Registered number
6038090

P&O Ferries Division Holdings Limited

Directors' report and financial statements

31 December 2008

P&O Ferries Division Holdings Limited
Report and financial statements
Contents

P&O Ferries Division Holdings Limited
Directors' Report

The directors present their report together with the audited financial statements for the year ended 31 December 2008.

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

Business review

The accounts are for the period from 1 January 2008 to 31 December 2008, with comparatives for the period from 29 December 2006 to 31 December 2007. However, as the subsidiary companies were not acquired till 1 April 2007, the trading results for the comparative period are for the nine months ending 31 December 2007.

Loss after tax for the year was £6,393,000 (2007: profit £58,452,000). Operating profit for the year was £12,572,000 (2007: £57,725,000).

The deterioration in the results were mainly due to market conditions, fuel prices and certain one-off charges. The 2007 results were for a nine month period to December 2007 and therefore, due to the seasonal nature of the business, it is difficult to compare to the current year which runs for a 12 month period.

Revenue was higher than the prior period, but this was on lower volumes but with higher rates, mainly from fuel surcharge. Tourist volumes were down 3.9% and freight volumes by 0.9% on a comparable basis. During the year, there was also an adverse mix on the freight with lower margin containers on some routes, but this was addressed towards the end of the year. The fuel price rose dramatically during the year, and the fuel surcharge did not fully compensate for increased costs.

There were two significant one off charges in the year. £5.1m is included in cost of sales, for port rates for the period from 1 April 2005 to 31 December 2007, retrospectively levied in 2008, but which we are challenging (note 20 in the financial statements) and a finance charge of £11.2m for foreign exchange loss on a Euro finance lease (note 18 in the financial statements).

As at the year end the Group had overdraft facilities of £10m and revolving credit facilities of £45m (2007: £30m) to fund working capital requirements.

A contract with Aker Yards has been signed for the two largest ferries ever to be constructed for the Dover - Calais service. Eighty percent of the construction cost of $360m is being financed by long term bank loans which have been agreed. The first of the new ships will enter service in December 2010 and the second in September 2011, replacing the Pride of Dover and the Pride of Calais.

Risk management
Overdraft facilities drawn down by one of the Group companies are jointly and severally guaranteed by the other Group companies. Fuel prices and foreign exchange continue to be exceptionally volatile and the Company has taken out hedge positions to help mitigate this risk. The Group is continually monitoring performance, trends, forecasts, market conditions, debt facilities and competitors, and reviewing opportunities within the current uncertain economic conditions and taking the appropriate action to enable the Group to prosper in the long term.

P&O Ferries Division Holdings Limited
Directors' Report

Future developments

The economy is subject to much current debate with inflation, interest rates and exchange rates all showing a high degree of volatility. This can make importers and exporters fairly unstable and so demand in the shipping of freight units is lower than recent times. The economic downturn has affected the North Sea operations more than the other divisions. Consequently, a wide-ranging review has been initiated that will examine every aspect of the business and it is anticipated that considerable change may result in order to restore the health of the business.

On the Short Sea route there is a new competitor in the market which commenced services in February and is set to increase its level of service in July. So far there appears to be minimal effect on our demand. On the same route, another competitor has announced an intention of reducing its fleet by two freight ships.

Dividends

No dividends were paid during the year *(2007 period: £nil)*.

Charitable and political donations

The Group and the Company made no political donations during the period *(2007 period: £nil)*.

The Group made charitable donations of £6,000 *(2007 period: £35,000)* during the year. The Company made no charitable donations *(2007 period: £nil)*.

Directors

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

H Deeble
K Howarth
Y Narayan
J M K Theniyeh
R B Woods

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.

Policy and practice on payment to creditors

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. P&O Ferrymasters Holdings Limited had 44 days (2007: 52 days) outstanding at the year end. The creditor payments of other Group companies within P&O Ferries Division Holdings Limited have been centralised within P&O Ferries Limited which had 27 days *(2007: 24 days)* purchases outstanding at the year end.

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

Disclosure of information to auditors

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

Auditors

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and KPMG LLP will therefore continue in office.

This report was approved by the board on 21 April 2009.

K Howarth
Director

Channel House
Channel View Road
Dover
Kent
CT17 9TJ

P&O Ferries Division Holdings 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.

