

REGISTRATION NUMBER: 03291852

P&O SHORT SEA FERRIES LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021



P&O SHORT SEA FERRIES LIMITED

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P&O SHORT SEA FERRIES LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2021

The directors present their report for the year ended 31 December 2021.

BUSINESS REVIEW

Principal Activities

The Company's principal activity during the year is the provision of passenger ferry operations and services. An analysis of turnover is shown in note 2.

Results and Dividends

The loss for the year, after taxation, amounted to £136.4m (2020: loss £96.6m). The directors have not recommended a final dividend (2020: £nil). No interim dividends were paid in the year (2020: £nil).

Key Performance Indicators and Performance Review

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

Financial KPIs	Unit	2021	2020
Revenue	£ m	156.9	190.5
Gross (Loss)/Profit	£ m	(45.5)	(17.7)
Gross Profit Margin	%	(29.0)	(9.3)
Operating (Loss)/Profit	£ m	(132.3)	(99.2)
(Loss)/Profit After Tax	£ m	(136.4)	(96.6)
EBITDA	£ m	(132.3)	(99.2)
		2021	2020
Freight units carried (thousands)		976	1,076
Tourist vehicles carried (thousands)		132	293
Total passengers carried (thousands)		1,427	2,207
Net Promoter Score		31	28

2021 was a year of uncertainty and disruption across the business, caused by the Covid-19 global pandemic. Ferries tourist and passenger volumes contracted further in 2021 as a result of more Government enforced lockdowns and restrictions on travel. This led to a decrease in revenue in all areas of the business. Costs have reduced in the year as a result of the limited trade and various related cost saving initiatives. The lack of tourist passengers also impacted the income from on board services despite the re-introduction of Duty Free.

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STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2021

FUTURE DEVELOPMENTS

During 2022 the ROPAX and Freight Service organisations were restructured into one Ferries business, with two distribution channels: Passenger (including all onboard activities) and Freight.

These two channels have full P&L responsibility for the products/services delivered to each of their customer segments across all routes. The two distribution channels are supported by central Vessel Operations (including fleet management), Port Operations and other back-office functions such as Finance, IT and HR.

The trading performance in 2022 has been determined by the demand in the Group's markets as they recover from over 2 years of disruption associated with Covid and the impact on the business from the Group's decision to change fundamentally the crewing model in March 2022, as described further in note 27). The company's operations have, to the greatest extent possible, been scaled to fit with the ongoing reduced level of travel following the global Covid pandemic.

Market volumes in 2022 have been significantly lower than in 2018, the last stable year before the impact of Brexit border controls and Covid 19. Consumer uncertainty has been compounded by political instability and adverse macroeconomic factors such as high inflation and the impacts of the war in Ukraine. Demand has also been impacted by the impact on the Company's (freight) prices from rising fuel costs, that it passes on via the Bunker Adjustment Factors process.

Freight markets have been impacted by recessionary pressures and the Company is not seeing the market growth that it had previously predicted. Consequently, the Company has better targeted and significantly reduced the number of sailings on the Dover Calais route during 2022. It has also operated a "space charter" (freight code sharing arrangement) on the route with DFDS. This arrangement (which has been cleared by the UK Competition and Markets Authority) has resulted in increasing vessel utilisation and cost savings as well as a growing market share during the second half of the year.

The Passenger business has also been severely impacted by a lower number of tourist cars and coaches. It has offset the reduction in volume by delivering a better service (including the Company's on-board World Duty Free concessions) and an enhanced food and beverage offer.

2023 will see the Group deploying two new "Ships of the Future" on the Dover Calais route which will offer game-changing levels of customer experience and operational/environmental effectiveness.

Whilst the macroeconomic factors are out of the Company's control, it continues to focus on what it can control such as safety standards, ship deployments, the execution of the customer offer, pricing, cost control and working capital management.

The Company believes that the platform laid in 2022 will equip the business to grow profitably when demand rises in the coming years.

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STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2021

SECTION 172(1) STATEMENT

The Intermediate Company Group's Directors must act in a way that adheres to the requirements of section 172 of the Companies Act 2006. This requires Directors to act in a way that would promote the success of the Intermediate Company Group and consider the following matters:

- the likely consequences of any decision in the long term,
- the interests of the Company's employees,
- the need to foster the Company's business relationships with suppliers, customers and others,
- the impact of the company's operations on the community and the environment,
- the desirability of the company maintaining a reputation for high standards of business conduct, and
- the need to act fairly as between stakeholders of the Company.

As part of their induction to the Intermediate Company Group, Directors are made aware of their duties by the Company Secretary.

Long term decisions – the Directors of the Intermediate Company Group make long term decisions in the context of the risks associated and have developed functional Risk Registers accordingly which are reflected in the Intermediate Company Group's Enterprise Risk Register. These Registers are monitored for legislative, political and financial exposures and the Directors act to mitigate any long-term risk. Details of principal risks and uncertainties can be found within this Report.

Interests of the Group's employees - the Directors of the Intermediate Company Group promote a safe working environment for employees and operate a well-being programme including an employee assistance programme. The Intermediate Company Group engages constructively with recognised trade unions, wherever possible. Furthermore, the Directors of the Intermediate Company Group believe that the actions taken in March 2022 to change the crewing model fundamentally were essential for the long-term financial health of the business and in the interests of the majority of the Group's employees.

Business relationships – the Intermediate Company Group's strategy is to grow and develop business relationships. The Directors of the Intermediate Company Group do this by maintaining strong relationships with customers and suppliers, ensuring that all key customers and suppliers have agreed terms and conditions with the business. For example, in 2021 the Group commences a collaboration with DFDS to provide a "Space Charter" freight service to provide greater frequency of crossings to its freight customers on its flagship Dover-Calais route. The Intermediate Company Group expects its suppliers to agree to its supplier code of conduct or maintain their own equivalent.

Community and environment – the Intermediate Company Group recognises that its operations have environmental impacts and the Directors consider these when planning and making decisions, for example when specifying vessels and route operations. The Intermediate Company Group has commissioned two new-build hybrid "Ships of the Future" on its flagship Dover-Calais route, which are due to enter service in 2023 which will run electric generators thereby reducing greenhouse gas emissions while in port, and which may be upgraded to be fully electric once charging facilities are available at both ports. The Intermediate Company Group also engages with various stakeholders, such as ports and industry trade organisations, to improve collective environmental outcomes such as vehicle traffic management at ports in peak times.

Additionally, appropriate care is taken when handling dangerous materials and managing hazardous activities.

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STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2021

Reputation - the Intermediate Company Group aims to maintain a reputation for high standards of business conduct and acting fairly. The Directors of the Intermediate Company Group periodically consider changes in health and safety legislation, anti-bribery standards, anti-trust legislation and modern slavery prevention expectations. The Intermediate Company Group has an external and independent whistle-blowing hotline and portal with training and reminders about this sent out regularly.

