Registered number
6038090

P&O Ferries Division Holdings Limited (formerly Polebay Limited)

Directors' report and financial statements

31 December 2007

P&O Ferries Division Holdings Limited (formerly Polebay Limited)
Report and financial statements
Contents

P&O Ferries Division Holdings Limited (formerly Polebay Limited)
Directors' Report

The directors present their report together with the audited financial statements for the period ended 31 December 2007

Principal activities and business review

The principal activity of the group is transportation within Europe including operation of ferry services between Great Britain and Continental Europe and road transport services across Great Britain, Ireland and continental Europe The Company is a holding company

The company was incorporated on 29 December 2006 as Polebay Limited and renamed as P&O Ferries Division Holdings Limited on 23 February 2007

As part of a group reorganisation on 30 March 2007, P&O Ferries Division Holdings Limited took ownership of its current subsidiaries, as disclosed in note 12 Ultimately these companies are owned by Dubai World Corporation and this did not change as a part of the reorganisation The company issued 429m shares for a total value of £535m, which was realised in the form of acquiring the businesses from the Peninsular and Oriental Steam Navigation Company, along with the loans, at the fair value based on their projected cash flows of the companies The transactions have been recorded under acquisition accounting, with the excess of the consideration paid over the fair value of the assets acquired being the goodwill

The accounts are for the period from 29 December 2006 to 31 December 2007, but as there was no trading until the 30 March 2007, the trading results are for the 9 months from 30 March 2007 to 31 December 2007

Profit after tax was £58,452,000 for the period Many components of the business are subject to a high degree of seasonality so it is not reliable to take a simplistic approach of annualising the results for KPI production The earnings before interest of both ferries and logistics sectors were above management expectations as set by the budget The subsidiaries' trading volumes for the full year of 2007 compared with 2006 were increased with ferry freight carryings rising by 4%, ferry tourist vehicle carryings rising by 1% and logistics movements rising by 7 2%

At the year end the Group had overdraft facilities of £10m and revolving credit facilities of £30m to fund working capital requirements

A subsidiary, P&O Ferries Ltd, began operating a new route between Tilbury and Zeebrugge on 16 July 2007 Two new vessels were introduced under charter agreements

The European Endeavour was acquired as a refit relief vessel to allow freight service levels to be less affected by the fleet refit programme It was acquired under a finance lease taken out in Euros at the end of 2007

Risk management

Overdraft facilities drawn down by one of the Group companies are jointly and severally guaranteed by the other Group companies Fuel prices continue to be exceptionally volatile and the Company has taken out hedge positions to help mitigate this risk

Future developments

Costs have increased with the higher fuel prices and the Group has passed on the increased costs to customers via fuel surcharges Competition from other ferry operators, Eurotunnel and low cost airlines means that the freight and tourist markets remain extremely competitive in the Ferries business However, freight movements between the UK and mainland Europe are growing and the Group is confident of maintaining its position The first part of 2008 has shown a rise in total ferry business with a change of mix as freight units shipped increased by 6% while tourist vehicles volumes have dropped by 5% The logisitics business has had a 6% rise in volumes

P&O Ferries Division Holdings Limited (formerly Polebay Limited)
Directors' Report

Dividends
No dividends were paid during the period

Charitable and political donations
The Group and the Company made no political donations during the period

The Group made charitable donations of £35,000 during the period (Company £nil)

Directors

The directors who held office during the period, including those appointed subsequently, were as follows

J Pudge	(Appointed 29 December 06)	(Resigned 15 February 2007)
A Levy	(Appointed 29 December 06)	(Resigned 15 February 2007)
H Deeble	(Appointed 15 February 07)	
Y Narayan	(Appointed 15 February 07)	
R B Woods	(Appointed 15 February 07)	
J M K Theniyeh	(Appointed 15 February 07)	
K Howarth	(Appointed 5 March 07)	

Disabled employees
It is the Group's policy to give consideration to disabled people in selection for employment, training and career development opportunities, and to take action to facilitate the continuing employment of people who become disabled while on the Group's payroll This policy is applied in a manner consistent with good business practice and the Group's regard for the health and safety of all employees and the community at large

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

Creditor payment policy
The Company did not have any trade creditors at the year-end or at any time during the period

The Group's policy is to pay suppliers in accordance with terms and conditions agreed when the orders are placed Where payment terms have not been specifically agreed, then invoices dated in one calendar month are paid close to the end of the following month This policy is understood by the purchasing and finance departments The Group has procedures for dealing promptly with complaints and disputes The Group does not follow any formal code or practice in respect of the payment of creditors The creditor payments of other group companies within P&O Ferries Division Holdings Limited have been centralised within P&O Ferries Limited which had 24 days purchases outstanding at the year end P&O Ferrymasters Holdings Limited had 52 days outstanding at the year end

Disclosure of information to auditors
So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware Having made enquiries of fellow directors and the Company's auditor, each director has taken all the steps that he/she is obliged to take as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information

Auditors

In accordance with section 384 of the Companies Act 1985, a resolution for the appointment of KPMG LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting

This report was approved by the board on 26 June 2008

K Howarth
Director

Channel House
Channel View Road
Dover
Kent
CT17 9TJ

P&O Ferries Division Holdings Limited (formerly Polebay Limited)
Statement of directors' responsibilities in respect of the Directors' Report and the financial statements

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

Company law requires the directors to prepare financial statements for each financial year Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

The financial statements are required by law to give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss for that period
In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,

- make judgments and estimates that are reasonable and prudent,

- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and

- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business

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

P&O Ferries Division Holdings Limited (formerly Polebay Limited)

Independent auditors' report
to the members of P&O Ferries Division Holdings Limited (formerly Polebay Limited)

We have audited the group and parent company financial statements (the "financial statements") of P&O Ferries Division Holdings Limited for the period ended 31 December 2007 which comprise the Consolidated Profit and Loss Account, the Consolidated and Company Balance Sheets, the Consolidated Cash Flow Statement, the Consolidated Statement of Total Recognised Gains and Losses, and the related notes These financial statements have been prepared under the accounting policies set out therein

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

Respective responsibilities of directors and auditors
The directors' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 4

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 We also report to you whether, in our opinion, the information given in the Directors' Report is consistent with the financial statements

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed

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

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

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

Opinion
In our opinion,
- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Group's and the parent company's affairs as at 31 December 2007 and of the Group's profit for the period then ended
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

KPMG LLP

KPMG LLP
Registered auditors
8 Salisbury Square
London, EC4Y 8BB

30 June 2008

P&O Ferries Division Holdings Limited (formerly Polebay Limited)
Consolidated Profit and Loss Account
for the period from 29 December 2006 to 31 December 2007

	Notes	2007 £000
Turnover	2	**763,580**
Cost of sales		**(636,061)**
Gross Profit		**127,519**
Administrative expenses		**(66,663)**
Other operating income		**(3,131)**
Operating profit		**57,725**
Interest receivable	4	**130**
Interest payable and similar charges	5	**(2,559)**
Pension finance income	30	**2,004**
Profit on ordinary activities before taxation	3	**57,300**
Tax on profit on ordinary activities	9	**1,152**
Profit for the financial period	24	**58,452**

All of the Group's operations are continuing

P&O Ferries Division Holdings Limited (formerly Polebay Limited)
Consolidated Statement of total recognised gains and losses
for the period from 29 December 2006 to 31 December 2007

	Notes	2007 £000
Profit for the period		58,452
Actuarial gains on net pension assets	30	9,804
Exchange loss on actuarial gains		(88)
Deferred tax on actuarial gains	19	(1,174)
Total recognised gains and losses related to the period		66,994

P&O Ferries Division Holdings Limited (formerly Polebay Limited)
Consolidated Balance Sheet
as at 31 December 2007

	Notes		2007 £000
Fixed assets			
Intangible assets	10		289,804
Tangible assets	11		387,722
Investments	12		3,818
			681,344
Current assets			
Stocks	13	13,677	
Debtors	14	154,463	
Cash at bank and in hand		75,234	
		243,374	
Creditors: amounts falling due within one year	15	(181,780)	
Net current assets			61,594
Total assets less current liabilities			742,938
Creditors: amounts falling due after more than one year	16		(90,039)
Provisions for liabilities			
Deferred taxation	19	(4,742)	
Other provisions	20	(19,832)	
Net assets excluding pension liabilities			628,325
Pension liabilities	30		(25,654)
Net assets			602,671
Capital and reserves			
Called up share capital	22		428,542
Share premium	23		107,135
Profit and loss account	24		66,994
Shareholders' funds	25		602,671

These financial statements were approved by the board of directors on 26 June 2008 and were signed on its behalf by

K Howarth
Director

P&O Ferries Division Holdings Limited (formerly Polebay Limited)
Company Balance Sheet
as at 31 December 2007

	Notes		2007 £000
Fixed assets			
Investments	12		180,119
			180,119
Current assets			
Debtors	14	358,058	
Net current assets			358,058
Net assets			538,177
Capital and reserves			
Called up share capital	22		428,542
Share premium	23		107,135
Profit and loss account	24		2,500
Shareholders' funds	25		538,177

These financial statements were approved by the board of directors on 26 June 2008 and were signed on its behalf by

K Howarth
Director

P&O Ferries Division Holdings Limited (formerly Polebay Limited)
Consolidated Cash Flow Statement
for the period from 29 December 2006 to 31 December 2007

	Notes	2007 £000
Reconciliation of operating profit to net cash inflow from operating activities		
Operating profit		57,725
Depreciation charges		25,626
Foreign exchange on balances		1,674
Pension liability		(4,038)
Increase in stocks		(2,318)
Increase in debtors		(1,542)
Increase in creditors and provisions		5,254
Net cash inflow from operating activities		82,381

	Notes	2007 £000
CASH FLOW STATEMENT		
Net cash inflow from operating activities		82,381
Returns on investments and servicing of finance	26	(2,429)
Taxation		766
Net Capital expenditure	26	(11,647)
Cash from acquisitions	21	11,775
		80,846
Financing	26	(5,612)
Increase in cash in the year		75,234

