Added Services has grown as a result of the need from our customers to be able to manage their overseas supply chains and to optimise them in addition to their container transportation.

P&O Nedlloyd has continued to invest in people, systems and skills in this area and our growth ambitions in this field remain high. We intend to become one of the dominant players in the next five years. Our core competencies are management and optimisation of overseas supply chains by means of purchase order management, vendor management, provision of supply chain visibility at stock keeping unit level and providing freight management.

The logistics market is still strong, because of the increasing trend for outsourcing and supply chain optimisation, a consequence of cost cutting programmes and a requirement for increased flexibility.

Cargo Care

P&O Nedlloyd provides its customers with expert cargo care advice via the Container Management Technical Department and its global network of trained specialists.

Terminals

P&O Nedlloyd is developing a range of terminal opportunities to enhance our service reliability and provide us with control of terminal costs and capacity in key strategic locations in our liner network.

2001 saw some key developments including:

- The refurbishment and expansion of the Port Newark Container Terminal in Port Elizabeth, New Jersey, resulting in a 1 million teus facility operated in a 50:50 joint venture with P&O Ports;
- Refurbishment of the SAGT facility in Colombo, where P&O Nedlloyd has a 10 per cent share, running a 500,000 teu facility;
- Establishment of the project management team for the Euromax Terminal in Rotterdam, a 2.4 million teu facility under development on a 50:50 joint venture basis with ECT.

Fleet Management

Within Fleet Management in 2001, we have seen:

- Further cost reduction in daily operating expenses;
- Successful delivery of four 6,800 teu ships (see page 38);
- Completion of a new fleet management system (Danaos).

By the end of 2001 the P&O Nedlloyd total operated fleet, including chartered vessels, consisted of 148 ships with a total capacity of about 386,000 teu. In 2001 we also took delivery of seven 2,500 teu and three 3,400 teu long term charters.

In 2002 we will take delivery of seven specialist reefer 4,100 teu ships, which will be employed in a new Europe - Australia / New Zealand – East Coast North America service.

International Container Management

P&O Nedlloyd introduced an additional 65,000 teu with a value of $130 million to the container fleet in 2001. These new containers, consisting of 20′and 40′General Purpose containers and 3,000 40' high cube integral reefer containers, replaced expensive leases, expired leases and old containers. All the container fleets are managed on a fully integrated, multi trade basis, to maximise the benefits of our scale and global liner network.

Our Markets

Network Review

As the second largest container operator, P&O Nedlloyd is a market leader in the Asia-Europe trade and has a leading position in the Trans-Atlantic and Trans-Pacific trades. In the North/South and Cross trades it has the widest range of routes of any in the industry. P&O Nedlloyd is also a major carrier of refrigerated cargoes worldwide. In order to maintain this position, P&O Nedlloyd is continuously improving its routes and regional facilities.

Five Year Financial Record

Group profit and loss summary for the years ended 31 December

	2001 $m	2000 $m	1999 $m	1998 $m	1997 $m
Group turnover	4,711.6	4,505.8	4,048.2	3,939.9	3,839.3
Operating profit					
Before merger reorganisation and remanning costs	89.2	201.0	6.9	81.7	72.1
Merger reorganisation and remanning costs	-	-	-	(10.6)	(103.9)
Group operating profit/(loss)	89.2	201.0	6.9	71.1	(31.8)
Share of operating results: joint ventures	(1.4)	(1.5)	-	-	-
associates	(0.2)	1.2	(0.1)	(1.5)	1.8
(Loss)/profit on sale of fixed assets	-	-	-	(13.7)	0.3
Profit/(loss) before interest	87.6	200.7	6.8	55.9	(29.7)
Net interest payable and similar items	(54.8)	(62.0)	(60.0)	(56.9)	(40.4)
Profit/(loss) before tax	32.8	138.7	(53.2)	(1.0)	(70.1)
Taxation	(10.6)	(10.8)	(8.3)	(10.8)	(9.3)
Equity minority interest	(1.4)	1.1	1.3	(2.0)	(3.3)
Profit/(loss) for the financial year	20.8	129.0	(60.2)	(13.8)	(82.7)