KPMG

Independent auditors' report to the members of P&O Ferries Division Holdings Limited

We have audited the group and parent company financial statements (the "financial statements") of P&O Ferries Division Holdings Limited for the year ended 31 December 2008 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 2008 and of the Group's loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG LLP

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

22 April 2009

P&O Ferries Division Holdings Limited
Consolidated Profit and Loss Account

	Notes	For the year ended 31 December 2008 £000	For the period ended 31 December 2007 £000
Turnover	2	**1,082,121**	763,580
Cost of sales		**(976,730)**	(636,061)
Gross Profit		**105,391**	127,519
Administrative expenses		**(92,819)**	(66,663)
Other operating income		**-**	(3,131)
Operating profit		**12,572**	57,725
Interest receivable	4	**794**	130
Interest payable and similar charges	5	**(19,346)**	(2,559)
Pension finance income	29	**2,029**	2,004
(Loss)/profit on ordinary activities before taxation	3	**(3,951)**	57,300
Tax on (loss)/profit on ordinary activities	9	**(2,442)**	1,152
(Loss)/profit for the financial year/period	23	**(6,393)**	58,452

All of the Group's operations are continuing.

P&O Ferries Division Holdings Limited
Consolidated Statement of total recognised gains and losses

	Notes	**For the year ended 31 December 2008 £000**	For the period ended 31 December 2007 £000
(Loss)/profit for the financial year/period		**(6,393)**	58,452
Actuarial (losses)/gains on net pension assets	29	**(38,552)**	9,804
Exchange gains/(losses)		**326**	(88)
Deferred tax arising on actuarial (losses)/gains	19	**(602)**	(1,174)
Total recognised (losses)/gains related to the year/period		**(45,221)**	66,994

P&O Ferries Division Holdings Limited
Consolidated Balance Sheet
as at 31 December 2008

	Notes		2008 £000		2007 £000
Fixed assets					
Intangible assets	10		**289,804**		289,804
Tangible assets	11		**430,548**		387,722
Investments	12		**708**		3,818
			721,060		681,344
Current assets					
Stocks	13	**10,790**		13,677	
Debtors	14	**175,665**		154,463	
Cash at bank and in hand		**126,988**		75,234	
		313,443		243,374	
Creditors: amounts falling due within one year	15	**(249,793)**		(181,780)	
Net current assets			**63,650**		61,594
Total assets less current liabilities			**784,710**		742,938
Creditors: amounts falling due after more than one year	16		**(144,912)**		(90,039)
Provisions for liabilities					
Deferred taxation	19	**(3,333)**			(4,742)
Other provisions	20	**(25,474)**			(19,832)
			(28,807)		(24,574)
Pension liabilities	29		**(53,541)**		(25,654)
Net assets			**557,450**		602,671
Capital and reserves					
Called up share capital	21		**428,542**		428,542
Share premium	22		**107,135**		107,135
Profit and loss account	23		**21,773**		66,994
Shareholders' funds	24		**557,450**		602,671

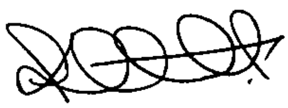
These financial statements were approved by the board of directors on 21 April 2009 and were signed on its behalf by:

K Howarth
Director

P&O Ferries Division Holdings Limited
Company Balance Sheet
as at 31 December 2008

	Notes		2008 £000		2007 £000
Fixed assets					
Investments	12		**180,119**		180,119
			180,119		180,119
Current assets					
Debtors	14	**376,178**		358,058	
Creditors: amounts falling due within one year	15	**(15,000)**		-	
Net current assets			**361,178**		358,058
Total assets less current liabilities			**541,297**		538,177
Net assets			**541,297**		538,177
Capital and reserves					
Called up share capital	21		**428,542**		428,542
Share premium	22		**107,135**		107,135
Profit and loss account	23		**5,620**		2,500
Shareholders' funds	24		**541,297**		538,177

These financial statements were approved by the board of directors on 21 April 2009 and were signed on its behalf by:



K Howarth
Director

P&O Ferries Division Holdings Limited
Consolidated Cash Flow Statement

	Notes	For the year ended 31 December 2008 £000	For the period ended 31 December 2007 £000
Reconciliation of operating profit to net cash inflow from operating activities			
Operating profit		**12,572**	57,725
Depreciation charges		**36,132**	25,626
Profit on sale of fixed assets		**(1,294)**	-
Foreign exchange (gain)/losses		**(2,110)**	1,674
Decrease in pension liability		**(8,636)**	(4,038)
Decrease/(increase) in stocks		**2,887**	(2,318)
Increase in debtors		**(21,202)**	(1,542)
Increase in creditors and provisions		**36,121**	5,254
Net cash inflow from operating activities		**54,470**	82,381

