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P&O Ferrymasters Limited

**Directors' report and financial
statements**

Registered number NI4115 / FC 4745
31 December 2007



CRS

29/01/2009

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COMPANIES HOUSE

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Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2007.

Principal activities

The company is involved in international transport and freight management within Europe.

Business review

P&O Ferrymasters again had a very positive year with improvement across the majority of trading areas. In the year the trading operating profit was £2.5 million, this was before an exceptional cost of £0.7 million, namely the closure of the companies trailer maintenance workshop. Accordingly the overall operating profit was £1.8 million.

Total volumes increased by 7.2% in comparison to the previous year and revenue by 12.1%.

Turnover has increased predominantly due to increased volumes throughout all divisions, but most noticeably in the Freight Management division. Revenue improvements were secured across all European businesses, which were reflected in higher margins.

The Irish trailer business performed better than 2006 due to improvements in margins, again predominantly due to revenue improvement.

Taking into account the aforementioned performance of the business, future objectives include: further expansion and development of the Freight Management concept, within existing and new sectors; expansion of the Intermodal activity encompassing the European rail network; and overall geographical expansion, particularly to Eastern Europe.

Principal risks and uncertainties

The directors consider that the principal risks and uncertainties faced by the company as a trading entity were in the following categories:

Economic risk

- The risk of increased interest rates and or inflation having an adverse impact on served markets.
- The risk of increased unrealistic increases in wages or infrastructural cost impacting adversely on competitiveness of the group and its principal customers.
- The risk of adverse exchange movements.
- The risk of bad debts as a result of the current adverse economic climate

These risks are managed by innovative product sourcing and strict control costs.

Competition risk

The directors of the company and subsidiaries manage competition risk through close attention to customer service levels and product innovation.

Financial risk

The company has budgetary and financial reporting procedures, supported by appropriate key performance indicators, to manage credit, liquidity and other financial risk.

Other

Key performance indicators used by management include divisional volume analysis which has increased by 37,766 loads to 560,304.

Directors' report *(continued)*

The organisation also monitors other factors such as Human resources, Service quality and Health and Safety.

Proposed dividend and transfer from reserves

The directors do not recommend the payment of a dividend in the year (2006: £nil). Movements on reserves are shown in note 18.

Significant changes in fixed assets

Details of fixed asset movements during the year are shown in note 10 of the financial statements.

Branches

P&O Ferrymasters Limited has branches in the Netherlands and the Republic of Ireland.

Directors and directors' interests

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

| | |
|------------|--|
| H Deeble | |
| B Belder | Managing Director (From 30 th May 2007)/Company Secretary (Appointed 28 th Apr 2006) |
| HH Braam | |
| J Bradshaw | Managing Director (Resigned 30 th May 2007) |
| CN Cassidy | Appointed 1 st August 2007 |
| G Dilley | |
| J Menheere | |
| RI Meyrick | |
| ME Mulder | |
| DA Smith | Resigned 30 th March 2007 |
| B Verbeke | |
| SK Walters | |

Employees

The company recognises the need to keep employees informed and encourages identification with their employer. A company newsletter maintains regular contact with employees at all locations.

Internal training courses have been developed and induction training allows new employees to become familiar with the structure of the company and its procedures shortly after taking up employment with the company.

Directors' report *(continued)*

Briefings and notices are issued on a regular basis to employees enabling them to understand their role in the organisation more clearly. The organisation encourages employees' personal development through a regular appraisal process, where training needs are highlighted the organisation endeavours to address these needs and readily encourages promotional prospects.

Contacts are maintained with Disablement Resettlement Offices with a view to ensuring full and fair consideration of any disabled applicant for employment. The company endeavours to retain any existing employee who may become disabled, providing specialised training where appropriate. If modified or additional facilities are needed for a disabled employee, all reasonable steps are taken to provide them.