The Directors of the Intermediate Company Group recognise that the actions taken in March 2022 were perceived negatively by sections of the national media and political leaders. The Directors of the Intermediate Company Group maintain that the actions taken were necessary for the long-term financial health of the business and that public sentiment will gradually recover towards the business as it continues to operate in a transparent and compliant manner.

Acting fairly - the Intermediate Company Group believes that it is essential to engage effectively with all stakeholders who influence or are impacted by the Group's business operations, wherever possible regarding the crewing model change where this was not possible). Engagement processes include formalised stakeholder relationship management and communications. Activities are managed centrally and devolved across functional teams as applicable. The Group's approach is based on regular interactions with essential stakeholder groups to understand and respond to legitimate concerns and inputs. Importantly, as a business operating around the United Kingdom, Republic of Ireland and continental Europe, the Intermediate Company Group does not adopt a one-size-fits-all approach.

The Intermediate Company Group strives to be sensitive to the varying needs, interests and engagement styles of the Group's stakeholder groups, taking into account local custom, practice and culture. This approach ensures that the Intermediate Company Group adapts its engagement style and method to the audience.

The Intermediate Company Group has only one shareholder, and as such it is committed to engaging openly with its shareholder, recognising the importance of continuing effective dialogue. It is important to the Intermediate Company Group that the shareholder understands and shares its strategy and objectives - so ensures these are explained clearly, feedback is sought, and issues raised are properly considered and responded to.

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STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2021

PRINCIPAL RISKS AND UNCERTAINTIES

During 2021 the Company monitored principal risks that could materially affect the company's business and financial condition. Below we focus on those that are deemed the most significant to our Company. Our risk management process aims to provide reasonable assurance so that the Company understands, is appraised of changes and is able to manage the principal uncertainties. A summary of Company risks and our approach to managing these is described below.

GEOPOLITICAL

Risks and issues: the Parent Company Group operates across multiple jurisdictions including UK, continental Europe and Republic of Ireland. This operating area is exposed to a spectrum of economies, political and social frameworks. Political instability, changes to the regulatory regime or taxation, international sanctions, civil unrest and conflict can disrupt the Group's operations, increase costs or otherwise negatively impact services, revenues and volumes.

The UK ended its membership of the European Union (EU) on 31 January 2021 and in doing so negotiated a free trade agreement with the EU which avoids tariffs but increases regulatory burdens including rigorous enforcement on "Country of origin". This enforcement has complicated freight travel between the EU and UK which has led to longer check-in times and a reduction in exports from the UK to the EU. Full implementation of third-party travel restrictions was implemented at the end of 2021 when the UK began checking imports from the EU. The Brexit settlement agreed between the UK and the EU includes a controversial new protocol for the land border between Northern Ireland and the Republic (which is a part of the EU Customs Union and Single Market). To avoid a hard border on the island of Ireland, Northern Ireland remains in the EU for Customs and Single Market purposes resulting in increased policing between GB and Northern Ireland - however these checks have not yet been fully implemented and remain a work in progress. This has led to a transfer of freight traffic from Ireland to the UK via Northern Ireland as associated regulatory constraints are currently easier to navigate using this route.

The continuing Ukraine war with Russia is anticipated to impact both customers' confidence to travel and the movement of freight throughout Europe. Additionally, the new international vessel crewing model may be affected due to the proportion of the global shipping personnel market originating from Russia and Ukraine, potentially affecting Group resource constraints.

Despite the increasing risk due to the ongoing war between Russia and Ukraine, as well as political issues between UK and EU regulatory and administrative regimes, the impact on the Company is limited.

COVID 19

At the time of drafting these accounts the Covid 19 global pandemic appears to be in remission with countries reducing restrictions allowing people and businesses to return to pre pandemic practices. Travel since the pandemic is showing strong signs of bouncing back with tourism restarting as Covid risks and testing requirements continue to ease and reduce. Covid shall continue to be a principal risk as new strains may develop and create a new wave of disruption.

FUEL PRICE RISK

The Company has highly predictable requirements for bunker fuels for its ferry fleet and fuel prices remain volatile. The Company's strategy is managed at Group level by the Company's parent company buying hedges in layers. In addition, the Company is able to mitigate the majority of the effect of rising fuel costs through the application of fuel surcharges to customers.

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STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2021

COMPETITION AND MARKET SUPPLY

The Company closely monitors competition in its markets, both from existing operators and potential new entrants. Capacity changes resulting from the deployment of new ships, or changes to schedules are assessed and appropriate actions taken in response. With relatively long lead times in the building of new ships or the development of port capacity, long term market demand and supply projections are undertaken and these are incorporated into the design of the Company's new ships.

MACRO ECONOMIC RISK

The current economic environment continues to be challenging. The directors consider that the Company has appropriate planning processes in place to address this future uncertainty and the directors continue to monitor the trading outlook carefully and take appropriate mitigating action.

CREDIT RISK

Credit risk is the risk of financial loss to the Company if a customer fails to meet its contractual obligations, and arises principally from the Company's receivables from customers, and amounts due from related parties. The Company trades mainly with recognised and creditworthy third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures, and a significant proportion of the Company's receivables are insured. In addition, receivable balances are monitored on an ongoing basis with the result that the Company's exposure to bad debts is not significant.

Management seeks to minimise this risk by ensuring the Company's counterparties are rated in accordance with its Counterparty Limits Policy, for example a minimum of an 'AA' rating is required for exposure in excess of £20m. Counterparty concentration is monitored.

FOREIGN EXCHANGE RISK

The Company is exposed to exchange rate risk principally against the dollar for purchases of fuel and the payment of some vessel charters, and more generally against the Euro. Exchange rate risk against the US dollar is mitigated via currency hedges undertaken by the Company's parent company. The Company has both inflows and outflows of Euros and these generally balance. For specific transactions, for example payments for new ships, the Company will undertake hedges of Euros or other applicable currency if market conditions are believed to be favourable. Any breakup of the Eurozone would alter the balance of Euro inflows and outflows and would probably result in an imbalance in any new currencies used in our markets.

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STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2021

MATERIAL UNCERTAINTY OVER GOING CONCERN

The financial statements have been prepared on a going concern basis.

The Company forms part of the P&O Ferries Division Holding Group ("Intermediate Parent Company Group"), the level at which financial risks are managed for the Company. The Company shares a number of the Intermediate Parent Company Group's resources and transacts with both the Intermediate Parent Company and other companies that are part of the Group.

The Company is reporting a loss of £136.4m for the year ended 31 December 2021.