Group balance sheet summary at 31 December

	2001 $m	2000 $m	1999 $m	1998 $m	1997 $m
Fixed assets	2,216.5	2,241.1	2,296.8	2,318.6	2,217.1
Net working capital	31.8	25.7	(27.5)	7.2	(52.1)
Borrowings	(714.9)	(750.4)	(878.0)	(870.3)	(699.1)
Equity minority interests	(17.5)	(19.5)	(20.7)	(21.8)	(20.1)
Shareholders funds	1,515.9	1,496.9	1,370.6	1,433.7	1,445.8

Group cash flow summary for the years ended 31 December

	2001 $m	2000 $m	1999 $m	1998 $m	1997 $m
Net cash flows after interest and tax	288.6	299.7	160.6	117.7	72.5
Purchase of fixed assets and investments	(198.9)	(117.0)	(160.4)	(283.9)	(168.6)
Sale of fixed assets and investments	33.0	21.7	85.1	310.8	117.0
Purchase of businesses	1.5	(20.6)	(2.0)	(66.1)	-
Net cash inflow before financing	124.2	183.8	83.3	78.5	20.9

Board of P&O Nedlloyd Container Line Ltd

The Lord Sterling of Plaistow	Co-Chairman
LJM Berndsen	Co-Chairman
Sir Bruce MacPhail	Non-Executive Director
N Kroes	Non-Executive Director
HH Meijer	Chairman Executive Committee
RB Woods	Group Managing Director
RPM van Slobbe	Director
BMV Williams	Director
GR Cheeseman	Company Secretary

Executive Committee

HH Meijer	Chairman Executive Committee
RB Woods	Group Managing Director
RPM van Slobbe	Director
BMV Williams	Director
GP Samuel	Secretary to Excom

Report of the Directors

1. The directors present their report and accounts for the year ended 31 December 2001.

2. Results

The results of the group are set out in detail on pages 14 to 17 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 2001 *(2000: $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 2 to 9.

5. Directors

The directors of the company during the year were:

The Lord Sterling of Plaistow
L.J.M. Berndsen
V.L.Bijvoets
Sir Bruce MacPhail
H.H.Meijer
R.P.M. van Slobbe
B.M.V.Williams
R.B.Woods

Mr V L Bijvoets resigned as a director on 1 January 2002 and Mrs N Kroes was appointed a director on the same date.

6. Director's 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;

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

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

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

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

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

8. Donations

During the year ended 31 December 2001 the group contributed $4,500 *(2000: $3,000)* 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. 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 30 days' purchases outstanding at 31 December 2001 (excluding accruals).

10. Implications of the euro

The group, which has extensive overseas operations and considerable experience of dealing in a multi-currency environment, has assessed the business effect of the introduction of the euro. Where appropriate staff have been re-trained and computer systems suitably tested and modified. The group has not incurred any significant additional costs.

11. 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

27 March 2002

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.

KPMG

KPMG Audit Plc

PO Box 695
8 Salisbury Square
London
EC4Y 8BB

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

We have audited the accounts on pages 14 to 37.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 12, 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 2001 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

27 March 2002

Group profit and loss account

for the year ended 31 December 2001

	Note	**2001 $m**	2000 $m
Turnover: group and share of joint ventures		4,743.9	4,511.9
Less: share of joint ventures' turnover		(32.3)	(6.1)
Group turnover	*2*	4,711.6	4,505.8
Net operating costs	*3*	(4,622.4)	(4,304.8)
Group operating profit		89.2	201.0
Share of operating results of: joint ventures		(1.4)	(1.5)
associates		(0.2)	1.2
Total operating profit: Group and shares of joint ventures and associates		87.6	200.7
Net interest payable and similar items	*6*	(54.8)	(62.0)
Profit on ordinary activities before taxation		32.8	138.7
Tax on profit on ordinary activities	*7*	(10.6)	(10.8)
Profit on ordinary activities after taxation		22.2	127.9
Equity minority interests	*16*	(1.4)	1.1
Retained profit for the financial year transferred to reserves	*18*	20.8	129.0