CASH FLOW STATEMENT

	Notes	2008 £000	2007 £000
Net cash inflow from operating activities		**54,470**	82,381
Returns on investments and servicing of finance	25	**(5,010)**	(2,429)
Taxation		**(321)**	766
Net capital expenditure	25	**(77,844)**	(11,647)
Cash from acquisitions		**-**	11,775
		(28,705)	80,846
Financing	25	**55,291**	(5,612)
Increase in cash in the year/period		**26,586**	75,234

Reconciliation of net cash flow to movement in net debt

	Notes	2008 £000	2007 £000
Increase in cash in the year/period		**26,586**	75,234
(Increase)/decrease in debt and lease financing		**(55,291)**	5,612
Foreign exchange on loans		**(11,220)**	(1,807)
New finance leases		**-**	(40,626)
Debt within acquired subsidiaries		**-**	(63,515)
Change in net debt	26	**(39,925)**	(25,102)
Net debt at 1 January 2008		**(25,102)**	-
Net debt at 31 December 2008	26	**(65,027)**	(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 and Company 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 2008.

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. Ships under construction are not depreciated until first brought into operation. 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.

Derivative financial instruments

The Group uses various derivative financial instruments to manage its exposure to foreign exchange risks and fuel price movements. To qualify as a hedge, a financial instrument must be related to a firm commitment or anticipated transaction. Gains and losses on qualifying hedges of firm commitments or anticipated transactions are deferred and are recognised in the profit and loss account when the hedged transaction occurs.

Leases

Assets acquired under finance leases are capitalised 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.

1 Accounting policies (continued)

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.

Taxation
The ferry operations are within tonnage taxation regime and the taxation charge is based on the tonnage of the ships operated. Other operations taxation charge is based on the results for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

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.

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.

1 Accounting policies (continued)

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. All turnover is recognised at the provision of the goods and services.The point of recognition on ferry traffic revenue is on departure of the relevant sailing.

2 Segmental information

Turnover, loss 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.

Analysis by activity:	**2008**	2007
	£000	£000
Turnover		
Ferry Service	**615,633**	463,536
Transport and freight management	**466,488**	300,044
	1,082,121	763,580
(Loss)/profit on ordinary activities before taxation		
Ferry Service	**(1,258)**	55,384
Transport and freight management	**(2,693)**	1,916
	(3,951)	57,300
Net assets		
Ferry Service	**587,436**	581,131
Transport and freight management	**(29,986)**	21,540
	557,450	602,671

3 (Loss)/profit on ordinary activities before taxation

	2008	2007
	£000	£000
(Loss)/profit on ordinary activities before taxation is stated after charging/(crediting):		
Depreciation and other amounts written off tangible fixed assets: Owned	**32,881**	24,121
Depreciation and other amounts written off tangible fixed assets: Leased	**3,251**	1,505
Ships' charter hire payments	**50,291**	37,071
Profit on sale of fixed assets	**(1,294)**	(48)
Hire of plant and machinery - rentals payable under operating leases	**2,846**	6,878
Exchange losses/(gains)	**321**	(1,376)
Auditors' remuneration		
Audit of these financial statements	**125**	50
Audit of financial statements of subsidiaries pursuant to legislation	**450**	302
Other services - taxation	**23**	16

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

4 Interest receivable and other similar income

	2008	2007
	£000	£000
On bank deposits	**794**	130

5 Interest payable and similar charges

	2008 £000	2007 £000
Bank loans and overdrafts	477	-
Other loans	1,710	960
Foreign exchange losses	13,542	-
Finance charges payable under finance leases and hire purchase contracts	3,617	1,599
	19,346	2,559

6 Remuneration of directors

	2008 £000	2007 £000
Directors' emoluments	713	447
Pension contributions	88	56
	801	503
Highest paid director: Emoluments	454	282
Highest paid director: Accrued retirement benefits from defined benefit pension schemes	26	23

Number of directors in company pension schemes:

	2008 Number	2007 Number
Money purchase schemes	1	1
Defined benefit schemes	1	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