The cashflow forecasts and budgets for the Company are therefore inherently linked to those prepared at Intermediate Parent Company Group's level. Hence, in making their assessment, the Directors have identified that the Company relies upon the continuation of the Intermediate Parent Company Group's operations and therefore the position and prospects of the Company must be considered inherently linked to that of the Intermediate Parent Company Group.

The Intermediate Parent Company Board continues to manage carefully the Intermediate Parent Company Group's funding and liquidity position. At the balance sheet date, the main sources of debt funding were external bank loans, shareholder loan, a multi-currency credit facility and overdraft facilities. The Intermediate Parent Company Group also had in place working capital facilities for trade debtors factored on a non-recourse basis.

Intermediate Parent Company Group Cash levels throughout 2022 and 2023 have varied but at 30 June 2023 were higher than at the end of December 2021.

The directors have implemented cashflow management strategies which include further negotiation of the deferral of loan principal and pension deficit contribution payments from July 2022, and extended shareholder loan facilities in place to provide a total combined facility of £305 million to support the intermediate Parent Company Group as it continues to address the challenges identified above, with an additional £30m having been approved internally, £229m of which had been drawn by the end of June 2023.

The shareholder loan is repayable at a yet undetermined point in the future but no earlier than December 2023. All of the Intermediate Parent Company Group's external bank loan counterparties and each Board of Pension Trustees were approached in July 2022 and were asked for a twenty-four-month payment holiday and extension of maturity on principal and deficit repayments, and waivers of covenants. All interest and limited principal loan and deficit payments have been made since the end of July 2022 with discussions ongoing with external banks to finalise a shorter principal deferral period of twelve months. Pending resolution of this process the overdraft facility has been suspended by the main relationship bank.

The Intermediate Parent Company Group's external bank loans are subject to the following covenants, comprising the following ratios: net debt to EBITDA before exceptional items; EBITDA to interest payable; secured borrowings to tangible fixed assets; minimum EBITDA and minimum Liquidity. Waivers of the net debt to EBITDA before exceptional items and EBITDA to interest payable covenants had been obtained until December 2021 at which point the Intermediate Parent Company Group had not met the covenant ratios and continued not to do so throughout 2022 and 2023 to date. Base case and downside modelling foresee the continuation of breaches to the existing covenants during the forecast period. The revision of covenants and waivers over past breaches is being addressed as part of the deferral discussions referenced above.

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STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2021

In deciding that the accounts should be prepared on going concern basis, the Board has considered the continuing trading impact on our customers and business resulting from Brexit, Covid-19, and the longer-term impact of the related restructure measures taken by the Intermediate Parent Company board, particularly the March 2022 crewing model change which led to over seven hundred redundancies and widespread media attention which was disruptive to trade for a time.

The Intermediate Parent Company Group directors have prepared several forecasts including the base case, a severe trading downside case and an overall severe but plausible downside scenario as discussed below, covering a period of fifteen months from the date of approval of these financial statements. The original base case, being the approved budget for 2023 and an associated five-year plan, which sees the Intermediate Parent Company Group recover to positive EBITDA generation in the second half of 2023.

The tourist market was budgeted to continue to be adversely affected by Covid-19 and economic recession, though recovering over the course of the plan. Freight volumes were also budgeted to be impacted by economic recession in 2023, recovering in 2024. Both tourist and freight markets are budgeted to pass on price increases given inflation in 2022 which is expected to decline throughout 2023 and beyond.

As of July 2023 the outlook for the current year is being reviewed taking into account a shortfall in performance in the first half of the year and potential challenges ahead. However, further analysis supports the overall assertions used originally, and that despite the potential shortfalls, the Intermediate Parent Company Group should have sufficient liquidity to meet its needs, even in the event of further challenge (contingencies have been built into assessments).

The Intermediate Parent Company Group has also planned various cost saving initiatives that reduce the costs in its base case including the change in the crewing model.

On 28 February 2023 the title of ownership of the new vessels under construction, being the assets on the balance sheet, were transferred, at net book value of £86.7m, to DP World France SAS, a DPW legal entity outside the Intermediate Parent Company Group. The consideration for this asset transfer was a combination of cash and a reduction in the shareholder loan facility balance, following receipt of the required approvals being obtained. Subsequently the Intermediate Parent Company Group is not bearing any further capital expenditure costs.

The controlling shareholder - DP World is underwriting the financing of the vessels which are to be chartered to the Intermediate Parent Company Group at a competitive third-party charter rate.

No impact has been included in the forecast or is expected from the ongoing Insolvency Service civil investigation. The base case assumed the successful agreement of the above mentioned payment deferral for principal loan and pension deficit payments for the MNRPF. The base case also assumed increased capacity on the Dover-Calais route from the delivery of the two new build vessels, one of which started sailing in June 2023 and the other is expected to sail later in 2023.

P&O SHORT SEA FERRIES LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2021

The severe trading downside scenario assumes the freight and tourist markets will continue to recover from the impact of Covid-19 but that there will be a volume impact from economic recession and an additional impact from the pending European Entry System (EES) and European Travel Information and Authorisation System (ETIAS) checks required for travel post Brexit, limiting the maximum capacity through ports. These factors result in a total plausible downside of 11% of tourist volume in 2023, 9% on P&O Freight volumes and on 5% P&O Ferrymasters volumes due to the risk of a lower than budgeted market growth and increased competitive activity. In this scenario the group projects to still achieve a positive EBIT position in 2024 but still does not project to draw any additional shareholder support beyond agreed amounts.

Under the severe but plausible downside case, in addition to the trading downsides described above, the Intermediate Parent Company Group projected the effect of external bank loan counterparties and each Board of Pension Trustees providing no further concessions to contracted positions, with a catch up on unpaid principal amounts. However an early repayment in full due to covenant breach has not been considered in this scenario. The extent of additional funding that is required is dependent on the Intermediate Parent Company Group's ability to achieve the base forecasts and successfully conclude binding agreements with the external bank loan counterparties. In the overall severe but plausible downside case no additional shareholder support in excess of the existing facility of £305 million is required.

Consequently, the directors believe that the Intermediate Parent Company Group and company will have sufficient funds to continue to meet its liabilities as they fall due for at least twelve months from the date of approval of the financial statements and therefore believe that it remains appropriate to prepare the financial statements on a going concern basis. However, they acknowledge that the agreement of the finance providers to a payment deferral and covenant waivers are still outstanding.

