P&O FINANCE PLC

REGISTERED NUMBER : 718022

DIRECTORS' REPORT AND ACCOUNTS

31 DECEMBER 2005

REPORT OF THE DIRECTORS

The directors present their annual report and accounts for the year ended 31 December 2005.

Principal activities and review of business:

During the year the Company has continued to earn interest. There has been no other major business activity. The results for the period are set out in the profit and loss account on page 5 and in the notes to the accounts. Where appropriate, movements in share capital, reserves and fixed assets and details of paid and proposed dividends are set out in the accounts.

Dividend

The directors do not recommend the payment of a dividend for the year ended 31 December 2005 (2004 - £nil).

Directors and directors' interests:

The directors during the year were:

R M Gradon (resigned 30 June 2006)
D J Leonard
P A Walker
D A Shaw (appointed 30 June 2006)
M E Moore (appointed 30 June 2006)

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 ultimate holding company, The Peninsular and Oriental Steam Navigation Company:

	Deferred Stock		Deferred Stock under option			
			Opening balance	Granted in year	Exercised in year	Closing balance
	2005	2004	01/01/05			31/12/05
PA Walker	55,359	37,933	160,560	-	-	160,560

In addition, during the year P A Walker was granted an award under the Performance Share Plan of 41,700 units of £1 nominal of deferred stock, contingent on future performance.

R M Gradon was a director of the ultimate holding company, 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 his awards under the P&O Deferred Bonus and Co-Investment Matching Plan, the P&O Performance Share Plan and the P&O 2005 Matching Share Plan are disclosed in the remuneration report included in the 2005 annual report of The Peninsular and Oriental Steam Navigation Company.

Auditors

Following the acquisition of The Peninsular and Oriental Steam Navigation Company the directors have decided to appoint Ernst & Young LLP as independent auditors of the Company. Accordingly KPMG Audit Plc has indicated that they will resign as auditors of the Company. The appointment of Ernst & Young LLP as independent auditors of the Company is to be proposed at the forthcoming annual general meeting.

16 Palace Street
LONDON SW1E 5JQ
28 July 2006

By order of the Board
D J LEONARD
Director

P&O FINANCE PLC

DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE PREPARATION OF THE ACCOUNTS

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with UK Accounting Standards.

The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required:

- to select suitable accounting policies and then apply them consistently;
- to make judgements and estimates that are reasonable and prudent;
- to state whether applicable UK Accounting Standards have been followed subject to any material departures disclosed and explained in the financial statements; and
- to prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its 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 company and to prevent and detect fraud and other irregularities.

Under applicable law the directors are also responsible for preparing a Directors' Report that complies with that law.

INDEPENDENT AUDITORS REPORT TO THE MEMBERS OF

P&O FINANCE PLC

We have audited the financial statements of P&O Finance Plc for the year ended 31 December 2005 which comprise the Profit and Loss Account, the Balance Sheet, Reconciliation of Movement in Shareholders' Funds and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with the 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

As described in the Statement of Directors' Responsibilities on page 2, the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 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 any information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 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 financial statements.

Opinion

In our opinion the financial statements:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2005 and of its loss for the period then ended; and

- have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

8 Salisbury Square
London
EC4Y 8BB
28 July 2006

KPMG Audit Plc
Chartered Accountants
Registered Auditor

28 July 2006

P&O FINANCE PLC

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2005

	Note		2005 £		2004 £
Administration costs			(127,288)		(174,403)
Operating loss			(127,288)		(174,403)
Interest swaps:					
Third party interest received		33,847,062		24,766,698	
Third party interest paid		(52,488,636)		(41,873,671)	
Exchange gains on forward foreign currency contracts		886,861		7,036,584	
Fuel price swaps:					
Fuel price swap gains		-		131,502	
Fuel price swap losses		-		(131,502)	
Net interest and similar items			(17,754,713)		(10,070,389)
Loss on ordinary activities before taxation	2		(17,882,001)		(10,244,792)
Tax on loss on ordinary activities	3		5,351,367		3,073,343
Loss for the financial year			(12,530,634)		(7,171,449)

All the above transactions relate to continuing business activities.

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

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BALANCE SHEET AT 31 DECEMBER 2005

	Note	2005 £	2004 £
Current assets			
Debtors	4	24,706,607	20,692,581
Creditors: amounts falling due within one year	5	(78,620,442)	(62,075,782)
Net current liabilities and net liabilities		(53,913,835)	(41,383,201)
Capital and reserves			
Called up share capital	6	4,000,000	4,000,000
Profit and loss account		(57,913,835)	(45,383,201)
Equity shareholders' deficit		(53,913,835)	(41,383,201)

The financial statements were approved by the Board on 28 July 2006 and were signed on its behalf by DJ Leonard.

DJ LEONARD
Director

P&O FINANCE PLC

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' DEFICIT FOR THE YEAR ENDED 31 DECEMBER 2005

	Year ended 31 Dec 2005 £	Year ended 31 Dec 2004 £
Loss for the financial year	(12,530,634)	(7,171,449)
Shareholders' deficit at the beginning of the year	(41,383,201)	(34,211,752)
Shareholders' deficit at the end of the year	(53,913,835)	(41,383,201)

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NOTES TO THE ACCOUNTS AT 31 DECEMBER 2005

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements, except as noted below.

