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26 January 2006

**Increased recommended cash offer
by DP World for
The Peninsular and Oriental Steam Navigation
Company ("P&O")**

- DP World and P&O have agreed the terms of an increased recommended cash offer to be implemented by scheme of arrangement of 520 pence per unit of Deferred Stock.
- This represents a premium of 10.6 per cent. to the PSA offer of 470 pence for each unit of Deferred Stock announced on 26 January 2006 and a premium of 71.3 per cent. to the closing price of 303.5 pence for each unit of Deferred Stock on 27 October 2005 (being the last day prior to speculation regarding a possible offer for P&O).
- The Offer is now unconditional save for the approval of Stockholders and the sanction of the Deferred Scheme by the Court.

The increased recommended cash offer is a revision to the terms of the original recommended proposals in respect of the Deferred Stock (the "Revised Proposals"). With the exception of the price and the timetable, the Revised Proposals are subject to the same terms and conditions which apply to the Deferred Scheme as set out in the document posted to P&O Stockholders on 20 December 2005 (the "Scheme Document").

However, each of the conditions other than those relating to Stockholder approval and Court sanction of the Offer have now been satisfied, or where relevant, waived. The Revised Proposals are therefore unconditional as to regulatory consents. The existing inducement fee arrangements as described in the Scheme Document will continue.

The proposals to Concessionary Stockholders and Preferred Stockholders contained in the Scheme Document remain unchanged.

The P&O Directors have agreed not to propose any adjournment of any of the Meetings unless a third party has announced a firm intention to make an offer for all of the Deferred Stock at a price of more than 546 pence per unit of Deferred Stock.

The P&O Directors, who have been so advised by Citigroup Global Markets Limited ("Citigroup") and NM Rothschild & Sons Limited ("Rothschild"), consider the terms of the Revised Proposals to be fair and reasonable. In providing advice to the P&O Directors, Citigroup and Rothschild have taken into account the commercial assessment of the P&O Directors.

The P&O Directors have withdrawn their recommendation of the offer by PSA which was announced on 26 January 2006 and unanimously recommend that P&O Stockholders vote in favour of the Revised Proposals at the Meetings which are now scheduled to take place on 13 February.

A circular containing further details of the Revised Proposals and a letter giving notice of the adjourned Meetings are expected to be sent to P&O Stockholders shortly.

Terms defined in the Scheme Document have the same meanings in this announcement.

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Deutsche Bank AG (“Deutsche”) is acting as financial adviser and corporate broker to the Offeror and no one else in connection with the Revised Proposals and will not be responsible to any other person for providing the protections afforded to clients of Deutsche or for providing advice in relation to the Revised Proposals or any other matters referred to in this announcement.

Citigroup Global Markets Limited (“Citigroup”) is acting as financial adviser and corporate broker to P&O and no one else in connection with the Revised Proposals and will not be responsible to any other person for providing the protections afforded to clients of Citigroup or for providing advice in relation to the Revised Proposals or any other matters referred to in this announcement.

N M Rothschild & Sons Limited (“Rothschild”) is acting as financial adviser to P&O and no one else in connection with the Revised Proposals and will not be responsible to any other person for providing the protections afforded to clients of Rothschild or for providing advice in relation to the Revised Proposals or any other matters referred to in this announcement.

Morgan Stanley & Co Limited (“Morgan Stanley”) is acting as corporate broker to P&O and no one else in connection with the Revised Proposals and will not be responsible to any other person for providing the protections afforded to clients of Morgan Stanley or for providing advice in relation to the Revised Proposals or any other matters referred to in this announcement.

This announcement does not constitute an offer to sell or the solicitation of an offer to subscribe for or buy any security, nor shall there be any sale, issuance or transfer of the securities referred to in this announcement in any jurisdiction in contravention of applicable law.

The availability of the Loan Notes under the terms of the Scheme (or, if the Revised Proposals are implemented by way of the Takeover Offer, of the Takeover Offer) to persons who are not resident in the United Kingdom may be affected by the laws of the relevant jurisdictions in which they are located. Persons who are not resident in the United Kingdom should inform themselves of, and observe, any applicable requirements.

The Loan Notes to be issued to Deferred Stockholders under the Revised Proposals have not been, and will not be, listed on any stock exchange and have not been and will not be registered under the US Securities Act of 1933, as amended, or under any relevant securities laws of any state or other jurisdiction of the United States, or under the relevant securities laws of Canada, Australia, Japan or any other jurisdiction. Accordingly, unless an exemption under such relevant laws is available, Loan Notes may not be offered, sold, re-sold or delivered, directly or indirectly, in, into or from the United States, Canada, Australia, Japan or any other jurisdiction in which an offer of Loan Notes would

constitute a violation of relevant laws or require registration of the Loan Notes, or to or for the account or benefit of any US person or resident of Canada, Australia, Japan or any other such jurisdiction.