	2008 £000	2007 £000
Wages and salaries	147,443	102,755
Social security costs	12,652	7,546
Other pension costs	9,617	7,480
	169,712	117,781

Average number of employees during the period

	2008 Number	2007 Number
Sea Staff	2,368	2,389
Shore based	2,611	2,722
	4,979	5,111

P&O Ferries Division Holdings Limited
Notes to the financial statements
for the year ended 31 December 2008

9 Taxation

	2008 £000	2007 £000
Analysis of charge in the year/period		
Current tax:		
UK corporation tax	3,245	2,185
Tax credit relating to subsidiaries activities prior to acquisition	-	(528)
Adjustments in respect of previous periods	606	-
Current tax charge	3,851	1,657
Deferred tax:		
Origination and reversal of timing differences	(1,409)	(2,809)
Tax on ordinary activities	2,442	(1,152)

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

	2008 £000	2007 £000
(Loss)/profit on ordinary activities before tax	(3,951)	57,300
Corporation tax rate in the UK	28.5%	30.0%

The UK standard corporation tax rate changed from 30% to 28% from 1 April 2008, resulting in a combined rate of 28.5% for the 2008 financial year.

	£000	£000
Profit on ordinary activities multiplied by the applicable UK corporation tax rate	(1,126)	17,190
Effects of:		
Tonnage tax	2,475	(15,899)
Profits not attributable to UK companies	405	101
Expenses not deductible for tax purposes	340	-
Timing differences	1,151	793
Adjustments in respect of previous periods	606	-
Tax credit relating to subsidiaries activities prior to acquisition	-	(528)
Current tax charge	3,851	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 28.5% *(2007: 30%)* of the profits earned by these activities. Adjustments in respect of prior periods arise from amendments to tax computations submitted to HMRC.

10 Intangible fixed assets

Group	2008 £000 Goodwill
Cost and net book value	
At 1 January 2008 and at 31 December 2008	**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 5 years and a residual value, discounted at a rate of 8% 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	Ships under construction £000	Total £000
Cost					
At 1 January 2008	359,981	12,928	40,381	-	413,290
Foreign exchange	-	54	331	-	385
Additions	15,327	405	9,952	58,524	84,208
Disposals	-	(1,610)	(5,247)	-	(6,857)
At 31 December 2008	375,308	11,777	45,417	58,524	491,026
Depreciation					
At 1 January 2008	20,129	654	4,785	-	25,568
Foreign exchange	-	31	240	-	271
Charge for the year	28,905	1,681	5,546	-	36,132
On disposals	-	(408)	(1,085)	-	(1,493)
At 31 December 2008	49,034	1,958	9,486	-	60,478
Net book value					
At 31 December 2008	**326,274**	**9,819**	**35,931**	**58,524**	**430,548**
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 £67,743,000 (2007: £70,799,000) in respect of assets held under finance leases. Depreciation for the period on these assets was £3,251,000 (2007: £1,505,000).

12 Investments

	Group participating interest in joint venture £000	Company shares in group under-takings £000
Cost		
At 1 January 2008	3,818	180,119
Additions	294	-
At 31 December 2008	4,112	180,119
Provisions		
At 1 January 2008	-	-
Impairment losses (note 20 of the financial statements)	(3,404)	-
At 31 December 2008	(3,404)	-
Net book value		
At 31 December 2008	708	180,119
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

	2008 £000	2007 £000
Group		
Raw materials and consumables	**2,940**	4,296
Finished goods and goods for resale	**7,850**	9,381
	10,790	13,677

14 Debtors

	2008 £000 Group	**2008 £000 Company**	2007 £000 Group	2007 £000 Company
Trade debtors	**134,103**	**-**	123,699	-
Amounts owed by subsidiaries	**-**	**376,178**	-	358,058
Other debtors	**4,242**	**-**	2,917	-
Prepayments and accrued income	**37,320**	**-**	27,847	-
	175,665	**376,178**	154,463	358,058

15 Creditors: amounts falling due within one year

	2008 £000 Group	**2008 £000 Company**	2007 £000 Group	2007 £000 Company
Bank loans and overdrafts	**41,534**	**15,000**	1,287	-
Other loans	**11,000**	**-**	11,000	-
Obligations under finance lease and hire purchase contracts	**4,582**	**-**	3,740	-
Trade creditors	**113,626**	**-**	82,988	-
Amounts owed to related undertaking	**-**	**-**	1,110	-
Corporation tax	**7,333**	**-**	4,331	-
Other taxes and social security costs	**10,181**	**-**	13,778	-
Other creditors	**9,518**	**-**	1,340	-
Accruals and deferred income	**52,019**	**-**	62,206	-
	249,793	**15,000**	181,780	-

Bank loans and overdrafts of £88,558,000 *(2007: £20,650,000)* are secured on certain of the Group's ships and other assets.

