

P&O FINANCE PLC

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

REGISTERED NUMBER 718022

31 DECEMBER 2007

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COMPANIES HOUSE

Registered No. 718022

Directors

M E Moore

P A Walker

P W Walters (resigned 16 April 2008)

J M Woollacott

F Dalgaard (appointed 16 April 2008)

Secretary

B Allinson

Auditors

KPMG Audit Plc

8 Salisbury Square

London EC4Y 8BB

Registered Office

16 Palace Street

London SW1E 5JQ

DIRECTORS' REPORT

The directors present their report and financial statements for the year ended 31 December 2007

Results and dividends

The profit for the year, after taxation, is £2,022,030 (2006 £472,504) No dividend was paid or proposed for the year ended 31 December 2007 (2006 £nil)

Principal activity and review of business

During the year the Company has continued to earn interest, and expects this to occur for the foreseeable future There has been no other major business activity The results for the period are set out in the profit and loss account on page 8 and in the notes to the accounts

The company's key financial and other performance indicators during the year were as follows

	2007	2006	Change
	£	£	%
Profit after tax	2,022,030	472,504	328%
Net interest and similar items	2,425,441	799,366	203%
Current year corporation tax charge	(403,411)	(167,885)	140%
Shareholders' deficit	(51,419,301)	(53,441,331)	4%

Going Concern

The company has net liabilities of £51,419,301 The parent undertaking, Griltsen One Limited, has given a written undertaking that it will continue to support the company and its present activities The directors acknowledge that there can be no certainty that this support will continue, although they have no reason to believe that it will not do so. Based on this undertaking, the directors consider it remains appropriate to prepare the financial statements on a going concern basis The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate

Directors and their indemnity arrangements

The directors during the year were

M E Moore

P A Walker

D A Shaw (resigned 23 April 2007)

P W Walters (appointed 23 April 2007, resigned 16 April 2008)

J M Woollacott (appointed 23 April 2007)

The following directors were appointed after the financial year end

F Dalgaard (appointed 16 April 2008)

DIRECTORS' REPORT

Directors and their indemnity arrangements

All directors are entitled to contractual indemnification from the company to the extent permitted by law against claims and legal expenses incurred in the course of their duties. Third party indemnity insurance is provided and remains in force as at the date of approving the directors' report.

Secretary

S Damle (resigned 5 October 2007)
B Allinson (appointed 5 October 2007)

Disclosure of information to the auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware, and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditors

Ernst & Young LLP resigned as the company's auditor and KPMG Audit Plc was appointed in accordance with the elective resolution passed by the company under section 386 Companies Act 1985.

In accordance with section 385 Companies Act 1985, a resolution proposing the reappointment of KPMG Audit Plc will be put to the annual general meeting.

On behalf of the board



B Allinson
Secretary

17 June 2008

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

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 and applicable law (UK Generally Accepted Accounting Practice)

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,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- 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

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 31 December 2007 which comprise the Profit and Loss Account, the Balance Sheet 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 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' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 5.

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

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 whether in our opinion the information given in the Directors' Report is not consistent with the financial statements.

In addition we report to you if, in our opinion, 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 other transactions 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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF P&O FINANCE PLC

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 an 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2007 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements



KPMG Audit Plc
Chartered Accountants
Registered Auditor
London

20 June 2008

**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2007**

	Note	2007 £	2006 £
Administration costs		-	(158,977)
Interest swaps			
Interest received	50,225,182	38,263,245	
Interest paid	(44,823,077)	(40,223,056)	
Exchange (losses)/gains on forward foreign currency contracts	(2,976,664)	2,759,177	
Fuel price swaps			
Fuel price swap gains	1,762,968	266,319	
Fuel price swap losses	(1,762,968)	(266,319)	
Net interest and similar items		<u>2,425,441</u>	<u>799,366</u>
Profit on ordinary activities before taxation	2	<u>2,425,441</u>	<u>640,389</u>
Tax on profit on ordinary activities	3	<u>(403,411)</u>	<u>(167,885)</u>
Profit for the financial year		<u><u>2,022,030</u></u>	<u><u>472,504</u></u>

All the above transactions relate to continuing business activities

There are no recognised gains or losses other than the profit in the year

BALANCE SHEET
AT 31 DECEMBER 2007

	Note	2007 £	2006 £
Current assets			
Cash and cash equivalents		1,165,457	-
Debtors	4	91,844,276	17,337,672
Creditors: amounts falling due within one year	5	(144,429,034)	(70,779,003)
Net current liabilities and net liabilities		<u>(51,419,301)</u>	<u>(53,441,331)</u>
Capital and reserves			
Called up share capital	6	4,000,000	4,000,000
Profit and loss account	7	(55,419,301)	(57,441,331)
Equity shareholders' deficit		<u>(51,419,301)</u>	<u>(53,441,331)</u>



P A Walker
 Director

17 June 2008

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2007

1 ACCOUNTING POLICIES

Basic of preparation

The accounts of P&O Finance Plc were approved for issue by the Board of Directors on 16 June 2008

The financial statements are prepared under the historical cost convention and in accordance with the Companies Act 1985

The financial statements are prepared in accordance with applicable accounting standards

Under FRS 1 the Company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the Company in its own published consolidated financial statements

As 100% of the Company's voting rights are controlled within the group headed by The Peninsular and Steam Navigation Company, the Company has taken advantage of the exemption contained in FRS 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) The consolidated financial statements of The Peninsular and Steam Navigation Company, within which this Company is included, can be obtained from the address given in note 10