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 2001

	Note	Group		Company	
		2001	2000	**2001**	2000
		$m	$m	**$m**	$m
Fixed assets					
Intangible assets	*8*	34.7	45.3	-	-
Tangible assets	*9*	2,128.2	2,175.4	-	-
Investments:	*10*				
Subsidiaries		-	-	972.4	972.4
Joint ventures					
Share of gross assets		48.1	12.8	-	-
Share of gross liabilities		(25.9)	(5.8)	-	-
		22.2	7.0	-	-
Associates		23.9	7.5	-	-
Trade investments		7.5	5.9	-	-
		53.6	20.4	972.4	972.4
		2,216.5	2,241.1	972.4	972.4
Current assets					
Stocks and work in progress	*11*	219.4	232.4	-	-
Debtors	*12*	769.5	811.0	566.2	592.2
Cash and short term deposits		68.1	64.3	-	-
		1,057.0	1,107.7	566.2	592.2
Creditors: amounts falling due within one year	*13*	(1,216.8)	(1,231.8)	-	(25.1)
Net current (liabilities)/assets		(159.8)	(124.1)	566.2	567.1
Total assets less current liabilities		2,056.7	2,117.0	1,538.6	1,539.5
Creditors: amounts falling due after more than one year	*14*	498.0	569.9	-	-
Provisions for liabilities and charges	*15*	25.3	30.7	-	-
Equity minority interests	*16*	17.5	19.5	-	-
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*	(28.9)	(47.9)	(6.2)	(5.3)
Equity shareholders' funds		1,515.9	1,496.9	1,538.6	1,539.5
		2,056.7	2,117.0	1,538.6	1,539.5

These accounts were approved by the board of directors on 27 March 2002 and were signed on its behalf by:

H H Meijer

R B Woods

Group cash flow statement

for the year ended 31 December 2001

	Note	2001		2000	
		$	$m	$m	$m
Net cash inflow from operating activities	19 (a)		360.1		375.3
Dividends from joint ventures and associates			0.7		0.7
Returns on investments and servicing of finance					
Interest received		6.3		4.1	
Interest paid		(27.7)		(40.5)	
Finance lease interest paid		(37.5)		(31.5)	
Dividends paid to minority interests		(3.8)		-	
Net cash outflow from returns on investment and servicing of finance			(62.7)		(67.9)
Taxation			(9.5)		(8.4)
Capital expenditure and financial investment					
Purchase of fixed assets		(162.1)		(108.4)	
Purchase of investments		(36.8)		(8.6)	
Sale of fixed assets and investments		33.0		21.7	
Net cash outflow for capital expenditure and financial investment			(165.9)		(95.3)
Acquisitions					
Purchase of businesses	10(d)	(0.6)		(20.8)	
Net cash acquired		2.1		0.2	
Net cash inflow/(outflow) for acquisitions			1.5		(20.6)
Net cash inflow before financing			124.2		183.8
Financing					
Loan drawdown		60.9		13.1	
Loan repayment		(146.0)		(205.5)	
Finance lease capital payments		(41.0)		(25.0)	
Net cash outflow from financing			(126.1)		(217.4)
Decrease in cash in the period	19 (b)		(1.9)		(33.6)

Statement of group total recognised gains and losses

for the year ended 31 December 2001

	2001 **$m**	2000 $m
Profit for the financial year attributable to shareholders	20.8	129.0
Currency translation – average to closing	(0.1)	(0.4)
Currency translation differences on foreign currency investments	(1.7)	(2.3)
Total recognised gains and (losses) for the financial year	19.0	126.3

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 2001

	Group		Company	
	2001 **$m**	2000 $m	**2001** **$m**	2000 $m
Total recognised gains and (losses) for the financial year	19.0	126.3	(0.9)	(1.7)
Equity shareholders' funds at beginning of the year	1,496.9	1,370.6	1,539.5	1,541.2
Equity shareholders' funds at the end of the year	1,515.9	1,496.9	1,538.6	1,539.5

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 adopted Financial Reporting Standard 17 "Retirement Benefits" and complied with the transitional disclosure requirements of the standard. The group has also adopted during the year the requirements of Financial Reporting Standard 18 "Accounting Policies".

(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.)

(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 2001 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% to 50% 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 FRS 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 (including any associated costs) given 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 2001 the US dollar: sterling exchange rate was 1:0.69 *(2000: 1:0.67)*. 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.

Notes to the accounts *(continued)*

1. Accounting policies *(continued)*

(g) Fixed assets

I) The 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
- Software - 5 - 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) 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.