	Notes	2007 £000
Reconciliation of net cash flow to movement in net debt		
Increase in cash in the period		75,234
Decrease in debt and lease financing		5,612
Foreign exchange on loans		(1,807)
New finance leases		(40,626)
Debt within acquired subsidiaries		(63,515)
Change in net debt	27	(25,102)
Net funds at 29 December 2006		-
Net debt at 31 December 2007	27	(25,102)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group financial statements

Basis of preparation and going concern
The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules The financial statements have also been prepared on the going concern basis

Basis of consolidation
The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings made up to 31 December 2007

The acquisition method of accounting has been adopted Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal

Under section 230(4) of the Companies Act 1985 the Company is exempt from the requirement to present its own profit and loss account

Tangible fixed assets and depreciation
Fixed assets are stated at cost less accumulated depreciation Freehold land is not depreciated Depreciation is provided to write down the cost or valuation of tangible fixed assets by equal annual instalments over their expected useful lives The depreciation charge for ships is calculated after adjusting for the residual value based upon a percentage of the original cost The periods applicable are -

Freehold buildings	10 to 50 years
Owned and leased ships	15 to 35 years
Plant, machinery, fixtures and fittings	2 to 40 years

Provision for any impairment in the value of ships and other assets is made in the profit and loss account

Foreign currencies
Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account

The assets and liabilities of overseas subsidiary undertakings are translated at the closing exchange rates Profit and loss accounts of such undertakings are consolidated at the average rates of exchange during the year Gains and losses arising on these translations are taken to reserves, net of exchange differences arising on related foreign currency borrowings

1 Accounting policies (continued)

Leases

Assets acquired under finance leases are shown as tangible fixed assets The capital elements of future obligations under leases are shown as liabilities in the balance sheet The total finance charge is allocated to accounting periods to produce a constant periodic rate of charge on the outstanding obligation during the lease term

Operating lease rentals and charter hire costs are charged to the profit and loss account on a straight-line basis over the period of the lease or charter

Pensions

The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods That benefit is discounted to determine its present value, and the fair value of any plan assets is deducted The discount rate is the yield at the balance sheet date on AA credit rated bonds that have maturity dates approximating to the terms of the Company's obligations The calculation is performed by a qualified actuary using the projected unit credit method

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the income statement on a straight-line basis over the average period until the benefits become vested To the extent that the benefits vest immediately, the expense is recognised immediately in the income statement

All actuarial gains and losses that arise on the calculation of the Group's obligation in respect of a plan are recognised in the year in which they arise directly into the statement of recognised gains and losses

The operating and financing costs of the defined benefit pension schemes are recognised separately in the income statement, current service costs are spread systematically over the expected average remaining life of employees and financing costs are recognised in the period in which they arise

Contributions including lump sum payments, in respect of defined contribution pension schemes and multi employer defined benefit schemes where it is not possible to identify the Group's share of the scheme, are charged to the income statement as they fall due

Stocks

Stocks are stated at the lower of cost and net realisable value

Deferred taxation

Deferred tax is recognised without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen and not reversed by the balance sheet date, except as otherwise required by FRS 19 A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

1 Accounting policies (continued)

Goodwill

Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of separable net assets acquired) arising on consolidation in respect of acquisitions is capitalised Goodwill is considered to have an indefinite useful life as the P&O brand has over 150 years of positive usage, so it is not amortised but is annually tested for impairment which is written off through the profit and loss account

This is not in accordance with Schedule 4 to the Companies Act 1985 which requires that all goodwill be amortised The directors consider that this would fail to give a true and fair view of the profit for the year and that the economic measure of performance in any period is properly made by reference only to any impairment that may have arisen It is not practicable to quantify the effects on the financial statements of this departure

Investments

In the Company's financial statements, investments in subsidiary undertakings, associates and joint ventures are stated at cost less amounts written off

Turnover

Turnover represents the amounts (excluding value added tax) derived from the provision of goods and services to third party customers Ferry traffic revenue is recognised on departure of the relevant sailing

2 Segmental information

Turnover, profit on ordinary activities before taxation and net operating assets for each of the groups industry segments are split out below All activities are primarily derived within Europe

			2007
Analysis by activity	Ferry services £000	Transport and freight management £000	Total £000
Turnover	463,536	300,044	763,580
Profit on ordinary activities before taxation	55,384	1,916	57,300
Net assets	581,131	21,540	602,671

3 Profit on ordinary activities before taxation

	2007 £000
Profit on ordinary activities before taxation is stated	
After charging/(crediting)	
Depreciation and other amounts written off tangible fixed assets Owned	**24,121**
Depreciation and other amounts written off tangible fixed assets Leased	**1,505**
Ships' charter hire payments	**37,071**
Hire of plant and machinery - rentals payable under operating leases	**6,878**
Exchange losses	**1,376**
Auditors' remuneration	
Audit of these financial statements	**50**
Audit of financial statements of subsidiaries pursuant to legislation	**302**
Other services - taxation	**16**

Auditors' remuneration in respect of the company is borne by a subsidiary undertaking