16 Creditors: amounts falling due after one year

	2008 £000 Group	**2008 £000 Company**	2007 £000 Group	2007 £000 Company
Bank loans	**63,390**	**-**	19,363	-
Obligations under finance leases	**71,509**	**-**	64,946	-
Other creditors	**10,013**	**-**	5,730	-
	144,912	**-**	90,039	-

Bank loans for which there are amounts repayable in more than five years are detailed in note 17.

17 Bank loans

The Group has 3 loans which finally mature after 5 years.

Repayment basis of loans over 5 years	2008 £000 Under 1 year	2008 £000 Over 1 year	2007 £000 Under 1 year	2007 £000 Over 1 year
Quarterly until 2015	**1,366**	**17,997**	1,287	19,363
Quarterly for 12 years *	-	**22,953**	-	-
Half yearly for 12 years*	-	**22,440**	-	-
	1,366	**63,390**	1,287	19,363

* There is a total facility for the ships in construction of Euros 284m of which £45m has been drawn. Both loans will increase as various stages of construction are reached, and repayments only begin after the ship is launched, which is expected to be at least 12 months from the balance sheet date.

Bank loans include £64,756,000 of loans that will not be fully repaid within 5 years. These loans are subject to interest rates ranging from 3.5% to 5.9% as at 31 December 2008.

The Group had in place multi-currency credit facilities with various banks of £45 million which are available until 2012, and overdraft facilities of £10m. As at 31 December 2008 £15 million multi-currency credit facility was being utilised.

18 Obligations under finance leases and hire purchase contracts

	2008 £000 Group	2008 £000 Company	2007 £000 Group	2007 £000 Company
Amounts payable:				
Within one year	**4,582**	-	3,740	-
Within two to five years	**20,795**	-	17,071	-
After five years	**50,714**	-	47,875	-
	76,091	-	68,686	-

A new finance lease of €58m was entered into in October 2007 to fund the purchase of the European Endeavour.The change in the GBP Euro rate has resulted in the loan increasing by £11.2m, which has been charged to the profit and loss account.
Finance leases include £50,714,000 of loans that will not be fully repaid within 5 years. These leases are subject to interest rates ranging from 4.7% to 6.3% as at 31 December 2008.

Repayment basis of finance leases over 5 years	2008 £000	2007 £000
Quarterly until 2017	**27,974**	**29,701**
Annually until 2021	**48,117**	**38,985**
	76,091	**68,686**

19 Deferred taxation

Group

	2008 £000	2007 £000
Accelerated capital allowances	3,874	5,267
Deficit Pension payments	(541)	(525)
	3,333	4,742

	2008 £000	2007 £000
At 1 January	4,742	-
Acquisition of subsidiaries	-	6,377
Deferred tax credit in profit and loss account	(2,011)	(2,809)
Deferred tax charge in statement of total recognised gains and losses	602	1,174
At 31 December	3,333	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 their 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 2008 was £nil *(2007: £0.1 million)* assuming such disposal occurred at book value. No provision has been made as no liability is expected to arise. A deferred tax asset of £696,000 has not been recognised on the grounds of uncertainty of future realisation.

Company

The Company has no deferred tax assets/liabilities.

20 Provisions for liabilities

	Back-dated rates £000	Ship reinstate-ments £000	Reorg-anisation provision £000	Legal provision £000	Total provision £000
At 1 January 2008	-	4,485	10,231	5,116	19,832
Charged during the year	5,088	100	4,332	4,592	14,112
Utilised during the year	-	-	(4,743)	96	(4,647)
Released during the year	-	-	(3,589)	(234)	(3,823)
At 31 December 2008	5,088	4,585	6,231	9,570	25,474

Historically rates have been charged and paid to the local councils by the port authorities directly. However, in 2008, rates demands were received for the period from April 2005 to present for the Group to make a payment directly. This is being disputed with the Government, but a provision has been made for the portion that relates to prior years.