Notes to the accounts *(continued)*

1 Accounting policies *(continued)*

(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:	2001		2000	
	Origin	Destination	Origin	Destination
	$m	$m	$m	$m
Continuing operations				
UK and the Republic of Ireland	330.9	525.7	331.7	532.4
Continental Europe	1,045.2	1,012.4	991.5	1,225.5
USA and Canada	450.7	873.1	419.2	801.5
Australasia and Pacific	410.5	360.5	369.4	350.4
Far east and Asia	1,849.9	820.6	1,918.9	688.3
Other areas mainly Latin America and Africa	624.4	1,119.3	475.1	907.7
	4,711.6	4,711.6	4,505.8	4,505.8

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

	2001	2000
	$m	$m
Continuing operations:		
Cost of sales	4,005.7	3,699.2
Administration expenses	616.7	605.6
	4,622.4	4,304.8
Net operating costs include:		
Depreciation of tangible fixed assets:		
Owned assets	209.2	187.5
Leased assets	53.8	44.9
	263.0	232.4
Amortisation of goodwill	10.9	5.9
Hire of ships	485.7	336.2
Hire of plant and machinery	148.5	120.8
Loss on sale of fixed assets	0.3	0.8
Property rentals	33.4	27.5
Foreign currency gains on borrowings and deposits	(3.9)	(5.5)
Auditor's remuneration:		
- Group	2.0	2.3
- Company	-	-
Other fees paid to auditors and their associates	0.3	1.5

4. Employee information

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

	2001	2000
In the United Kingdom	1,805	1,824
Overseas	7,048	6,897
Sea Staff	1,804	1,643
	10,657	10,364

Employment costs – all employees including executive directors:

	2001	2000
	$m	$m
Aggregate gross wages and salaries	347.4	343.6
Employers' national insurance contributions, or foreign equivalents	26.4	27.4
Employers' pension contributions (note 23)	31.6	20.2
Total direct cost of employment	405.4	391.2

Notes to the accounts *(continued)*

5. Remuneration of directors

	2001	2000
	$'000	$'000
Directors' emoluments	1,782	2,014

Directors' emoluments include $591,000 *(2000:$913,279)* paid to third parties in respect of directors' services.

	2001	2000
	Number	Number
Retirement benefits are accruing to the following number of executive directors under:		
Defined benefit schemes	4	4

The emoluments of the highest paid director were $588,840 *(2000:$638,883)*.He is a member of a defined benefit scheme under which his accrued pension at year end was $182,171 *(2000: $276,937)*.

6. Net interest payable and similar items

	2001	2000
	$m	$m
Bank loans and overdrafts	(21.6)	(37.0)
Interest element of finance leases and similar arrangements	(37.5)	(27.0)
Other loans	(1.4)	(2.1)
Interest payable and similar charges	(60.5)	(66.1)
Interest receivable and similar items	5.7	4.1
	(54.8)	(62.0)

7. Tax on profit on ordinary activities

	2001	2000
	$m	$m
This comprises		
United Kingdom corporation tax		
Current year at 30% (2000: 30%)	(2.1)	0.2
Deferred tax charge	-	(0.2)
Overseas taxation		
Current year	(8.4)	(10.7)
Share of associates' tax	(0.1)	(0.1)
	(10.6)	(10.8)

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

Notes to the accounts *(continued)*

8. Intangible fixed assets

Group	Goodwill
	$m
Cost	
At 1 January 2001	54.4
Additions	0.3
At 31 December 2001	54.7
Amortisation	
At 1 January 2001	(9.1)
Charge for the year	(10.9)
At 31 December 2001	(20.0)
Net book value	
At 31 December 2001	34.7
Net book value	
At 31 December 2000	45.3

The amortisation period is considered separately for each individual acquisition. Goodwill arising on acquisitions to date is being amortised over a period of 5 years. This period represents the estimated remaining useful life of the major revenue earning assets or trades acquired. Refer to Note 10 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 2001	33.0	18.8	1,347.5	396.0	823.9	295.0	2,914.2
Exchange adjustment	(0.4)	(0.3)	-	-	(0.8)	(0.5)	(2.0)
Additions	3.7	6.7	8.7	59.8	142.5	27.5	248.9
Acquisition of subsidiaries	-	-	-	-	0.2	-	0.2
Disposals	(0.5)	(0.6)	(31.5)	(2.9)	(18.0)	(3.9)	(57.4)
Reclassification	0.2	0.2	(22.5)	22.5	5.0	(3.6)	1.8
At 31 December 2001	36.0	24.8	1,302.2	475.4	952.8	314.5	3,105.7
Depreciation							
At 1 January 2001	(1.2)	(3.1)	(301.5)	(60.0)	(314.6)	(58.4)	(738.8)
Exchange adjustment	0.2	-	-	-	0.6	0.1	0.9
Charged for year	(1.6)	(1.6)	(93.6)	(25.1)	(112.4)	(28.7)	(263.0)
Disposals	-	-	17.6	2.9	4.1	0.6	25.2
Reclassification	-	(0.4)	15.0	(15.0)	(4.0)	2.6	(1.8)
At 31 December 2001	(2.6)	(5.1)	(362.5)	(97.2)	(426.3)	(83.8)	(977.5)
Net book value							
At 31 December 2001	33.4	19.7	939.7	378.2	526.5	230.7	2,128.2
Net book value							
At 31 December 2000	31.8	15.7	1,046.0	336.0	509.3	236.6	2,175.4