4 Interest receivable and other similar income

	2007
	£000
On bank deposits	130
	130

5 Interest payable and similar charges

	2007
	£000
Other loans	960
Finance charges payable under finance leases and hire purchase contracts	1,599
	2,559

6 Remuneration of directors

	2007
	£000
Directors' emoluments	447
Pension contributions	56
	503
Highest paid director	
Emoluments	282
Highest paid director	
Accrued retirement benefits from defined benefit pension schemes	23

Number of directors in company pension schemes:

	2007
	Number
Money purchase schemes	1
Defined benefit schemes	1

7 Directors indemnification

Relevant personnel at P&O Ferries Division Holdings 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

8 Staff costs

	2007
	£000
Wages and salaries	102,755
Social security costs	7,546
Other pension costs	7,480
	117,781

	2007
Average number of employees during the period	Number
Sea Staff	2,389
Shore based	2,722
	5,111

9 Taxation

	2007
	£000
Analysis of charge in period	
Current tax	
UK corporation tax on profits of the period	2,185
Tax credit relating to subsidiaries activities prior to acquisition	(528)
Current tax charge	1,657
Deferred tax	
Origination and reversal of timing differences	(2,809)
Tax on ordinary activities	(1,152)

The current taxation charge is reconciled to the UK standard rate as follows

	2007
	£000
Profit on ordinary activities before tax	57,300
Standard rate of corporation tax in the UK	30%
	£000
Profit on ordinary activities multiplied by the standard rate of corporation tax	17,190
Effects of	
Tonnage tax	(15,899)
Profits not attributable to UK companies	101
Timing differences	793
Tax credit relating to subsiduaries activities prior to acquisition	(528)
Current tax charge	1,657

Most of the Group's activities are qualifying activities for the purpose of the UK tonnage tax regime and the Group pays corporation tax on these activities by reference to the tonnage of the ships owned or operated For its road transportation business and certain other minor non-qualifying activities the Group pays corporation tax at 30% of the profits earned by these activities

10 Intangible fixed assets

Group

Goodwill	£000
Cost	
Additions	289,804
At 31 December 2007	289,804
Net book value	
At 31 December 2007	289,804

The intangible fixed assets represent goodwill, being the excess of the purchase price over the fair value of net assets at the purchase date of 30 March 2007 Fair value was determined by professional valuation for ships, and director's valuation for other assets and liabilities The goodwill is considered to have an indefinite useful life as the P&O brand has over 150 years of positive usage, so it is not amortised but is annually tested for impairment The Group has a licence agreement with the Peninsular and Oriental Steam Navigation Company for the royalty free use of the P&O name and logo for worldwide ferry and road transport activities, subject to certain restrictions, including change of ownership The impairment test is based on the predicted net cash flows for 10 years and a residual value, discounted at a rate of 10% and compared to the net asset value, including goodwill, of the Group

11 Tangible fixed assets

Group	Owned and leased ships £000	Land and buildings £000	Plant, machinery, fixtures and fittings £000	Total £000
Cost				
Acquisition of subsidiaries	316,410	12,885	32,649	361,944
Foreign exchange	-	(25)	127	102
Additions	43,571	279	10,136	53,986
Disposals	-	(211)	(2,531)	(2,742)
At 31 December 2007	359,981	12,928	40,381	413,290
Depreciation				
Foreign exchange	-	25	53	78
Charge for the period	20,129	670	4,827	25,626
On disposals	-	(41)	(95)	(136)
At 31 December 2007	20,129	654	4,785	25,568
Net book value				
At 31 December 2007	339,852	12,274	35,596	387,722

Included in the total net book value of owned and leased ships is £70,799,000 in respect of assets held under finance leases Depreciation for the period on these assets was £1,505,000

12 Investments

	Group participating interest in joint venture	Company shares in group undertakings
Cost	**£000**	**£000**
Aquisition of subsidiaries	2,925	-
Additions	893	180,119
At 31 December 2007	**3,818**	**180,119**
Net book value		
At 31 December 2007	**3,818**	**180,119**

Principal Group investments

Investments include the following subsidiaries and joint ventures

	Country of incorporation	Principal Activity	%	Share Class
Group				
Port of Cairnryan Limited	Great Britain	Harbour operator	50	Class A ordinary
			100	Class C ordinary
Company				
P&O Ferries Holdings Limited *	Great Britain	Holding company	100%	Ordinary
Ship Management Holdings (Gibraltar) Limited *	Gibraltar	Holding company	100%	Ordinary
P&O Ferrymasters Holdings Limited *	Great Britain	Holding company	100%	Ordinary
P&O Ferries Limited	Great Britain	Ferry Services	100%	Ordinary
P&O Short Sea Ferries Limited	Great Britain	Holding company	100%	Ordinary
Larne Harbour Limited *	Northern Ireland	Harbour operator	100%	Ordinary
P&O Ferries Ship Management Limited	Great Britain	Ship Management	100%	Ordinary
P&O European Ferries (Portsmouth) Limited	Great Britain	Ferry Services	100%	Ordinary
P&O European Ferries (Vizcaya) SA	Spain	Terminal Operator	100%	Ordinary
P&O European Ferries (Irish Sea) Limited	Great Britain	Ferry Services	100%	Ordinary
P&O North Sea Ferries Limited	Great Britain	Ferry Services	100%	Ordinary
P&O North Sea Ferries BV	Netherlands	Ferry Services	100%	Ordinary
P&O Ferrymasters Limited	Northern Ireland	International unit loads	100%	Ordinary
Norbay (UK) Limited	Great Britain	Leasing	100%	Ordinary