The company has net liabilities of £51,419,301 The parent undertaking, Griltsen One Limited, has given a written undertaking that it will continue to support the company and its present activities The directors acknowledge that there can be no certainty that this support will continue, although they have no reason to believe that it will not do so Based on this undertaking, the directors consider it remains appropriate to prepare the financial statements on a going concern basis The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate

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

**NOTES TO THE FINANCIAL STATEMENTS
AT 31 DECEMBER 2007**

1 ACCOUNTING POLICIES (continued)

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)

2 PROFIT AND LOSS ACCOUNT

- (a) The basis of charging intra-group interest is agreed between the parties in accordance with Group policy
- (b) The directors are also directors/employees of, and were paid by, other group undertakings. The directors do not believe that it is practicable to apportion these emoluments between their services as directors of the company and their services as directors/employees of the other group undertakings
- (c) Fees for audit and non-audit services provided by KPMG Audit Plc to the company have been borne by other group undertakings. It is not practicable to ascertain what proportion of such fees relates to the company
- (d) The company had no employees during the year (2006 - none)
- (e) Included within interest paid are breakage costs relating to swap contracts.

3 TAXATION

- (a) Tax on profit on ordinary activities

The tax charge is made up as follows

	2007 £	2006 £
Current tax		
UK corporation tax at 30% (30%)	483,745	167,885
Adjustments in respect of prior years	(80,334)	-
	<hr/>	<hr/>
Tax on profit on ordinary activities	403,411	167,885
	<hr/>	<hr/>

- (b) Factors affecting the current tax charge

The tax assessed on the profit on ordinary activities for the year is lower than (2006 - lower than) the standard rate of corporation tax in the UK of 30% (2006 - 30%). The differences are reconciled below

**NOTES TO THE FINANCIAL STATEMENTS
AT 31 DECEMBER 2007**

3 TAXATION (continued)

	2007 £	2006 £
Profit on ordinary activities before tax	2,425,441	640,389
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2006 30%)	727,632	192,117
Effects of Imputed interest and other UK permanent differences	(243,887)	(24,232)
Adjustments in respect of prior years	(80,334)	-
Total current tax (note 3(a))	403,411	167,885

4 DEBTORS

	2007 £	2006 £
Amounts owed by group undertaking	81,167,763	-
Corporation tax debtor	4,738,610	8,265,382
Other debtors and prepayments	5,937,903	9,072,290
	91,844,276	17,337,672

5 CREDITORS

	2007 £	2006 £
Amounts falling due within one year:		
Amounts owed to group undertaking	79,894,782	-
Amounts owed to fellow subsidiaries	57,328,434	56,053,665
Other creditors and accruals	6,836,505	10,740,386
Accrued swap breakage costs	369,313	3,984,952
	144,429,034	70,779,003

**NOTES TO THE FINANCIAL STATEMENTS
AT 31 DECEMBER 2007**

6 AUTHORISED AND ISSUED CAPITAL

Authorised

	2007 £	2006 £
40,000,000 Ordinary shares of 25p each	10,000,000	10,000,000
	<u>10,000,000</u>	<u>10,000,000</u>

Allotted, called up and fully paid

	2007 £	2006 £
16,000,000 Ordinary shares of 25p each	4,000,000	4,000,000
	<u>4,000,000</u>	<u>4,000,000</u>

7 RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENT ON RESERVES

	<i>Called up share capital</i> £	<i>Profit and loss account</i> £	<i>Total shareholders' funds</i> £
At 1 January 2007	4,000,000	(57,441,331)	(53,441,331)
Profit for the year	-	2,022,030	2,022,030
At 31 December 2007	<u>4,000,000</u>	<u>(55,419,301)</u>	<u>(51,419,301)</u>

8 RELATED PARTY TRANSACTIONS

Corporate restructuring within the Peninsular and Oriental Steam Navigation Company Group in 2007 has resulted in the previously held interest rate swap agreements between the Company and Port Newark Container Terminal LLC ("PNCT") being closed to nil on 1 February 2007 (2006 USD\$46.9m). Prior to the close, amounts totalling USD\$2,480 (2006 USD\$550,258) were paid by P&O Finance in respect of these transactions. A gain of USD\$49,717 was made on closure of the interest rate swap agreements.

**NOTES TO THE FINANCIAL STATEMENTS
AT 31 DECEMBER 2007**

9 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

	2007 Fixed £m	2007 Variable £m	2006 Fixed £m	2006 Variable £m
Third party sterling	138 0	58 0	257 8	113 0
	US\$m	US\$m	US\$m	US\$m
Third party US dollar	165 0	130 0	285 0	210 0
	A\$m	A\$m	A\$m	A\$m
Third party Australian dollar	50 0	-	110 0	60 0
	HK\$m	HK\$m	HK\$m	HK\$m
Third party Hong Kong dollar	-	-	468 0	168 0

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

10 PARENT UNDERTAKING

The smallest group of companies for which consolidated financial statements are prepared and in which the company is consolidated is The Peninsular and Oriental Steam Navigation Company, 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

The largest group of companies for which consolidated financial statements are prepared and in which the company is consolidated is DP World Limited, a company limited by shares incorporated in Dubai, whose accounts are filed with the Dubai International Financial Exchange and where 19.55% of its shares are traded

The immediate parent undertaking at 31 December 2007 is Gritsen One Limited, a company incorporated in the United Kingdom

In the opinion of the directors the ultimate controlling parent undertaking as at 31 December 2007 was Port & Free Zone World FZE, which owns 81.45% of DP World Limited. Port & Free Zone World FZE is a wholly owned subsidiary of Dubai World Corporation, which is the ultimate parent company of the Company, but which does not exert control over the Company