	2001	200
The net book value of leasehold land and buildings comprises:	**$m**	$
Long leases	18.2	14.5
Short leases	1.5	1.2
	19.7	15.7

a) Ships under construction included in the above totalled $3.1m *(2000 :$16.1m)* all of which appears under owned ships *(2000 $1.5m owned, $14.6m leased)*.

b) The cost of ships shown above includes $3.7m *(2000: $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:-

	2001	2000
	$m	$m
Containers	479.8	500.8
Computer equipment and software	218.9	182.8
Other assets	58.5	62.3
	757.2	745.9

Notes to the accounts *(continued)*

10. Fixed assets: Investments

(a) Summary

	Group		Company	
	2001	2000	**2001**	2000
	$m	$m	**$m**	$m
Subsidiary undertakings				
Shares at cost	-	-	972.4	972.4
Joint ventures				
Cost of investment	25.1	8.5	-	-
Share of post acquisition retained losses	(2.9)	(1.5)	-	-
	22.2	7.0	-	-
Associated undertakings				
Shares	26.7	9.4	-	-
Share of post acquisition retained losses	(2.8)	(1.9)	-	-
	23.9	7.5	-	-
Other investments				
Unlisted	7.5	5.9	-	-
Total fixed asset investments	53.6	20.4	972.4	972.4

The net book value of shares in associated undertakings are shown net of provisions totalling $0.2m *(2000: $0.2m)*.

(b) Movements in fixed asset investments

	Joint Ventures	Associated Undertakings	Other Investments
	$m	**$m**	**$m**
At 1 January 2001	7.0	7.5	5.9
Additions	16.6	18.4	1.6
Disposal of shares	-	(0.3)	-
Share of retained (loss)/profit	(1.4)	(0.3)	-
Dividends received	-	(0.7)	-
Transfer to subsidiaries	-	(0.7)	-
At 31 December 2001	22.2	23.9	7.5

Notes to the accounts *(continued)*

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. 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
Ellerman Harrison Container Line Limited		100
Farrell Lines Incorporated	*4*	100
Freight Forwarders		
P&O Nedlloyd Global Logistics Limited		100
Damco Maritime 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 LLC	*4*	28

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 subsidiary

In April 2001, the group increased its shareholding in Cross Country Containers (Pty) Limited (a South African company) from 34.3% to 62.7%. Previously this company had been accounted for as an associate. The cost of this additional holding was $0.6m and goodwill of $0.3m (based upon the total acquisition) has been recognised in these accounts.

11. Stocks and work in progress

	Group		Company	
	2001	2000	**2001**	2000
	$m	$m	$m	$m
Raw material and consumables	56.3	66.8	-	-
Work in progress	163.1	165.6	-	-
	219.4	232.4	-	-

12. Debtors

	Group		Company	
	2001	2000	**2001**	2000
	$m	$m	$m	$m
Amounts falling due within one year				
Trade debtors	553.4	602.3	-	-
Subsidiary undertakings	-	-	563.9	590.1
Group relief receivable	-	-	2.1	2.1
Other debtors	75.8	70.3	0.2	-
Prepayments and accrued income	133.4	129.7	-	-
	762.6	802.3	566.2	592.2
Amounts falling due after more than one year				
Advances	6.9	8.7	-	-
	769.5	811.0	566.2	592.2