The ship reinstatement provision 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 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 2009. During the year, £3.4million of this provision was utilised by an impairment charge against investments (note 12 to the financial statements).

The legal provision relates to disputed vehicle transit costs, contractual employee rights and potential duty fines. About £4.0million is expected to be paid in 2009.

21 Share capital

Group and Company

	2008 Number	2007 Number	2008 £000	2007 £000
Authorised:				
Ordinary shares of £1 each	750,000,000	750,000,000	750,000	750,000

	2008 Number	2008 Number	2008 £000	2007 £000
Allotted, called up and fully paid:				
Ordinary shares of £1 each	428,542,000	428,542,000	428,542	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.

22 Share premium

Group and Company

	2008 £000	2007 £000
At 1 January	107,135	-
Shares issued	-	107,135
At 31 December	107,135	107,135

23 Profit and loss account

	2008 £000	2007 £000
Group		
At 1 January	66,994	-
(Loss)/profit for the financial year/period	(6,393)	58,452
Actuarial (losses)/gains on net pension assets	(38,552)	9,804
Other recognised gains and losses	326	(88)
Deferred tax on actuarial (losses)/gains	(602)	(1,174)
At 31 December	21,773	66,994
Company		
At 1 January	2,500	-
Profit for the year/period	3,120	2,500
At 31 December	5,620	2,500

24 Reconciliation of movement in shareholders' funds

	2008 £000	2007 £000
Group		
At 1 January as originally stated	602,671	-
(Loss)/profit for the year/period	(6,393)	58,452
Actuarial (losses)/gains on net pension assets	(38,552)	9,804
Shares issued	-	535,677
Other recognised gains and losses	326	(88)
Deferred tax on actuarial (losses)/gains	(602)	(1,174)
At 31 December	557,450	602,671
Company		
At 1 January	538,177	-
Profit for the financial year/period	3,120	2,500
Shares issued	-	535,677
At 31 December	541,297	538,177

25 Gross cash flows

	2008 £000	2007 £000
Returns on investments and servicing of finance		
Interest received	794	130
Interest paid	(2,187)	(960)
Interest element of finance lease rental payments	(3,617)	(1,599)
	(5,010)	(2,429)
Capital expenditure		
Payments to acquire tangible fixed assets	(84,208)	(13,360)
Payments to acquire investments	(294)	(893)
Receipts from sales of tangible fixed assets	6,658	2,606
	(77,844)	(11,647)
Financing		
New loans raised	60,393	-
Loan repayments	(1,287)	(943)
Capital element of finance lease rental payments	(3,815)	(4,669)
	55,291	(5,612)

26 Analysis of changes in net debt

	At 1 Jan 2008 £000	Cash flows £000	Non-cash changes £000	At 31 Dec 2008 £000
Cash at bank and in hand	75,234	51,754	-	126,988
Overdrafts	-	(25,168)		(25,168)
	75,234	26,586	-	101,820
Debt due within 1 year	(12,287)	(15,079)	-	(27,366)
Debt due after 1 year	(19,363)	(44,027)	-	(63,390)
Finance leases	(68,686)	(7,405)		(76,091)
	(100,336)	(66,511)	-	(166,847)
Total	**(25,102)**	**(39,925)**	**-**	**(65,027)**

27 Capital commitments

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

	2008 £000	2007 £000
Contracted:		
Ships	**272,417**	1,054
Other	**1,102**	1,286
	273,519	2,340

28 Other financial commitments

Annual commitments under non-cancellable operating leases as follows:

	Land & Buildings 2008 £000	Other 2008 £000	Land & Buildings 2007 £000	Other 2007 £000
Operating leases which expire:				
within one year	**420**	**562**	369	4,186
within two to five years	**957**	**43,917**	1,381	27,306
after five years	**3,177**	**21,704**	3,027	18,486
	4,554	**66,183**	4,777	49,978

Derivative financial instruments

As at the end of the financial year, the Group had commitments to purchase fuel and to purchase and sell currency as follows:

Fuel - Purchase 51% of the expected usage in 2009 for $78.9 million;
USD - Purchase $35.2 million in 2009 and $15.4 million in 2010 to 2012 for £26.1 million.
EUR - Sell €46.9million in 2009, for £37.6 million.

29 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.

