

P&O PORTS LIMITED
REGISTERED NUMBER: 751061

DIRECTORS' REPORT AND ACCOUNTS
31 DECEMBER 2003



P&O Ports Limited

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2003.

Principal activity and review of business

The Company acts as a holding company for its investments in Southampton Container Terminals Limited and Tilbury Container Services Limited.

Results and dividends

The results for the year are set out in the profit and loss account on page 6.

The directors paid a dividend of £2.72m during the year ended 31 December 2003 (2002: £nil)

Directors and directors' interests

The directors who held office during the year were:

D W Anderson (resigned 10th April 2003)
A J Baillie
N A West

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:

	31 Dec 2002	Deferred stock under option Granted/(exercised) in period	31 Dec 2003
A J Baillie	1,641	-	1,641
N A West	891	-	891

	31 Dec 2002	Executive Stock Options Granted/(exercised) in period	31 Dec 2003
A J Baillie	313,264	115,139	428,403
N A West	172,022	57,913	229,935

	31 Dec 2002	SAYE Stock Options Granted / (exercised) in period	31 Dec 2003
A J Baillie	-	7,382	7,382
N A West	-	5,906	5,906

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Directors' report (*continued*)

	Deferred Bonus & Co-Investment Matching Plan			
	31 Dec 2002	Granted in period	Exercised in period	31 Dec 2003
A J Baillie	3,490	12,415	1,641	15,059
N A West	1,248	8,791	-	10,039

Auditors

In accordance with Section 385 of the Companies Act 1985, a resolution for the reappointment of KPMG Audit Plc as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the board



N A West
Director

14th October 2004

79 Pall Mall
London
SW1Y 5EJ

P&O Ports Limited

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss for that period. In preparing those financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Report of the independent auditors to the members of P&O Ports Limited

We have audited the financial statements on pages 6 to 12.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 4, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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

Basis of audit opinion

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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



KPMG Audit Plc
Chartered Accountants
Registered Auditor

14th October 2004

8 Salisbury Square
London
EC4Y 8BB

P&O Ports Limited

Profit and loss account

for the year ended 31 December 2003

	Notes	2003 £	2002 £
Income from shares in subsidiaries & associates		2,720,000	-
Profit on ordinary activities before taxation	2	2,720,000	-
Tax on profit on ordinary activities	3	-	-
Profit for the financial year attributable to shareholders		2,720,000	-
Dividends paid and proposed		(2,720,000)	-
Retained profit for the financial year		-	-

The results disclosed above include all recognised gains and losses. All the above transactions relate to continuing business activities.

There is no difference between the profit reported above and that on a historical cost basis.

P&O Ports Limited

Balance Sheet
As at 31 December 2003

	Note	2003 £	2002 £
Fixed assets			
Investments			
Subsidiaries	4	1,588,454	1,588,454
Associates	5	<u>1,346,211</u>	<u>1,346,211</u>
		<u>2,934,665</u>	<u>2,934,665</u>
Current assets			
Debtors	6	623,303	623,303
Net current assets		<u>623,303</u>	<u>623,303</u>
Net assets		<u>3,557,968</u>	<u>3,557,968</u>
Capital and reserves			
Called up share capital	7	2,934,667	2,934,667
Profit and loss account		<u>623,301</u>	<u>623,301</u>
Equity shareholders' funds		<u>3,557,968</u>	<u>3,557,968</u>

These financial statements were approved by the Board of Directors on
by:

and signed on its behalf



N A West
Director

14th October 2004

P&O Ports Limited

Reconciliation of movements in shareholders' funds

	2003 £	2002 £
Profit for the financial year	2,720,000	-
Dividends paid	<u>(2,720,000)</u>	<u>-</u>
Net change in shareholders' funds	-	-
Opening shareholders' funds	<u>3,557,968</u>	<u>3,557,968</u>
Closing shareholders' funds	<u>3,557,968</u>	<u>3,557,968</u>

P&O Ports Limited

Notes

(forming part of the financial statements)

1. Accounting policies

The principal accounting policies that have been adopted in the preparation of these accounts are given below.

Basis of preparation of accounts

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

The accounts have been prepared in accordance with applicable United Kingdom accounting standards. The accounts have been prepared on a 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 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 Company is exempt under S228 of the Companies Act 1985 from the requirement to prepare group accounts because its results are included in the consolidated accounts of its parent company, The Peninsular and Oriental Steam Navigation Company.

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.

Investments

Investments are stated at cost, less amounts written off for impairments in value.

Dividend income

Dividend income is recognised in the accounting period in which a dividend is paid by the investee company.

Deferred taxation

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

P&O Ports Limited

Notes (Continued)

1. Accounting policies (Continued)

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 rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

2. Profit on ordinary activities before taxation

a) Directors' remuneration

The directors' remuneration for the current financial year is borne by the ultimate holding company.

b) Employee information

The average number of employees during the year excluding directors was nil (2002-nil).

c) Audit fee

The Audit fee for the year was paid by a fellow group company.

3. Taxation on profit on ordinary activities:

	31 Dec 2003 £	31 Dec 2002 £
<i>UK Corporation tax at 30%</i>		
Current year	-	-
<i>Factors affecting the tax charge for the current period</i>		

The current tax charge for the period is lower than (2002: in line with) the standard rate of corporation tax in the UK (30%, 2002:30%). The differences are explained below:

	31 Dec 2003 £	31 Dec 2002 £
Profit on ordinary activities before tax	2,720,000	-
Current tax at 30% (2002:30%)	816,000	-
<i>Effects of:</i>		
UK income not taxable	(816,000)	-
Total current tax charge	-	-

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Notes (Continued)

4. Subsidiaries

Total
£

Cost

At 1 January 2003 and 31 December 2003

1,588,454

The subsidiary is Southampton Container Terminals Ltd, a container terminal operator registered in England. The Company owns 100% of the ordinary "P" shares which represents an interest of 51% in the business.

5. Associates

Total
£

Cost

At 1 January 2003 and 31 December 2003

1,346,211

The associate is Tilbury Container Services Ltd, a container terminal operator registered in England. The company owns 100% of the ordinary "P" shares, which represents an interest of 34% in the ordinary shares of Tilbury Container Services Ltd, and 51% of the preference shares.

6. Debtors

2003
£

2002
£

Amounts owed by ultimate holding company

623,303

623,303

7. Share capital

Authorised,
allotted,
called up and
fully paid
£

At 31 December 2002 and 31 December 2003
2,934,667 ordinary shares of £1 each

2,934,667

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Notes *(Continued)*

8. Ultimate holding company

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