Notes to the accounts *(continued)*

13. Creditors: amounts falling due within one year

	Group		Company	
	2001	2000	**2001**	2000
	$m	$m	**$m**	$m
Short term component of long term debt				
Lease finance	60.1	30.5	-	-
Bank loans – secured	182.6	190.6	-	-
	242.7	221.1	-	-
Short term debt				
Shareholder loans (unsecured)	-	23.0	-	23.0
Bank loans and overdrafts (unsecured)	42.3	0.6	-	-
	42.3	23.6	-	23.0
Trade and other creditors				
Trade creditors	137.4	94.3	-	-
Deferred income	300.5	283.7	-	-
Mainstream corporation tax	5.8	4.7	-	-
Social security	0.8	0.8	-	-
Other creditors	46.7	61.5	-	-
Accruals	440.6	542.1	-	2.1
	931.8	987.1	-	2.1
	1,216.8	1,231.8	-	25.1

Notes to the accounts *(continued)*

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

	Group		Company	
	2001	2000	**2001**	2000
	$m	$m	**$m**	$m
Bank loans secured				
Payable between 1 and 2 years	82.5	82.5	-	-
Payable between 2 and 5 years	4.1	86.4	-	-
Payable after 5 years	0.3	0.5	-	-
Lease finance				
Payable between 1 and 2 years	31.8	55.9	-	-
Payable between 2 and 5 years	106.1	84.9	-	-
Payable after 5 years	273.2	257.6	-	-
Other loans (unsecured)	-	2.1	-	-
	498.0	569.9	-	-

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 $99m *(2000: $102m)* of loans are secured on certain trade debtors. The remaining bank loans are secured on the major capital assets of the group.

Notes to the accounts *(continued)*

15. Provisions for liabilities and charges

	Group $m	Company $m
Balance at 1 January 2001	30.7	-
Transfer from profit and loss account	4.7	-
Applied during the year	(10.1)	-
	25.3	-

Provisions includes $14.2m *(2000:$15.3m)* in respect of pensions, $3.2m *(2000: $5.2m)* for holiday pay, $0.9m *(2000: $4.6m)* for contractual disputes, $4.8m *(2000: $3.0m)* for dry docking, $0.2m *(2000:$0.2m)* for deferred tax and others of $2.0m *(2000:$2.4m)*.

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 2001 was $155m 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.

Provision has been made in the accounts for deferred taxation in respect of non-shipping activities where it is probable that the liabilities will crystallise in the foreseeable future. The estimated potential liability is set out below and has been calculated at the UK corporation tax rate of 30% *(2000: 30%)*.

	Group		Group	
	Amounts not provided		Amounts provided	
	2001 $m	2000 $m	**2001 $m**	2000 $m
Accelerated allowances on fixed assets	-	184.2	0.5	0.6
Short term timing differences	-	(6.3)	(0.3)	(0.2)
Losses	-	(25.5)	-	(0.2)
	-	152.4	0.2	0.2

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 *(2000: nil)*.

Notes to the accounts *(continued)*

16. Equity minority interests

	2001 **$m**
As at 1 January 2001	19.5
Proportion of profit on ordinary activities after taxation	1.4
Changes in composition and dividends paid	(3.4)
As at 31 December 2001	17.5

17. Called up share capital

	2001 **$m**	2000 $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 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 2001	(47.9)	(5.3)
Retained profit/(loss) for the year	20.8	(0.9)
Currency translation – average to closing	(0.1)	-
Currency translation on foreign currency net investment	(1.7)	-
Balance at 31 December 2001	(28.9)	(6.2)

At 31 December 2001 the cumulative goodwill written off on acquisitions prior to 1 January 1998 amounted to $3m *(2000: $3m)*.

Notes to the accounts *(continued)*

19. Notes to the group cash flow statement

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

	2001 $m	2000 $m
Group operating profit	89.2	201.0
Depreciation and amortisation	273.9	238.3
Loss on sale of fixed assets	0.3	0.8
Decrease in stock	13.0	2.2
(Increase)/decrease in debtors	44.0	(47.2)
Decrease in creditors and provisions	(60.3)	(19.8)
Net cash inflow from operating activities	360.1	375.3

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

	2001 $m	2000 $m
Decrease in cash in the year	(1.9)	(33.6)
Cash outflow from changes in loans and lease financing	126.1	217.4
Changes in net debt resulting from cash flows	124.2	183.8
New finance leases	(88.1)	(37.3)
Borrowings of subsidiaries acquired	-	(18.3)
Exchange movement in net debt	(0.6)	(0.6)
Movement in net debt in the period	35.5	127.6
Net debt at 1 January 2001	(750.4)	(878.0)
Net debt at 31 December 2001	(714.9)	(750.4)