However, if these payment waivers and covenant waivers were not received and in certain other scenarios it is feasible that there would be a need for further, uncommitted, support from the controlling shareholder - DP World Limited. These other scenarios include new potential pension deficit demands coming out of the valuations taking place at 31 March 2023, early repayment in full due to covenant breach and other "extreme" trading shocks beyond what is projected in the severe but plausible trading downside. There is a material uncertainty that may cast significant doubt on the Intermediate Parent Company Group's ability to continue as a going concern and therefore with respect to the Company there is also a material uncertainty that may cast significant doubt on its ability to continue as a going concern and therefore, to continue realising their assets and discharging their liabilities in the normal course of business. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

P&O SHORT SEA FERRIES LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2021

MATERIAL NON-ADJUSTING EVENTS AFTER THE FINANCIAL PERIOD

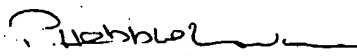
The controlling shareholder, DP World Ltd, has continued to provide significant funding to support the Intermediate Parent Company Group during 2022, to support operations and fund turnaround efforts. The controlling shareholders loan facility of £160m that existed at the balance sheet date was extended by a further £115m in September 2022 and then a further £30m in November 2022.

In March 2022, the Intermediate Parent Company Group enacted a strategic change related to its fleet crewing resources. The financial impacts of the Covid 19 pandemic on the Group resulted in a need to ensure operating efficiency and flexibility if it was to return to profitability and have a viable long-term future. The ability of the Group to operate with this required flexibility (to vary staffing levels and sailing schedule frequency in the light of changing demand) was constrained by legacy restrictive collective bargaining agreements.

The Intermediate Parent Company Board resolved on 17 March 2022 that the solution to gaining this essential operational flexibility was to deploy an international agency based crewing model common in the international maritime industry. The Group did not consult with 786 employees who were made redundant as required under UK Employment law in the implementation of this decision. However, all impacted employees were compensated in full for "failure to consult", as is required within the law, without the need for Employment Tribunal hearings, with settlement packages exceeding minimum statutory requirements and have signed final settlement agreements. The cost of the enhanced redundancy packages was £36.5m, which will be recognised in the financial statements in 2022. There was a further impacts arising from the subsequent disruption from ships being delayed returning to service due to seafarer familiarisation and extensive safety checks. A criminal investigation into the circumstances of the crewing model change by the Insolvency Service has been closed with no prosecution. A civil investigation by the Insolvency Service is ongoing but remains at the information gathering stage and the Insolvency Service have not confirmed the exact scope of their investigation. The Insolvency Service would need to show that any action it proposed to take was in the public interest and just and equitable. The directors consider that it will not be able to demonstrate this and consequentially there is a less than remote possibility of a related economic outflow in relation to any such action.

No other matter or circumstance has arisen since 31 December 2021 that has significantly affected or may significantly affect the Company's operations, the results of those operations, or the Group's state of affairs in future financial years.

Approved by the Board on 2 August 2023 and signed on its behalf by:



P D G Hebblethwaite
Director

P&O SHORT SEA FERRIES LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2021

The directors present their report and the financial statements of P&O Short Sea Ferries Limited ('the Company') for the year ended 31 December 2021.

DIRECTORS' OF THE COMPANY

The directors, who held office during the year, were as follows:

K Howarth

D Stretch (ceased 23 November 2021)

L A Cotton (ceased 31 March 2021)

C B Bailey (ceased 23 May 2022)

P D G Hebblethwaite

A Odinius (appointed 1 September 2021 and ceased 7 October 2022)

The following director was appointed after the year end:

P Narayan (appointed 3 August 2022)

No director had any interest in the share capital of the Company during the year or at the year end. No rights to subscribe for shares in or debentures of the Company or any other group company were granted to any of the directors or their immediate families; or exercised by them, during the financial year.

DIRECTORS INDEMNIFICATION

Relevant personnel at P&O Ferries Limited are covered by the Directors and Officers liability Insurance arranged by Port and Free Zone World with Chubb Insurance and others. The main limit is US\$100,000,000 which applies to either a single claim or to cap the total claims submitted within an insured period.

POLITICAL DONATIONS

The Company made no political donations and incurred no political expenditure during the year (2020: £nil).

CORPORATE GOVERNANCE

The corporate governance statement has been included within the Strategic Report due to its strategic importance.

EMPLOYMENT OF DISABLED PERSONS

The Company is committed to communication with all employees and has in place arrangements to facilitate periodic meetings with representatives of the staff. Matters of interest concerning the Company as a whole as well as those of a local interest are communicated in writing.

Various profit sharing schemes for Company employees are in operation.

EMPLOYEE INVOLVEMENT

The Group is committed to communication with all employees and has in place arrangements to facilitate periodic meetings with representatives of the staff. Matters of interest concerning the Group as a whole as well as those of a local interest are communicated in writing.

Various profit sharing schemes for Group employees are in operation.

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DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2021

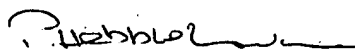
DISCLOSURE OF INFORMATION TO THE AUDITORS

Each director has taken steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information. The directors confirm that there is no relevant information that they know of and of which they know the auditor is unaware.

REAPPOINTMENT OF AUDITORS

The auditors KPMG LLP are deemed to be reappointed under section 487(2) of the Companies Act 2006.

Approved by the Board on 2 August 2023 and signed on its behalf by:



P D G Hebblethwaite
Director

P&O SHORT SEA FERRIES LIMITED

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

The directors are responsible for preparing the Annual 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, they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

Under company law the directors must not approve the financial statements unless they are satisfied that they 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 apply them consistently;
- make judgements and accounting 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;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and 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.

P&O SHORT SEA FERRIES LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF P&O SHORT SEA FERRIES LIMITED

OPINION

We have audited the financial statements of P&O Short Sea Ferries Limited (the 'company') for the year ended 31 December 2021, which comprise the Profit and Loss Account, the Statement of Comprehensive Loss, the Statement of Financial Position, the Statement of Changes in Equity, and related notes including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2021 and of its loss for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

We draw attention to note 1 to the financial statements which indicates that the Company's ability to continue as a going concern is dependent on the availability of sufficient debt facilities to its Intermediate Parent Company Group. This will be affected by the following factors which remain uncertain, agreement of its finance providers to a payment deferrals and covenant waivers, the substantial achievement of the base forecasts and the availability of such additional funding as is needed from the controlling shareholder of the Intermediate Parent Company.

These events and conditions, along with the other matters explained in note 1, constitute a material uncertainty that may cast significant doubt on the company's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

GOING CONCERN

The directors have prepared the financial statements on the going concern basis. As stated above, they have concluded that a material uncertainty related to going concern exists.

Our conclusions based on our financial statements audit work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

P&O SHORT SEA FERRIES LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF P&O SHORT SEA FERRIES LIMITED

FRAUD AND BREACHES OF LAWS AND REGULATIONS – ABILITY TO DETECT

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors as to the Group's high-level policies and procedures to prevent and detect fraud and the Group's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board minutes.
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries. On this audit we do not believe there is a fraud risk related to revenue recognition for other revenue streams because they consist of high number of low value transactions for which the correct period of recording requires little judgement.