* directly owned

13 Stocks

	2007 £000
Group	
Raw materials and consumables	4,296
Finished goods and goods for resale	9,381
	13,677

14 Debtors

	2007 £000 Group	2007 £000 Company
Trade debtors	123,699	-
Amounts owed by subsidiaries	-	358,058
Other debtors	2,917	-
Prepayments and accrued income	27,847	-
	154,463	358,058

15 Creditors: amounts falling due within one year

Bank loans and overdrafts	1,287	-
Other loans	11,000	-
Obligations under finance lease and hire purchase contracts	3,740	-
Trade creditors	82,988	-
Amounts owed to related undertaking	1,110	-
Corporation tax	4,331	-
Other taxes and social security costs	13,778	-
Other creditors	1,340	-
Accruals and deferred income	62,206	-
	181,780	-

Bank loans and overdrafts of £20,650,000 are secured on certain of the Group's ships and other assets

16 Creditors: amounts falling due after one year

Bank loans	19,363	-
Obligations under finance leases	64,946	-
Other creditors	5,730	-
	90,039	-

17 Bank and other loans

	2007 £000 Group	2007 £000 Company
Within one year or on demand	12,287	-
Between one and two years	1,366	-
Between two and five years	4,596	-
After five years	13,401	-
	31,650	-

The Group had in place multi-currency credit facilities with various banks of £30 million which are available until 2012, and overdraft facilities of £10m As at 31 December 2007 none of the available facilities were utilised Post balance sheet date a further £15 million multi-currency credit facility has been agreed

18 Obligations under finance leases and hire purchase contracts

	2007 £000 Group
Amounts payable	
Within one year	3,740
Within two to five years	17,071
After five years	47,875
	68,686

A new finance lease of €58m was entered into in October 2007 to fund the purchase of the European Endeavour

19 Deferred taxation
Group

	2007 £000
Accelerated capital allowances and pensions	4,742

	2007 £000
Aquisition of subsidiaries	6,377
Deferred tax credit in profit and loss account	(2,809)
Deferred tax charge in statement of total recognised gains and losses	1,174
At 31 December	4,742

The operational ferry companies elected to enter the UK tonnage tax regime in 2001 & 2002, which eliminated future potential tax liabilities on most of its activities' profits The tonnage tax regime includes provision whereby a proportion of capital allowances previously claimed by the company may be subject to tax in the event that a significant number of ships were sold and not replaced This contingent liability decreases to nil over the first seven years following entry to the regime The contingent liability at 31 December 2007 was approximately £0 1 million assuming such disposal occurred at book value No provision has been made as no liability is expected to arise

Company

The Company has no deferred tax liabilities

20 Provisions for liabilities

Group reorganisation provisions	Ship reinstatements £000	Reorganisation provision £000	Legal provision £000	Total Provision £000
Acquisition of subsidiaries	4,335	7,831	10,626	22,792
Charged during the year	150	7,350	-	7,500
Utilised during the year	-	(4,950)	(104)	(5,054)
Released during the year	-	-	(5,406)	(5,406)
At 31 December 2007	4,485	10,231	5,116	19,832

The ship reinstatement relates to reinstatement of charter ships at the end of their contract

The reorganisation provision includes the cessation of the development of the Port of Cairnryan development, announced in autumn 2007, restructuring and redundancy costs including redundancies announced in Dover Port in December 2007, and the company's obligations to pay costs under contracts for properties returned to lessor The expectation is that most of these costs will be paid in 2008

The legal provision relates to disputed vehicle transit costs, contractual employee rights and potential duty fines The dispute that P&O European Ferries (Vizcaya) SA had, was settled in 2007 The release of the provision is due to the P&O European Ferries (Vizcaya) SA dispute being resolved at a significantly lower cost than had been previously provided About £0 5m of the provision is expected to be paid in 2008

21 Acquisitions

On 30 March 2007, the company acquired all of the shares of P&O Short Sea Ferries Limited, P&O North Sea Ferries Limited, P&O European Ferries (Irish Sea) Limited, P&O European Ferries (Portsmouth) Limited, P&O Ferrymasters Holdings Limited, Larne Harbour Limited and Ship Management Holdings (Gibraltar) Limited

	Book value £000	Revaluation £000	Fair Value £000
Fixed assets			
Tangible fixed assets	324,434	37,510	361,944
Investments and joint ventures	2,925	-	2,925
	327,359	37,510	364,869
Current assets			
Stock	11,359	-	11,359
Debtors	152,921	-	152,921
Cash	11,775	-	11,775
	176,055	-	176,055
Total assets	503,414	37,510	540,924
Liabilities			
Provisions	(22,792)	-	(22,792)
Creditors	(160,867)	-	(160,867)
Loans and finance leases	(63,515)	-	(63,515)
Deferred Tax	(6,377)	-	(6,377)
Pension liability	(41,500)	-	(41,500)
Total liabilities	(295,051)	-	(295,051)
Net Assets	208,363	37,510	245,873
Goodwill			289,804
Purchase consideration and cost of acquisition financed by share issue			535,677