Whether or not a Deferred Stockholder's stock units are voted at any Court Meeting or the Extraordinary General Meeting, if the Scheme becomes effective, those stock units will be acquired pursuant to the Scheme and Deferred Stockholders will, subject to the Loan Note Alternative, receive a payment of 520 pence in cash for every stock unit.

Persons receiving copies of this announcement or any other documents relating to the Revised Proposals whether made pursuant to the Scheme or any Takeover Offer (including, without limitation, nominees, trustees and custodians) should observe these restrictions and must not mail or otherwise forward, distribute or send such documents in, into or from Canada or Japan in violation of these restrictions and applicable laws. Doing so could, among other things, invalidate any related purported acceptance of the Takeover Offer. The Takeover Offer would be made in accordance with the requirements of the Code.

None of Deutsche, Citigroup, Rothschild or Morgan Stanley, or any of their respective affiliates, is making an offer under the Revised Proposals (whether by Scheme or Takeover Offer) in the United States.

Dealing Disclosure Requirements

Under the provisions of Rule 8.3 of the City Code on Takeovers and Mergers (the "Code"), if any person is, or becomes, "interested" (directly or indirectly) in 1% or more of any class of "relevant securities" of P&O, all "dealings" in any "relevant securities" of that company (including by means of an option in respect of, or a derivative referenced to, any such "relevant securities") must be publicly disclosed by not later than 3.30 p.m. (London time) on the London business day following the date of the relevant transaction. This requirement will continue until the date on which the Scheme becomes effective or is withdrawn (or, if applicable, the Takeover Offer becomes, or is declared, unconditional as to acceptances, lapses or is otherwise withdrawn) or on which the "offer period" otherwise ends. If two or more persons act together pursuant to an agreement or understanding, whether formal or informal, to acquire an "interest" in "relevant securities" of P&O, they will be deemed to be a single person for the purpose of Rule 8.3.

Under the provisions of Rule 8.1 of the Code, all "dealings" in "relevant securities" of P&O, by P&O or the Offeror, or by any of their respective "associates", must be disclosed by no later than 12.00 noon (London time) on the London business day following the date of the relevant transaction.

A disclosure table, giving details of the companies in whose "relevant securities" "dealings" should be disclosed, and the number of such securities in issue, can be found on the Takeover Panel's website at www.thetakeoverpanel.org.uk.

"Interests in securities" arise, in summary, when a person has long economic exposure, whether conditional or absolute, to changes in the price of securities. In particular, a person will be treated as having an "interest" by virtue of the ownership or control of securities, or by virtue of any option in respect of, or derivative referenced to, securities.

Terms in quotation marks are defined in the Code, which can also be found on the Panel's website. If you are in any doubt as to whether or not you are required to disclose a "dealing" under Rule 8, you should consult the Panel.

Forward Looking Statements

This announcement contains statements about DP World, the Offeror and P&O that are or may be forward looking statements. All statements other than statements of historical facts included in this announcement may be forward looking statements. Without limitation, any statements preceded or followed by or that include the words 'targets', 'plans', 'believes', 'expects', 'aims', 'intends', 'will', 'may', 'anticipates', 'estimates', 'projects' or words or terms of similar substance or the negative thereof are forward-looking statements. Forward-looking statements include statements relating to the following (i) future capital expenditures, expenses, revenues, earnings, synergies, economic performance, indebtedness, financial condition, dividend policy, losses and future prospects; (ii) business and management strategies and the expansion and growth of DP World's, the Offeror's or P&O's operations and potential synergies resulting from the Revised Proposals; and (iii) the effects of government regulation on DP World, the Offeror's or P&O's business.

These forward-looking statements are not guarantees of future performance. They have not been reviewed by the auditors of DP World, the Offeror or of P&O. These forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of any such person, or industry results, to be materially different from any results, performance or achievements expressed or implied by such forward-looking statements. These forward-looking statements are based on numerous assumptions regarding the present and future business strategies of such persons and the environment in which each will operate in the future. You are cautioned not to place undue reliance on the forward-looking statements, which speak only as of the date they were made. All subsequent oral or written forward-looking statements attributable to DP World, the Offeror or P&O or any of their members or any persons acting on their behalf are expressly qualified in their entirety by the Cautionary Statement above. All forward-looking statements included in this announcement are based on information available to us on the date hereof. Investors should not place undue reliance on such forward-looking statements, and neither DP World, the Offeror nor P&O undertakes any obligation to update publicly or revise any forward-looking statements.