We did not identify any additional fraud risks.

We performed procedures including:

- Identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted to unusual accounts, post close journal entries and those posted with rounded numbers.

Identifying and responding to risks of material misstatement related to compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the directors and others management (as required by auditing standards), and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), pension legislation, distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

P&O SHORT SEA FERRIES LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF P&O SHORT SEA FERRIES LIMITED

FRAUD AND BREACHES OF LAWS AND REGULATIONS – ABILITY TO DETECT

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: health and safety, anti-bribery, employment law and certain aspects of company legislation recognising the nature of the Company's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

For the material non adjusting events after the reporting date of a criminal investigation and civil investigation into the circumstances of the crewing model change discussed in note 16 we assessed disclosures against our understanding obtained from legal correspondences and discussions; used our employment law specialists to help us assess compliance with laws and regulations and obtained communications received from relevant authorities.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

STRATEGIC REPORT AND DIRECTORS' REPORT

The directors are responsible for the strategic report and directors' report. Our opinion on the financial statements does not cover that report and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

P&O SHORT SEA FERRIES LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF P&O SHORT SEA FERRIES LIMITED

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

DIRECTORS' RESPONSIBILITIES

As explained more fully in their statement set out on page 13, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A further description of our responsibilities is available on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

THE PURPOSE OF OUR AUDIT WORK AND TO WHOM WE OWE OUR RESPONSIBILITIES

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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.



Tom Eve (Senior Statutory Auditor)
For and on behalf of KPMG LLP, Statutory Auditor

15 Canada Square
London
United Kingdom
E14 5GL

P&O SHORT SEA FERRIES LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2021

	Note	2021 £ 000	2020 £ 000
Turnover	2	156,886	190,502
Cost of sales		<u>(202,411)</u>	<u>(208,222)</u>
Gross loss		(45,525)	(17,720)
Administrative expenses		<u>(86,814)</u>	<u>(81,483)</u>
Operating loss	3	(132,339)	(99,203)
Interest payable and similar expenses	4	<u>(4,069)</u>	<u>2,603</u>
Loss before tax		(136,408)	(96,600)
Tax on loss	7	<u>40</u>	<u>(11)</u>
Loss for the year		<u><u>(136,368)</u></u>	<u><u>(96,611)</u></u>

The above results were derived from continuing operations.

The notes on pages 22 to 36 form an integral part of these financial statements.

P&O SHORT SEA FERRIES LIMITED

**STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31
DECEMBER 2021**

	2021 £ 000	2020 £ 000
Loss for the year	<u>(136,368)</u>	<u>(96,611)</u>
Total comprehensive income for the year	<u><u>(136,368)</u></u>	<u><u>(96,611)</u></u>

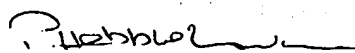
The notes on pages 22 to 36 form an integral part of these financial statements.

P&O SHORT SEA FERRIES LIMITED

**(REGISTRATION NUMBER: 03291852)
BALANCE SHEET AS AT 31 DECEMBER 2021**

	Note	31 December 2021 £ 000	31 December 2020 £ 000
Fixed assets			
Investments	8	33,521	95,864
Current assets			
Stocks	9	4,074	4,268
Debtors	10	19,273	14,374
	9	23,347	18,642
Creditors: Amounts falling due within one year	11	(139,434)	(54,967)
Net current liabilities		(116,087)	(36,325)
Total assets less current liabilities		(82,566)	59,539
Provisions for liabilities	12	-	(5,737)
Net (liabilities)/assets		(82,566)	53,802
Capital and reserves			
Called up share capital	13	206,263	206,263
Retained earnings		(288,829)	(152,461)
Shareholders' (deficit)/funds		(82,566)	53,802

Approved by the Board on 2 August 2023 and signed on its behalf by:



P D G Hebblethwaite
Director

P&O SHORT SEA FERRIES LIMITED

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2021

	Called up share capital £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2021	206,263	(152,461)	53,802
Loss for the year	-	(136,368)	(136,368)
Total comprehensive income	-	(136,368)	(136,368)
At 31 December 2021	<u>206,263</u>	<u>(288,829)</u>	<u>(82,566)</u>

	Called up share capital £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2020	206,263	(55,850)	150,413
Loss for the year	-	(96,611)	(96,611)
Total comprehensive income	-	(96,611)	(96,611)
At 31 December 2020	<u>206,263</u>	<u>(152,461)</u>	<u>53,802</u>

The notes on pages 22 to 36 form an integral part of these financial statements.

P&O SHORT SEA FERRIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

1 ACCOUNTING POLICIES

BASIS OF PREPARATION

P&O Short Sea Ferries Limited (the "Company") is a company incorporated and domiciled in the UK.

The financial statements are prepared on the historical cost basis.

The Company financial statements have been prepared and approved by the directors in accordance with Financial Reporting Standard FRS 101 Reduced Disclosure Framework ("FRS 101").

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of UK-adopted international accounting standards ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken. FRS 101 disclosure exemptions adopted include transactions with related parties which form part of the Company's group and certain disclosures required by IFRS 13 Fair Value Measurement, IFRS 16 Leases, IAS 7 the disclosure of a statement of cash flows and the disclosures required by IFRS 7 Financial Instrument Disclosures.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

The Company has taken advantage of the exemption under s400 of the Companies Act 2006 not to prepare group financial statements as it is a wholly owned subsidiary of P&O Ferries Division Holdings Limited. The results of P&O Ferries Division Holdings Limited are available from the Company Secretary at the registered office: Channel House, Channel View Road, Dover, Kent, CT17 9TJ.

P&O SHORT SEA FERRIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

GOING CONCERN

The financial statements have been prepared on a going concern basis.

The Company forms part of the P&O Ferries Division Holding Group ("Intermediate Parent Company Group"), the level at which financial risks are managed for the Company. The Company shares a number of the Intermediate Parent Company Group's resources and transacts with both the Intermediate Parent Company and other companies that are part of the Group.

The Company is reporting a loss of £136.4m for the year ended 31 December 2021.

The cashflow forecasts and budgets for the Company are therefore inherently linked to those prepared at Intermediate Parent Company Group's level. Hence, in making their assessment, the Directors have identified that the Company relies upon the continuation of the Intermediate Parent Company Group's operations and therefore the position and prospects of the Company must be considered inherently linked to that of the Intermediate Parent Company Group.

The Intermediate Parent Company Board continues to manage carefully the Intermediate Parent Company Group's funding and liquidity position. At the balance sheet date, the main sources of debt funding were external bank loans, shareholder loan, a multi-currency credit facility and overdraft facilities. The Intermediate Parent Company Group also had in place working capital facilities for trade debtors factored on a non-recourse basis.