22 Share capital

Group and Company	**2007 Number**	**2007 £000**
Authorised		
Ordinary shares of £1 each	750,000,000	750,000

	2007 Number	**2007 £000**
Allotted, called up and fully paid		
Ordinary shares of £1 each	428,542,000	428,542

In March 2007, 428,542,000 shares were issued for £1 25 each with a nominal value of £1 each The total value of the issue of £535,677,500 created a share premium of £107,135,500 The purpose of the issue was to acquire the Ferries and Road Transport companies from the Peninsular and Oriental Steam Navigation Company and the consideration for the shares took the form of the shares and loan obligations of these acquired businesses

23 Share premium

Group and Company	**2007 £000**
Shares issued	107,135
At 31 December	107,135

24 Profit and loss account

	2007 £000
Group	
Profit for the financial period	58,452
Actuarial gains on net pension assets	9,804
Other recognised gains and losses	(88)
Deferred tax on actuarial gains	(1,174)
At 31 December	66,994
Company	
Profit for the period and at 31 December	2,500

25 Reconciliation of movement in shareholders' funds

	2007 £000
Group	
Profit for the period	58,452
Actuarial gains on net pension assets	9,804
Shares issued	535,677
Other recognised gains and losses	(88)
Deferred tax on actuarial gains	(1,174)
At 31 December	602,671
Company	
Profit for the financial period	2,500
Shares issued	535,677
	538,177

26 Gross cash flows

	2007 £000
Returns on investments and servicing of finance	
Interest received	130
Interest paid	(960)
Interest element of finance lease rental payments	(1,599)
	(2,429)
Capital expenditure	
Payments to acquire tangible fixed assets	(13,360)
Payments to acquire investments	(893)
Receipts from sales of tangible fixed assets	2,606
	(11,647)
Financing	
Loan repayments	(943)
Capital element of finance lease rental payments	(4,669)
	(5,612)

27 Analysis of changes in net debt

	At beginning of period £000	Cash flows £000	Acquisition (excluding cash and overdrafts) £000	New Finance Leases £000	Non-cash changes £000	At end of period £000
Cash at bank and in hand	-	75,234	-	-	-	75,234
Debt due within 1 year	-	(27)	(12,260)	-	-	(12,287)
Debt due after 1 year	-	970	(20,333)	-	-	(19,363)
Finance leases	-	4,669	(30,922)	(40,626)	(1,807)	(68,686)
	-	5,612	(63,515)	(40,626)	(1,807)	(100,336)
Total	-	80,846	(63,515)	(40,626)	(1,807)	(25,102)

28 Capital commitments

Capital commitments at the end of the financial year, for which no provision has been made, are as follows

	2007 £000
Contracted	
Ships	1,054
Other	1,286
	2,340

In June 2008, the Group signed a letter of intent to purchase two new ships at a cost of €360m

29 Other financial commitments

Annual commitments under non-cancellable operating leases as follows

Operating leases which expire	Land & Buildings £000	Other £000	2007 £000
within one year	369	4,186	4,555
within two to five years	1,381	27,306	28,687
in over five years	3,027	18,486	21,513
	4,777	49,978	54,755

30 Pension schemes

The Group participates in three company sponsored funded defined benefit pension schemes The principal scheme, The P&O Pension Scheme (the "P&O UK Scheme"), was closed to new routine members on 1 January 2002 The assets of the scheme are managed on behalf of the trustee by independent fund managers The two smaller schemes are the P&O Irish Pension Scheme and the P&O North Sea Ferries (Netherlands) Scheme

The Group also participates in the Merchant Navy Officers' Pension Fund (the" MNOPF Scheme"), and the Merchant Navy Ratings' Pension Fund (the "MNRPF Scheme") industry wide schemes

The Group also makes contributions to various company defined contribution schemes and various industry defined contibution schemes which have assets in separate administered funds The charge in the Group accounts for these schemes in 2007 was £1,140,000

The latest valuations of all four funded defined benefit pension schemes have been updated to 31 December 2007 by qualified independent actuaries The Group cannot identify its share of the underlying assets and liabilities of the MNRPF on a consistent and reasonable basis

The principal assumptions are included in the table below

The assumptions used by the actuaries are the best estimates chosen from a range of possible actuarial assumptions, which, due to time scale covered, may not necessarily be borne out in practice

	P&O UK Scheme 2007 %	MNOPF Scheme 2007 %	Other schemes 2007 %
Discount rates	5 80	5.80	5.57
Expected rates of salary increases	4.75	4.75	3.73
Pension increases			
- deferment	3.25	3.25	2.10
- payment	2.95	3.25	2.10
Inflation	3 25	3.25	2 10
Expected rates of return on plan assets	7.37	6.50	5.33