For the year ended 31 December 2008 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 2008 accounting for the MNRPF under FRS17 as if it were a defined contribution scheme.The charge in the Group accounts was £1,228,000 *(2007: £612,000)*.
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. The Gibraltar companies proportion of the deficit required a payment of £612,000 in March 2008 (2007: £615,000). The 2008 payment is included within the annual charge, but the 2007 payment was before the Group was purchased.

The Group also makes contributions to various company defined contribution schemes and various industry defined contribution schemes which have assets in separate administered funds. The charge in the Group accounts for these schemes in 2008 was 3,545,000 *(2007: £1,140,000)*.

The Group expects to contribute approximately £15,000,000 to its defined benefit plans in the next financial year.

The company did not participate in any pension scheme during the current or prior periods.

The information disclosed below is in respect of the whole of the plans for which the Company is either the sponsoring employer or has been allocated a share of cost under an agreed group policy throughout the periods shown.

All schemes

	2008 **£000**	*2007* *£000*
Present value of funded defined benefit obligations	**(405,043)**	*(450,834)*
Fair value of plan assets	**353,743**	426,679
Surplus not recognised	**(1,002)**	(1,499)
Deficit contributions excess of valuation	**(1,239)**	-
Deficit	**(53,541)**	(25,654)

29 Pension schemes (continued)

Movements in present value of defined benefit obligation

	P&O UK Scheme £000	MNOPF Scheme £000	Other schemes £000	Total £000
At 1 January 2007	-	-	-	-
Pension scheme acquired with subsidiaries	96,201	333,048	28,380	457,629
Current service cost	3,570	1,275	883	5,728
Interest cost	3,500	12,450	1,421	17,371
Experience gains/(losses)	(980)	14,875	(1,586)	12,309
Changes in assumptions	(145)	(28,434)	(1,820)	(30,399)
Contributions by members	880	700	121	1,701
Benefits paid	(316)	(14,214)	(1,752)	(16,282)
Exchange adjustments	-	-	2,777	2,777
At 31 December 2007	102,710	319,700	28,424	450,834
Current service cost	3,450	1,600	665	5,715
Interest cost	5,330	18,100	1,742	25,172
Experience losses	(5,055)	(5,700)	(508)	(11,263)
Changes in assumptions	(15,153)	(26,600)	(2,221)	(43,974)
Contributions by members	1,183	645	137	1,965
Benefits paid	(584)	(14,901)	(649)	(16,134)
Payments to fellow group undertakings	(15,671)	-	-	(15,671)
Exchange adjustments	-	-	8,399	8,399
At 31 December 2008	76,210	292,844	35,989	405,043

Movements in fair value of plan assets

	P&O UK Scheme £000	MNOPF Scheme £000	Other schemes £000	Total £000
At 1 January 2007	-	-	-	-
Pension scheme acquired with subsidiaries	99,329	290,150	28,149	417,628
Expected return on plan assets	4,110	13,725	1,540	19,375
Actuarial gains/(losses)	(7,123)	323	(1,486)	(8,286)
Contributions by employer	2,880	5,416	1,567	9,863
Contributions by members	880	700	121	1,701
Benefits paid	(316)	(14,214)	(1,752)	(16,282)
Exchange adjustments	-	-	2,680	2,680
At 31 December 2007	99,760	296,100	30,819	426,679
Expected return on plan assets	6,300	19,108	1,793	27,201
Actuarial losses	(23,880)	(64,288)	(6,118)	(94,286)
Contributions by employer	3,690	10,423	1,231	15,344
Contributions by members	1,183	645	137	1,965
Benefits paid	(584)	(14,901)	(649)	(16,134)
Payments to fellow group undertakings	(15,450)	-	-	(15,450)
Management expense	-	-	(109)	(109)
Exchange adjustments	-	-	8,533	8,533
At 31 December 2008	71,019	247,087	35,637	353,743

29 Pension schemes (continued)

Expense recognised in the profit and loss account	**2008**	2007
	£000	£000
Current service cost	**(5,715)**	(5,728)
Interest on defined benefit plan obligation	**(25,172)**	(17,371)
Expected return on defined benefit pension plan assets	**27,201**	19,375
Total	**(3,686)**	(3,724)

The expense is recognised in the following line items in the profit and loss account:

	2008	2007
	£000	£000
Cost of sales	**(3,628)**	(2,755)
Administrative expenses	**(2,087)**	(2,973)
Pension finance income	**2,029**	2,004
Total	**(3,686)**	(3,724)

Actuarial gains and losses for the period are made up as follows:

	2008	2007
	£000	£000
Actuarial losses on assets	**(94,286)**	(8,286)
Actuarial gains/(losses) on liabilities	**11,263**	(12,309)
Actuarial gains on changes in assumptions	**43,974**	30,399
Increase in surplus not recognised	**497**	-
Total actuarial gains/(losses) for the period	**(38,552)**	9,804

The history of the plans for the current and prior period are as follows:

P&O UK Scheme

Balance sheet	**2008**	2007
	£000	£000
Present value of scheme liabilities	**(76,210)**	(102,710)
Fair value of scheme assets	**71,019**	99,760
Deficit	**(5,191)**	(2,950)
Experience adjustments		
Experience gains/(losses) on scheme liabilities	**(5,055)**	980

The fair value of the plan assets and the return on those assets were as follows:

	2008	2007
	£000	£000
Equities	**30,910**	82,100
Bonds	**40,109**	12,000
Other	**-**	5,660
	71,019	99,760
Actual return on plan assets	**(17,580)**	(3,013)

Principal actuarial assumptions (expressed as weighted averages) at the year end were as follows:

		2008	2007
Discount rate		**6.20%**	5.80%
Future salary increases		**4.25%**	4.75%
Future pension increases:	- deferment	**2.60%**	3.25%
	- payment	**2.60%**	2.95%
Inflation		**2.75%**	3.25%

29 Pension schemes (continued)

PA92 medium cohort tables have been used as a basis projected up to 2008, 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 deferred 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.

MNOPF Scheme

Balance sheet	**2008 £000**	2007 £000
Present value of scheme liabilities	**(292,844)**	(319,700)
Fair value of scheme assets	**247,087**	296,100
Deficit	**(45,757)**	(23,600)

Experience adjustments

Experience losses on scheme liabilities	**(5,700)**	(14,875)

The fair value of the plan assets and the return on those assets were as follows:

	2008 £000	2007 £000
Equities	**102,300**	143,100
Bonds	**127,200**	126,200
Other	**17,587**	26,800
	247,087	296,100
Actual return on plan assets	**(45,180)**	14,048

Principal actuarial assumptions (expressed as weighted averages) at the year end were as follows:

		2008	2007
Discount rate		**6.20%**	5.80%
Future salary increases		**4.25%**	4.75%
Future pension increases:	- deferment	**2.75%**	3.25%
	- payment	**2.75%**	3.25%
Inflation		**2.75%**	3.25%

The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on standard actual mortality tables and include an allowance for future improvements in longevity.

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.

29 Pension schemes (continued)

Other schemes

Other schemes are made up of the P&O Irish Pension Scheme and the P&O North Sea Ferries (Netherlands) Pension Scheme, both funded defined benefit schemes.

	2008	2007
Balance sheet	£000	£000
Present value of scheme liabilities	(35,989)	(28,424)
Fair value of scheme assets	35,637	30,819
(Deficit)/surplus	(352)	2,395
Surplus not recognised	(1,002)	(1,499)
(Deficit)/surplus in financial statements	(1,354)	896
Experience adjustments		
Experience gains/(losses) on scheme liabilities	(508)	1,586

The fair value of the plan assets and the return on those assets were as follows:

	2008	2007
	£000	£000
Equities	10,868	13,207
Bonds	24,211	16,938
Property	-	561
Other	558	113
	35,637	30,819
Actual return on plan assets	(4,325)	54

Principal actuarial assumptions (expressed as weighted averages) at the year end were as follows:

		2008	2007
Discount rate		5.85%	5.57%
Future salary increases		3.62%	3.73%
Future pension increases:	- deferment	2.00%	2.10%
	- payment	2.00%	2.10%
Inflation		2.00%	2.10%

The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on standard actual mortality tables and include an allowance for future improvements in longevity.

30 Contingent liabilities

A subsidiary is involved in an ongoing investigation with the French Tax authorities regarding its operation and fiscal presence in France in relation to VAT. The potential liability of the reassessed VAT is €4.2m with additional late payment interest of €0.2m. In management's view they have a strong defence case and consider no financial provision is required.

The Company had no material contingent liabilities at 31 December 2008.

31 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.

32 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.