Intermediate Parent Company Group Cash levels throughout 2022 and 2023 have varied but at 30 June 2023 were higher than at the end of December 2021.

The directors have implemented cashflow management strategies which include further negotiation of the deferral of loan principal and pension deficit contribution payments from July 2022, and extended shareholder loan facilities in place to provide a total combined facility of £305 million to support the intermediate Parent Company Group as it continues to address the challenges identified above, with an additional £30m having been approved internally, £229m of which had been drawn by the end of June 2023.

The shareholder loan is repayable at a yet undetermined point in the future but no earlier than December 2023. All of the Intermediate Parent Company Group's external bank loan counterparties and each Board of Pension Trustees were approached in July 2022 and were asked for a twenty-four-month payment holiday and extension of maturity on principal and deficit repayments, and waivers of covenants. All interest and limited principal loan and deficit payments have been made since the end of July 2022 with discussions ongoing with external banks to finalise a shorter principal deferral period of twelve months. Pending resolution of this process the overdraft facility has been suspended by the main relationship bank.

The Intermediate Parent Company Group's external bank loans are subject to the following covenants, comprising the following ratios: net debt to EBITDA before exceptional items; EBITDA to interest payable; secured borrowings to tangible fixed assets; minimum EBITDA and minimum Liquidity. Waivers of the net debt to EBITDA before exceptional items and EBITDA to interest payable covenants had been obtained until December 2021 at which point the Intermediate Parent Company Group had not met the covenant ratios and continued not to do so throughout 2022 and 2023 to date. Base case and downside modelling foresee the continuation of breaches to the existing covenants during the forecast period. The revision of covenants and waivers over past breaches is being addressed as part of the deferral discussions referenced above.

P&O SHORT SEA FERRIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

In deciding that the accounts should be prepared on going concern basis, the Board has considered the continuing trading impact on our customers and business resulting from Brexit, Covid-19, and the longer-term impact of the related restructure measures taken by the Intermediate Parent Company board, particularly the March 2022 crewing model change which led to over seven hundred redundancies and widespread media attention which was disruptive to trade for a time.

The Intermediate Parent Company Group directors have prepared several forecasts including the base case, a severe trading downside case and an overall severe but plausible downside scenario as discussed below, covering a period of fifteen months from the date of approval of these financial statements. The original base case, being the approved budget for 2023 and an associated five-year plan, which sees the Intermediate Parent Company Group recover to positive EBITDA generation in the second half of 2023.

The tourist market was budgeted to continue to be adversely affected by Covid-19 and economic recession, though recovering over the course of the plan. Freight volumes were also budgeted to be impacted by economic recession in 2023, recovering in 2024. Both tourist and freight markets are budgeted to pass on price increases given inflation in 2022 which is expected to decline throughout 2023 and beyond.

As of July 2023 the outlook for the current year is being reviewed taking into account a shortfall in performance in the first half of the year and potential challenges ahead. However, further analysis supports the overall assertions used originally, and that despite the potential shortfalls, the Intermediate Parent Company Group should have sufficient liquidity to meet its needs, even in the event of further challenge (contingencies have been built into assessments).

The Intermediate Parent Company Group has also planned various cost saving initiatives that reduce the costs in its base case including the change in the crewing model.

On 28 February 2023 the title of ownership of the new vessels under construction, being the assets on the balance sheet, were transferred, at net book value of £86.7m, to DP World France SAS, a DPW legal entity outside the Intermediate Parent Company Group. The consideration for this asset transfer was a combination of cash and a reduction in the shareholder loan facility balance, following receipt of the required approvals being obtained. Subsequently the Intermediate Parent Company Group is not bearing any further capital expenditure costs.

The controlling shareholder - DP World is underwriting the financing of the vessels which are to be chartered to the Intermediate Parent Company Group at a competitive third-party charter rate.

No impact has been included in the forecast or is expected from the ongoing Insolvency Service civil investigation. The base case assumed the successful agreement of the above mentioned payment deferral for principal loan and pension deficit payments for the MNRPF. The base case also assumed increased capacity on the Dover-Calais route from the delivery of the two new build vessels, one of which started sailing in June 2023 and the other is expected to sail later in 2023.

P&O SHORT SEA FERRIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

The severe trading downside scenario assumes the freight and tourist markets will continue to recover from the impact of Covid-19 but that there will be a volume impact from economic recession and an additional impact from the pending European Entry System (EES) and European Travel Information and Authorisation System (ETIAS) checks required for travel post Brexit, limiting the maximum capacity through ports. These factors result in a total plausible downside of 11% of tourist volume in 2023, 9% on P&O Freight volumes and on 5% P&O Ferrymasters volumes due to the risk of a lower than budgeted market growth and increased competitive activity. In this scenario the group projects to still achieve a positive EBIT position in 2024 but still does not project to draw any additional shareholder support beyond agreed amounts.

Under the severe but plausible downside case, in addition to the trading downsides described above, the Intermediate Parent Company Group projected the effect of external bank loan counterparties and each Board of Pension Trustees providing no further concessions to contracted positions, with a catch up on unpaid principal amounts. However an early repayment in full due to covenant breach has not been considered in this scenario. The extent of additional funding that is required is dependent on the Intermediate Parent Company Group's ability to achieve the base forecasts and successfully conclude binding agreements with the external bank loan counterparties. In the overall severe but plausible downside case no additional shareholder support in excess of the existing facility of £305 million is required.

Consequently, the directors believe that the Intermediate Parent Company Group and company will have sufficient funds to continue to meet its liabilities as they fall due for at least twelve months from the date of approval of the financial statements and therefore believe that it remains appropriate to prepare the financial statements on a going concern basis. However, they acknowledge that the agreement of the finance providers to a payment deferral and covenant waivers are still outstanding.

However, if these payment waivers and covenant waivers were not received and in certain other scenarios it is feasible that there would be a need for further, uncommitted, support from the controlling shareholder - DP World Limited. These other scenarios include new potential pension deficit demands coming out of the valuations taking place at 31 March 2023, early repayment in full due to covenant breach and other "extreme" trading shocks beyond what is projected in the severe but plausible trading downside. There is a material uncertainty that may cast significant doubt on the Intermediate Parent Company Group's ability to continue as a going concern and therefore with respect to the Company there is also a material uncertainty that may cast significant doubt on its ability to continue as a going concern and therefore, to continue realising their assets and discharging their liabilities in the normal course of business. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

P&O SHORT SEA FERRIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

TURNOVER

Turnover represents the amounts derived from the provision of goods and services to third party customers from the operation of ferry services between Great Britain and Continental Europe.