The market value of the schemes' assets, which are not intended to be realised in the short term may be subject to significant change before they are realised, and the present value of the schemes' liabilities, which are derived from the cash flow projections over the long periods and thus inherently uncertain, are set out below

P&O Ferries Division Holdings Limited (formerly Polebay Limited)
Notes to the financial statements
for the period from 29 December 2006 to 31 December 2007

30 Pension Schemes (continued)

	P&O UK Scheme		MNOPF Scheme		Other schemes		
	Expected long term rate of return	Market value	Expected long term rate of return	Market value	Expected long term rate of return	Market value	Total Market value
	%	£000	%	£000	%	£000	£000
2007							
Equities	7 75	82,100	7 75	143,100	7 00	13,207	238,407
Bonds	6 00	12,000	5 15	126,200	4 04	16,938	155,138
Property	-	-	-	-	6 01	561	561
Cash	4 80	5,660	-	-	2 61	113	5,773
Other	-	-	6 15	26,800	-	-	26,800
		99,760		296,100		30,819	426,679
Present value of scheme liabilities		(102,710)		(319,700)		(28,424)	(450,834)
Surplus not recognised		-		-		(1,499)	(1,499)
Net pensions liability		**(2,950)**		**(23,600)**		**896**	**(25,654)**

The pension costs for defined benefit schemes are as follows

	P&O UK Scheme	MNOPF Scheme	Other Schemes	Total
	£000	£000	£000	£000
2007				
Operating profit				
Current service costs	(3,570)	(1,275)	(883)	(5,728)
Total (charge) to the operating profit	**(3,570)**	**(1,275)**	**(883)**	**(5,728)**
Other finance income/(expense)				
Expected return on pension scheme assets	4,110	13,725	1,540	19,375
Interest on pension scheme liabilities	(3,500)	(12,450)	(1,421)	(17,371)
Net return	**610**	**1,275**	**119**	**2,004**
Statement of total recognised gains and losses				
Actual return less expected return on pension assets	(7,123)	323	(1,486)	(8,286)
Experience gains and losses on pension scheme liabilities	980	(14,875)	1,586	(12,309)
Changes in assumptions underlying the present value of the scheme liabilities	145	28,434	1,820	30,399
Actuarial (loss)/ gain recognised in statement of total recognised gains and losses	**(5,998)**	**13,882**	**1,920**	**9,804**

P&O Ferries Division Holdings Limited (formerly Polebay Limited)
Notes to the financial statements
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30 Pension Schemes (continued)

As the P&O UK Scheme and MNOPF Scheme are closed to new entrants, under the Projected Unit valuation method, the current service cost as a percentage of relevant defined benefit pensionable payroll will increase as the members of the scheme approach retirement

P&O UK Scheme	**2007**
Difference between the expected and actual return on scheme assets (£000)	(7,123)
As a percentage of the scheme assets (%)	-7%
Experience gains and losses on pension scheme liabilities (£000)	980
As a percentage of the present value of scheme liabilities (%)	-1%
Total actuarial gain/(loss) recognised in the consolidated statement of total recognised gains and losses (£000)	(5,998)
As a percentage of the present value of scheme liabilities (%)	-6%

MNOPF Scheme	**2007**
Difference between the expected and actual return on scheme assets (£000)	323
As a percentage of the scheme assets (%)	0%
Experience gains and losses on pension scheme liabilities (£000)	(14,875)
As a percentage of the present value of scheme liabilities (%)	-5%
Total actuarial gain/(loss) recognised in the consolidated statement of total recognised gains and losses (£000)	13,882
As a percentage of the present value of scheme liabilities (%)	4%

	P&O UK scheme £000	**MNOPF scheme £000**	**Other schemes £000**	**Total £000**
Acquisition of subsidiaries	3,128	(42,898)	(1,730)	**(41,500)**
Current service costs	(3,570)	(1,275)	(883)	**(5,728)**
Exchange gain	-	-	(97)	**(97)**
Contributions paid	2,880	5,416	1,567	**9,863**
Other finance expenses	610	1,275	119	**2,004**
Actuarial (loss)/ gain	(5,998)	13,882	1,920	**9,804**
(Deficit) / gain in schemes as at 31 December 2007	**(2,950)**	**(23,600)**	**896**	**(25,654)**

30 Pension Schemes (continued)

P&O UK Scheme actuarial valuation for funding purposes

Formal valuations of the P&O UK Scheme are normally carried out triennially by qualified independent actuaries, the latest regular valuation report for the scheme being at 31 March 2007, using the projected unit method

The market value of The P&O UK Scheme's assets was £1,210m and the value of accrued benefits to the members allowing for future increases in earnings was £1,277m giving a deficit of £67m and a funding ratio of 95 per cent

Excluding the deficit reduction payments, the average contribution rates for normal P&O UK Scheme employees (excluding senior Executives) were 22 2 per cent for the year to 31 December 2007

The principal long term assumptions in the P&O UK Scheme's March 2007 valuation are

	Nominal % per annum
Price inflation	**3.00**
Investment return on pre-retirement portfolio	**5.94**
Investment return on post-retirement portfolio	**5.11**
Earnings escalation	**4 50**
Increase in pensions in excess of Guaranteed Minimum Pensions	**2 75**