In these financial statements the following new standards have been adopted for the first time:

- FRS 21 'Events after the balance sheet date';
- the presentation requirements of FRS 25 'Financial instruments: presentation and disclosure'; and
- FRS 28 'Corresponding amounts'.

The accounting policies under these new standards are set out below together with an indication of the effects of their adoption.

FRS 28 'Corresponding amounts' has had no material effect as it imposes the same requirements for comparatives as hitherto required by the Companies Act 1985.

As a result of the adoption of FRS 21, when the Company declares dividends, after the balance sheet date, to the shareholders, such dividends are not considered to represent a liability of the Company at the balance sheet date. Previously under SSAP 17 'Post Balance Sheet Events', provided the final dividend had been declared, authorised and was no longer at the Company's discretion at the date of approval of the financial statements, the dividends were treated as an adjusting post balance sheet event and accrued in the accounts for the year to which it related.

As no dividends were approved post year end for either the year ended 31 December 2005 or 2004 the adoption of FRS 21 has no impact of the results or net assets of the Company.

The adoption of the presentation requirements of FRS 25 has had no significant impact on the financial statements of the Company as the Company has no financial instruments which need to be reclassified in accordance with the requirements of this standard.

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

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 Financial Reporting Standard 8 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).

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NOTES TO THE ACCOUNTS AT 31 DECEMBER 2005 (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 (2004 - £nil).
(c) The Company had no employees during the year (2004 - none).
(d) Auditors' remuneration is dealt with on a group basis and no amount has been specifically recharged to this Company (2004 - £nil).
(e) Included within interest paid are breakage costs relating to swap contracts.

3 Taxation

Taxation on ordinary activities is made up as follows:

	2005	2004
	£	£
UK Corporation tax credit at 30%		
Current year	5,351,367	3,073,343
	5,351,367	3,073,343

The current taxation credit is lower than (2004 – lower than) the standard rate of corporation tax in the UK of 30% (2004 - 30%). The differences are explained below.

	2005	2004
	£	£
Loss on ordinary activities before taxation	(17,882,001)	(10,244,792)
Loss on ordinary activities before taxation multiplied by standard rate of corporation tax in the UK of 30% (2004 - 30%)	(5,364,600)	(3,073,438)
Effects of:		
UK expenses not deductible/(income not taxable) and other UK permanent adjustments	13,233	(72,905)
Group relief surrendered	-	73,000
Adjustments in respect of prior years	-	-
Current taxation credit for the period	(5,351,367)	(3,073,343)

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NOTES TO THE ACCOUNTS AT 31 DECEMBER 2005 (cont'd)

4 Debtors

	2005 £	2004 £
Amounts owed by fellow subsidiaries	15,014,989	15,582,490
Other debtors and prepayments	9,691,618	5,110,091
	24,706,607	20,692,581

5 Creditors: amounts falling due within one year

	2005 £	2004 £
Amounts owed to fellow subsidiaries	57,508,212	52,390,709
Other creditors and accruals	11,756,698	9,685,073
Provision for swap breakage costs	9,355,532	-
	78,620,442	62,075,782

6 Called up share capital

As at 31 December 2005 and 2004:	Authorised	Allotted, called up and fully paid
Share Capital	£10,000,000	£4,000,000
Number of shares (Ordinary shares of 25p each)	40,000,000	16,000,000

7 Related party transactions

During the year the Company was party to interest rate swap agreements for a nominal value of USD$46.9m (2004: USD$46.9m) with Port Newark Container Terminal LLC ("PNCT"), a joint venture of the Company's ultimate holding company. During the year amounts totalling USD$49,636 were paid by P&O Finance in respect of these transactions, compared to USD$495,185 paid by PNCT in 2004.

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NOTES TO THE ACCOUNTS AT 31 DECEMBER 2005 (cont'd)

8 Future commitments

The Company has entered into interest rate swap transactions in respect of group US dollar, Australian dollar, Hong Kong Dollar and Sterling loans. At the year end, the Company had entered into interest rate swaps with a maximum maturity of November 2014 in respect of the following principal amounts:

	2005 Fixed £m	2005 variable £m	2004 fixed £m	2004 Variable £m
Third party sterling	262.4	113.0	267.3	-
	US$m	US$m	US$m	US$m
Third party US dollar	381.9	306.9	431.9	46.9
	AUS$m	AUS$m	AUS$m	AUS$m
Third party Australian dollar	175.0	60.0	175.0	-
	HK$m	HK$m	HK$m	HK$m
Third party Hong Kong dollar	468.0	168.0	468.0	-

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

8 Parent undertaking

The results of the company are included in the consolidated accounts of The Peninsular and Oriental Steam Navigation Company, its ultimate United Kingdom parent undertaking, a company incorporated by Royal Charter and therefore not registered, copies of whose accounts can be obtained from: The Registrar of Companies, Companies House, Crown Way, Cardiff CF14 3UZ.

Subsequent to the year-end, on 8 March 2006, The Peninsular and Oriental Steam Navigation Company was acquired by Thunder FZE, a wholly owned subsidiary of Ports, Customs and Free Zone Corporation, Dubai.