Turnover excludes VAT and other sales taxes and is measured at the fair value of the consideration receivable, net of discounts.

Turnover from tourist and freight ferry traffic (including on-board sales) is recognised on disembarkment of the relevant sailing.

Commissions income is received on the sales made of World Duty Free Group products, through an agency agreement for the on-board retail sales.

ACCOUNTING ESTIMATES AND JUDGEMENTS

The Company's financial statements prepared in accordance with FRS 101 respectively require management to make judgements and estimates that affect amounts reported in the financial statements and related notes. The judgements and estimates used in the financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the Company's financial statements. Actual results could differ from such estimates.

Judgements and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The directors consider that significant judgements relate to:

- The assessment of uncertainty regarding going concern as included in the basis of preparation accounting policy (note 1),

The directors consider that significant estimates relate to:

- Investment impairment assessment (note 8), estimation arises in respect of assumptions applied

FOREIGN CURRENCY TRANSACTIONS AND BALANCES

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Exchange differences are taken into account in arriving at the operating profit.

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction or, if hedged forward, at the rate of exchange under the related forward currency contract.

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.

TAX

The tax expense for the period comprises current tax. Tax is recognised in profit or loss, except that a change attributable to an item of income or expense recognised as other comprehensive income is also recognised directly in other comprehensive income.

P&O SHORT SEA FERRIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the group operates and generates taxable income.

IMPAIRMENT

Financial assets (including receivables)

The Company recognises loss allowances for expected credit losses* (ECLs) on financial assets measured at amortised cost.

Loss allowances for trade receivables are generally measured at an amount equal to lifetime ECL.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 60 days past due.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortised cost are credit impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Write-offs

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery.

P&O SHORT SEA FERRIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

Non-financial assets

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units, or ("CGU"). Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes.

An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

INVESTMENTS

In the Company's financial statements, investments in subsidiary undertakings are stated at amortised cost less impairment.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash on hand and call deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

FINANCIAL ASSETS AND LIABILITIES

Non-derivative financial instruments comprise trade and other debtors, cash and cash equivalents, loans and borrowings, and trade and other creditors.

Trade and other debtors

Trade and other debtors are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

Trade and other creditors

Trade and other creditors are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

P&O SHORT SEA FERRIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

STOCKS

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method.

The cost of finished goods and work in progress comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. At each reporting date, inventories are assessed for impairment. If inventory is impaired, the carrying amount is reduced to its selling price less costs to complete and sell; the impairment loss is recognised immediately in profit or loss.

PROVISIONS

Provisions are recognised when the group has a present obligation (legal or constructive) as a result of a past event, it is probable that the group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the reporting date and are discounted to present value where the effect is material.

SHARE CAPITAL

Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments. If payment is deferred and the time value of money is material, the initial measurement is on a present value basis.

2 TURNOVER

The analysis of the group's turnover for the year from continuing operations is as follows:

	2021 £ 000	2020 £ 000
Ferry service total	151,898	189,058
Commissions income	4,988	1,444
	<u>156,886</u>	<u>190,502</u>

All revenues were earned on the provision of services between the UK, Ireland and continental Europe.

3 OPERATING LOSS

Arrived at after charging:

	2021 £ 000	2020 £ 000
Impairment loss	62,343	29,705
Reversal of provisions	<u>(5,737)</u>	<u>(650)</u>

P&O SHORT SEA FERRIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

4 INTEREST PAYABLE AND SIMILAR EXPENSES

	2021	2020
	£ 000	£ 000
Foreign exchange losses / (gains)	3,012	(4,189)
Other finance costs	1,057	1,586
	<u>4,069</u>	<u>(2,603)</u>

5 DIRECTORS' REMUNERATION

No director received any emoluments during the period for services to the Company. The Company considers that there is no practicable method to accurately allocate a portion of the emoluments the Directors receive from their respective Intermediate Group company.

6 AUDITORS' REMUNERATION

	2021	2020
	£ 000	£ 000
Audit of the financial statements	<u>37</u>	<u>28</u>

Amounts receivable by the Company's auditor and its associates in respect of services to the Company and its associates, other than the audit of the Company's financial statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis in the consolidated financial statements of the Company's intermediate parent.

7 INCOME TAX

Tax charged/(credited) in the profit and loss account

	2021	2020
	£ 000	£ 000
Current taxation		
UK corporation tax	<u>40</u>	<u>(11)</u>

The tax on profit before tax for the year is higher than the standard rate of corporation tax in the UK (2020 - lower than the standard rate of corporation tax in the UK) of 19.00% (2020 - 19.00%).

The Company's activities are qualifying activities for the purpose of the UK tonnage tax regime and the Company pays corporation tax on these activities by reference to the tonnage of the ships owned or operated. For its other non-qualifying activities the Company pays corporation tax at the standard rates above.

P&O SHORT SEA FERRIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

The differences are reconciled below:

	2021 £ 000	2020 £ 000
(Loss)/ profit before tax	(136,368)	(96,600)
Corporation tax at standard rate	(25,910)	(18,354)
Tonnage tax	25,950	18,343
Total tax charge	40	(11)

Factors that may affect future tax charges

An increase in the UK corporation tax rate from 19% to 25% (effective 1 April 2023) was substantively enacted on 24 May 2021.

P&O SHORT SEA FERRIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

8 INVESTMENTS

Subsidiaries	£ 000
Cost or valuation	
At 1 January 2020	<u>131,369</u>
At 31 December 2020	<u>131,369</u>
At 1 January 2021	<u>131,369</u>
At 31 December 2021	<u>131,369</u>
Provision	
At 1 January 2020	5,800
Provision	<u>29,705</u>
At 31 December 2020	<u>35,505</u>
At 1 January 2021	<u>35,505</u>
Provision	<u>62,343</u>
At 31 December 2021	<u>97,848</u>
Carrying amount	
At 31 December 2021	<u><u>33,521</u></u>
At 31 December 2020	<u><u>95,864</u></u>

Investments are reviewed annually for impairment which has resulted in an impairment charge for the year of £62.3m (2020 - £29.7m) being applied.

The recoverable amount has been determined on a discounted cash flow basis, the directors assessment of future cashflows is estimated at the same value as the current year, prorating as necessary for the projected disposal of vessels. Wherever possible the actual values have replaced the projected figures.

A cost of equity discount rate of 12.2% (2020 - 8.4%) and long term growth rate of 1.62% (2020 - 1.62%) has been applied. These are considered key assumptions.

The Company's material investment earns cash inflows via provision of port and back office services to fellow Intermediate Parent Group subsidiaries, the net inflow generated from the 5% markup applied to relevant costs is the EBIDTA which is the sensitive assumption in the underlying cashflow forecasts.