Notes to the accounts *(continued)*

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

(c) Analysis of net debt

	At 1 January 2001	Cash Flow	Other non cash movement	Exchange movement	At 31 December 2001
	$m	$m	$m	$m	$m
Cash available on demand	38.6	10.3	-	(5.8)	43.1
Overdrafts	(6.4)	(12.2)	-	1.0	(17.6)
Loans due after one year	(171.5)	-	84.6	-	(86.9)
Loans due within one year	(184.9)	62.1	(84.6)	0.1	(207.3)
Finance leases due after one year	(398.4)	10.8	(28.0)	4.5	(411.1)
Finance leases due within one year	(30.5)	30.2	(60.1)	0.3	(60.1)
Unsecured shareholder loans	(23.0)	23.0	-	-	-
Short term deposits	25.7	-	-	(0.7)	25.0
Total	(750.4)	124.2	(88.1)	(0.6)	(714.9)

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

20. Capital expenditure and commitments

	Group		Company	
	2001	2000	**2001**	2000
	$m	$m	**$m**	$m
Expenditure on fixed assets				
Contracts placed but for which provision has not been made	176.6	261.3	-	-

In addition, some 7 vessels *(2000:19 vessels)* are in the course of construction which will be delivered during 2002 and will be chartered by the group for a period of 8 years. When fully operational, the annual lease rentals for these vessels will be $61.9m *(2000: $139.4m)*.

The group's share of its joint ventures' capital commitments is $47.8m *(2000:$21.1m)*.

Notes to the accounts *(continued)*

21. Obligations under operating leases

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

	2001		2000	
	Group		Group	
	Land and buildings $m	**Other leases $m**	Land and buildings $m	Other leases $m
Operating leases which expire				
Within one year	4.8	85.3	2.8	90.8
In the second to fifth year inclusive	13.7	225.5	13.9	193.9
Over five years	10.2	124.7	15.1	122.9
	28.7	435.5	31.8	407.6

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

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 $45m (2000: $41m).

The company has guaranteed certain borrowings of its subsidiaries; the amount outstanding at the year end was $748m (2000: $786m). These borrowings are secured on the net assets of key subsidiaries.

The company has also guaranteed various operating lease arrangements entered into by its subsidiaries. The total future commitment under these arrangements as at the year end amounted to $1,483m (2000: $1,375m).

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 Euro 41m (approximately $38m) announced by the Commission in September 1998 would not be upheld by the Court for various legal reasons. If the fine were to be upheld, interest on the fine would accrue to the date of payment. 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.

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 2001 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, and in North America the P&O Nedlloyd North America scheme, together with various industry wide schemes.

Formal actuarial valuations of the P&O Pension scheme, which is a defined benefit scheme, are carried out triennially, the latest being at 1 April 2000 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 existing assets would be 5.4% and on future contributions would be 6.1%, the annual increase in pensionable earnings would be 4.5%, increase in accrued pensions would be 2.75%, price inflation would be 3%, LEL escalation would be 3%, and increases in pensions to accrue in future would be 3%. The market value of the scheme's assets at 1 April 2000 was £1,402m and the actuarial value of those assets represented 97.8% of the value of benefits accrued to members allowing for future increases in earnings. Although the group's contributions are affected by a surplus or deficit in the scheme, it is unable to identify its share of the underlying assets and liabilities on a consistent and reliable basis. Accordingly the group is treating the P&O Pension scheme as a defined contribution scheme. The pension cost for the year ended 31 December 2001 was $9.5m.

Formal actuarial valuations of the P&O Nedlloyd North America scheme, which is a defined benefit scheme, 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 2001. Whilst the group continues to account for pension costs in accordance with Statement of Standard Accounting Practice 24 "Accounting for Pension Costs", under FRS17 "Retirement Benefits", the following transitional disclosures are required. The major assumptions used in this valuation were that the rate of general increase in salaries would be 5%, the discount rate of scheme liabilities 7.5% and inflation 3%. The assumptions used by the actuary are the best estimate chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice. The fair 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 were (on an expected long term rate of return of 8%) equities $14.8m, bonds $3.1m, other $11.5m against a present value of scheme liabilities of $33.5m giving a deficit in the plan and net pension liability of $4.1m.