PA92 medium cohort tables have been used as a basis projected up to 2007, subject to a 1% minimum annual increase in line with long cohort, to reflect improvements in future mortality

As part of the March 2007 reorganisation, the current employees were offered the opportunity to have their pension transferred to a new fund exclusively for the group's employees who were in the P&O Pension Scheme, with the same benefits as before, and most of the employees accepted The pensioners and deferrred pensioners assets and liabilities were retained by the Peninsular and Oriental Steam Navigation Company, along with the risks and rewards of that fund The transfer took place in April 2008, and has no significant effect on the financial position of the Group

P&O Irish Pension Scheme

The P&O Irish Pension Scheme is a funded defined benefit scheme Formal valuations of the P&O Irish pension scheme are normally carried out triennially by qualified independent actuaries, the latest valuation report for the scheme being at 1 January 2005, using the projected unit method This valuation has been updated by the actuary on an FRS 17 basis as at 31 December 2007 using the projected unit method

As at 1 January 2005, the date of the most recent valuation, the market value of the scheme assets was £5 1m and the value of the accrued benefits to the members allowing for future increases in earnings was £5 6m giving a deficit of £0 5m and a funding ratio of 91%

Excluding deficit reduction payments, the employer contribution rate in respect of future years is currently set at 18% of pensionable salaries The major assumptions used in this valuation were

	%
Rate of increase in salaries	**4.50**
Investment return on pre-retirement portfolio	**6.50**
Investment return on post-retirement portfolio	**5.00**
Inflation rate	**2.50**

30 Pension Schemes (continued)
Industry Schemes

Merchant Navy Officers' Pension Fund ("MNOPF")

The MNOPF Scheme is a defined benefit multi-employer scheme in which officers employed by Group companies have participated

The Scheme is divided into two sections, the Old Section and the New Section both of which are closed to new members and the latest valuation was carried out at 31 March 2006

The Old Section has been closed to benefit accrual since 1978 The Scheme's independent actuary advised that at 31 March 2006 the market value of the scheme's assets for the Old Section was £1,473m, representing approximately 107 per cent of the value of the benefits accrued to members The assets of the Old Section were substantially invested in bonds

As at 31 March 2006, the date of the most recent valuation, the New Section had assets with a market value of £1,931m, representing approximately 93% of the benefits accrued to members The valuation assumptions were as follows

	%
Discount rate	**5.93**
Rate of salary increases	**4.50**
Rate of pension increases (where increases apply)	**3.00**

At the date of valuation, approximately 57 per cent of the New Section's assets were invested in equities, 15 per cent in bonds and 28 per cent in property, pooled investment vehicles and cash

The trustee has advised the Group that the share of its deficit in the New Section is 17 67 per cent, and for the 2003 valuation, has issued a schedule of regular deficit payments from the Group totalling £5 2m per annum commencing on 30 September 2005 and payable on 30 March thereafter until 2014 Therefore, the Group has accounted for the MNOPF New Section as a defined benefit scheme The Group will also pay its proportion of the £151m deficit identified in the 2006 valuation, by instalments up to 2014 The next valuation will be no later than 31 March 2009

30 Pension Schemes (continued)

Merchant Navy Ratings Pension Fund ("MNRPF")

The MNRPF Scheme is an industry wide multi-employer benefit pension scheme in which sea staff employed by group companies have participated The scheme has significant funding deficit and has been closed to further benefits accrual

As 31 March 2005, the date of the most recent full triennial valuation carried out by an independent actuary, the scheme had assets with a market value of £590m, representing 86 per cent of the benefits accrued to members allowing for future increases Approximately 68 per cent of the scheme's assets were invested in bonds, 25 per cent in equities and 7 per cent in property and cash The valuation assumptions were as follows

	%
Investment return on pre-retirement portfolio	**6.50**
Investment return on post-retirement portfolio	**5.00**
Rate of national average earnings increase	**4.20**
Rate of pension increases (where increase apply)	**2.70**

As the group's UK companies are no longer current employers in the MNRPF, they have no legal obligation with respect to the on-going deficit in the fund, having settled their statutory debt obligation Voluntary payments were made by the UK subsidiaries up to March 2007 The Gibraltar companies proportion of the deficit required a payment of £615,000 in March 2007

For the year ended 31 December 2007 the Group cannot identify its share of the underlying assets and liabilities of the MNRPF on a consistent and reasonable basis and is therefore for the year ended 31 December 2007 accounting for the MNRPF under FRS17 as if it were a defined contribution scheme The charge in the Group accounts was £612,000

Company

The company did not participate in any pension scheme

31 Contingent liabilities

The group and the company had no material contingent liabilities at 31 December 2007

32 Related party disclosures

Under Financial Reporting Standard 8, the company is exempt from reporting transactions with its parent and fellow subsidiary undertakings on the grounds that 90% or more of the voting rights are controlled within the Dubai World Corporation group

33 Ultimate parent company

The immediate parent company is Dubai Ferries Holdings FZE, a company incorporated in Dubai

The ultimate parent undertaking is Dubai World Corporation