Impairment occurs when the recoverable amount is lower than the carrying value of the investment.

P&O SHORT SEA FERRIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

The carrying amount per the calculation is sensitive to these variables, with the following implied effects if the variable is changed in isolation:

	Implied increase / (Decrease) in value in use £ 000	Change in carrying amount of Investments £ 000
Discount rate lower by 9.4	66,774	62,343
Discount rate lower by 1.0	1,056	1,056
Discount rate higher by 3.9	(2,961)	(2,961)
Terminal growth rate lower by 0.1	(84)	(84)
Terminal growth rate higher by 9.38	69,980	62,343
Terminal growth rate lower by 1.62	(1,189)	(1,189)
Annual EBITDA lower by 5%	902	902
Annual EBITDA lower by 100%	(18,045)	(18,045)
Annual EBITDA higher by 450%	63,156	62,343
Annual EBITDA higher by 5%	902	902
Reduction of projected sales proceeds to scrap value	(5,573)	(5,573)

Details of the subsidiaries as at 31 December 2021 are as follows:

Name of subsidiary	Principal activity	Registered office	Proportion of ownership interest and voting rights held	
			2021	2020
P&O Ferries Limited	Ferry services	United Kingdom	100%	100%
P&O Ferries (Short Sea) Limited	Dormant	United Kingdom	100%	100%
P&O Ferries Ship Management Limited	Ship Management	United Kingdom	100%	100%
P&O Ferries France SAS	Ferry services	France	100%	100%
SNC Gris-Nez Bail	Leasing	France	100%	100%
SNC White Clifs Bail	Leasing	France	100%	100%
P&O Ferries Port Services Limited	Dormant	United Kingdom	100%	100%

P&O SHORT SEA FERRIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

9 STOCKS

	31 December 2021 £ 000	31 December 2020 £ 000
Raw materials and consumables	3,451	3,639
Finished goods and goods for resale	623	629
	<u>4,074</u>	<u>4,268</u>

Raw materials, consumables, and changes in finished goods recognised as cost of sales in the year amounted to £30.3m (2020 - £25.4m).

10 TRADE AND OTHER DEBTORS

	31 December 2021 £ 000	31 December 2020 £ 000
Trade debtors	25,637	19,890
Provision for impairment of trade debtors	(2,150)	(1,881)
Provision for customer rebates	(4,214)	(4,905)
Net trade debtors	19,273	13,104
Debtors from related parties	-	1,270
	<u>19,273</u>	<u>14,374</u>

11 TRADE AND OTHER CREDITORS

	31 December 2021 £ 000	31 December 2020 £ 000
Trade creditors	28,485	19,156
Accrued expenses	4,691	6,491
Amounts due to related parties	106,248	29,277
Income tax liability	10	43
	<u>139,434</u>	<u>54,967</u>

12 OTHER PROVISIONS

	Other provisions £ 000	Total £ 000
At 1 January 2021	5,737	5,737
Unused provision reversed	(5,737)	(5,737)
At 31 December 2021	<u>-</u>	<u>-</u>

P&O SHORT SEA FERRIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

	Other provisions £ 000	Total £ 000
At 1 January 2020	6,387	6,387
Unused provision reversed	<u>(650)</u>	<u>(650)</u>
At 31 December 2020	<u>5,737</u>	<u>5,737</u>
Current liabilities	<u>5,737</u>	<u>5,737</u>

In 2021 provisions of £5.7m were reversed (2020 - £0.7m), £5.5m in relation to an employment tribunal that ended favourable for the company.

13 SHARE CAPITAL

ALLOTTED, CALLED UP AND FULLY PAID SHARES

	31 December 2021		31 December 2020	
	No. 000	£ 000	No. 000	£ 000
Ordinary of £1 each	<u>206,263</u>	<u>206,263</u>	<u>206,263</u>	<u>206,263</u>

14 RESERVES

Share capital

Ordinary share capital issued by the Company.

Profit and loss account

Profit and loss account comprises the cumulative net earnings of the Company.

15 PARENT AND ULTIMATE PARENT UNDERTAKING

The company's immediate parent is P&O Ferries Holdings Limited a company incorporated in Great Britain, and registered in England and Wales.

The ultimate parent is Dubai World Corporation a company incorporated in Dubai. This is the largest group of companies for which consolidated financial statements are prepared in which P&O Short Sea Ferries Limited is consolidated. These financial statements are not publicly filed.

The smallest group of companies for which consolidated financial statements are prepared and in which the Company is consolidated is P&O Ferries Division Holdings Limited.

As at 31 December 2021 the ultimate controlling party is DP World Limited a company incorporated in Dubai.

P&O SHORT SEA FERRIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

16. NON ADJUSTING EVENTS AFTER THE FINANCIAL PERIOD

The controlling shareholder, DP World Ltd, has continued to provide significant funding to support the Intermediate Parent Company Group during 2022, to support operations and fund turnaround efforts. The controlling shareholders loan facility of £160m that existed at the 'balance sheet' date was extended by a further £115m in September 2022 and then a further £30m in November 2022.

In March 2022, the Intermediate Parent Company Group enacted a strategic change related to its fleet crewing resources. The financial impacts of the Covid 19 pandemic on the Group resulted in a need to ensure operating efficiency and flexibility if it was to return to profitability and have a viable long-term future. The ability of the Group to operate with this required flexibility (to vary staffing levels and sailing schedule frequency in the light of changing demand) was constrained by legacy restrictive collective bargaining agreements.

The Intermediate Parent Company Board resolved on 17 March 2022 that the solution to gaining this essential operational flexibility was to deploy an international agency based crewing model common in the international maritime industry. The Group did not consult with 786 employees who were made redundant as required under UK Employment law in the implementation of this decision. However, all impacted employees were compensated in full for "failure to consult", as is required within the law, without the need for Employment Tribunal hearings, with settlement packages exceeding minimum statutory requirements and have signed final settlement agreements. The cost of the enhanced redundancy packages was £36.5m, which will be recognised in the financial statements in 2022. There was a further impacts arising from the subsequent disruption from ships being delayed returning to service due to seafarer familiarisation and extensive safety checks. A criminal investigation into the circumstances of the crewing model change by the Insolvency Service has been closed with no prosecution. A civil investigation by the Insolvency Service is ongoing but remains at the information gathering stage and the Insolvency Service have not confirmed the exact scope of their investigation. The Insolvency Service would need to show that any action it proposed to take was in the public interest and just and equitable. The directors consider that it will not be able to demonstrate this and consequentially there is a less than remote possibility of a related economic outflow in relation to any such action.

No other matter or circumstance has arisen since 31 December 2021 that has significantly affected or may significantly affect the Company's operations, the results of those operations, or the Company's state of affairs in the future years.