The group participates in the Royal Nedlloyd Pension Fund in the Netherlands. Assets are held separately from the sponsoring companies. The latest formal valuation by independent external consultants was at 31 December 2000 using the current unit method. The principal assumption was that, over the long term, the annual rate of return on investment would be 4 percentage points higher than the annual increase in present and future pension payments and accrued pensions. The market value of the Scheme's assets at 31 December 2000 was NLG3,163m representing 155 per cent of the value of the benefits accrued to members with no allowance for future increases in earnings. From 1 July 2001, this defined benefit plan ceased to be effective and the assets of the scheme were transferred to a new defined contribution plan. The contributions paid in the year under the 'old' Royal Nedlloyd Pension Fund were $7.3m. Contributions paid in the year under the 'new' plan were $3.4m.

Notes to the accounts *(continued)*

23. Pensions *(continued)*

The industry wide defined benefit pension fund in the Netherlands has assets at market value of NLG6,945m, as at 31 December 2000, representing 142 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 increases in present and future pensions. Formal valuations are carried out annually by independent external consultants. Although the employers' 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 Netherlands industry wide pension fund as a defined contribution scheme.

The merchant navy industry wide pension schemes in the UK are defined benefit schemes. The latest valuations are at 31 March 2000 in respect of both schemes. The officers' scheme independent actuary advised that the market value of the schemes' assets for the old section of the scheme represent approximately 111% of the value of the benefits accrued to members, and for the new section of the scheme 100% of the value of the benefits accrued to members allowing for future increases in earnings. Although the employer's contributions are affected by a surplus or a 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.

For the ratings' scheme its actuary presented a range of results that showed the market value of the assets between 68% and 82% of the value of the benefits accrued to members allowing for future increases in earnings. With High Court approval, the trustee of the ratings' scheme has closed the fund for future benefit accrual from 31 May 2001 and replaced it with a defined contribution scheme. 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.

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:

	2001	2000
	$m	$m
Interest payable	(0.9)	(2.5)
Operating costs	(1.8)	(5.0)
Net balance due to related parties at year end:		
Unsecured loan	-	(23.0)
Amounts due to shareholders	-	(2.1)
	-	(25.1)

At the year end the group was owed $0.8m *(2000: $0.3m)* by Port Newark Container Terminal LLC, a joint venture company.

List of vessels operated by P&O Nedlloyd as at 1 March 2002

List of vessels	Year of building	Dwt	Teu
AMERICA STAR	1971	27,905	1,334
ARAFURA (74% Owned)	1991	44,541	2,440
ARIAKE (74% Owned)	1976	34,346	1,968
BERLIN EXPRESS	1973	32,713	2,113
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
MAIRANGI BAY	1978	38,758	2,344
MELBOURNE STAR	1971	27,905	1,334
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
NEDLLOYD COLOMBO	1982	32,841	2,157
NEDLLOYD EUROPA	1991	50,620	3,604
NEDLLOYD HONGKONG	1994	55,238	4,181
NEDLLOYD HONSHU	1995	55,238	4,181
NEDLLOYD HOORN	1979	48,437	2,993
NEDLLOYD OCEANIA	1992	50,620	3,604
NEW ZEALAND PACIFIC	1978	38,757	2,344
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 LUANDA	1980	18,250	991
P&O NEDLLOYD LYTTELTON	1978	25,254	1,406
P&O NEDLLOYD MALACCA	1981	30,684	2,014
P&O NEDLLOYD MARSEILLE (*)	1998	38,250	2,890
P&O NEDLLOYD MERCATOR (*)	2000	67,712	5,468
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	1,214
P&O NEDLLOYD TASMAN (*)	1999	67,902	5,468
P&O NEDLLOYD TAURANGA (74% Owned)	1970	23,016	1,436
P&O NEDLLOYD VERA CRUZ	1984	29,730	1,779
PALLISER BAY	1977	39,712	2,485
PEGASUS BAY	1978	47,209	2,870
PENINSULAR BAY	1989	59,283	4,180
PROVIDENCE BAY	1994	59,283	4,230
QUEENSLAND STAR	1972	28,037	1,360
REPULSE BAY	1992	59,283	4,230
RESOLUTION BAY	1977	38,758	2,344
SHENZEN BAY	1994	59,283	4,230
SINGAPORE BAY	1993	59,283	4,230
SYDNEY EXPRESS (*)	1996	7,480	592
SYDNEY STAR	1972	27,905	1,334
WELLINGTON EXPRESS (*)	1996	7,480	592

(*) Bareboat charter.
(74%) partly owned.
Other vessels operated by P&O Nedlloyd are time chartered for periods of up to 8 years.