Political and charitable contributions

The company made no political contributions during the year. Donations to UK charities amount to £1,591 (2006: £409)

Credit payment policy

The Company'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 clearly communicated and understood by suppliers. The company has procedures for dealing promptly with complaints and disputes. This policy is a combination of the CBI Best Code of Practice and terms agreed with suppliers. The company had 51 days' purchases outstanding at 31 December 2007 (2006: 53 days).

Disclosure of information to the 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 group'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.

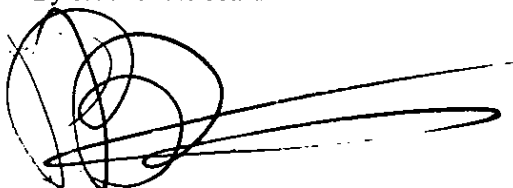
Directors' qualifying third party indemnity provisions

The company has granted an indemnity to one or more of its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 1985. Such qualifying third party indemnity provision remains in force as at the date of approving the directors' report.

Appointment of Auditors

Ernst & Young LLP resigned as auditors during the year and KPMG LLP was appointed to fill the vacancy arising. The appointment of KPMG LLP will be put forward to the forthcoming AGM.

By order of the board



B Belder
Secretary

Whitehouse Industrial Estate
3 Goddard Road
Ipswich
IP1 5NP

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 company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and 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 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 company and to prevent and detect fraud and other irregularities.



KPMG LLP

6 Lower Brook Street
Ipswich
IP4 1AP
United Kingdom

Independent auditors' report to the members of P&O Ferrymasters Limited

We have audited the financial statements of P&O Ferrymasters Limited for the year ended 31 December 2007 which comprise the Profit and Loss Account, the Balance Sheet, the 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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

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

Independent auditors' report to the members of P&O Ferrymasters Limited
(continued)

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 company's affairs as at 31 December 2007 and of its profit 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
Chartered Accountants
Registered Auditor

21 January 2009

Profit and loss account
for the year ended 31 December 2007

| | <i>Note</i> | 2007 £000 | 2006 £000 |
|--|-------------|----------------------------|----------------------------|
| Turnover | 2 | 398,207 | 355,348 |
| Cost of sales | | (365,027) | (326,714) |
| Gross profit | | 33,180 | 28,634 |
| Administrative expenses | | (31,429) | (27,974) |
| Operating Profit | | 1,751 | 660 |
| Other interest receivable and similar income | 6 | 1,396 | 1,786 |
| Interest payable and similar charges | 7 | (1,461) | (1,849) |
| Profit on ordinary activities before taxation | 3 | 1,686 | 597 |
| Tax on profit on ordinary activities | 8 | 874 | (707) |
| Profit/(Loss) for the financial year | 18 | 2,560 | (110) |

A statement of movements in shareholders' funds is given in note 18.

Turnover and operating profit entirely relate to continuing activities as defined by FRS 3.

The accounts are prepared on an unmodified historical basis, and therefore the profit reported is based on historical cost.

The notes on pages 10 to 27 form part of these financial statements.

Balance sheet
at 31 December 2007

| | <i>Note</i> | 2007 | 2006 |
|--|-------------|-------------|-------------|
| | | £000 | £000 |
| Fixed assets | | | |
| Intangible assets | 9 | 956 | 972 |
| Tangible assets | 10 | 9,374 | 11,019 |
| Investments | 11 | 8 | 8 |
| | | <hr/> | <hr/> |
| | | 10,338 | 11,999 |
| Current assets | | | |
| Stocks | 12 | 820 | 817 |
| Debtors | 13 | 83,801 | 75,034 |
| Cash at bank in hand | | 3,230 | 18,450 |
| | | <hr/> | <hr/> |
| | | 87,851 | 94,301 |
| Creditors: amounts falling due within one year | 14 | (77,559) | (77,117) |
| | | <hr/> | <hr/> |
| Net current assets | | 10,292 | 17,184 |
| | | <hr/> | <hr/> |
| Total assets less current liabilities | | 20,630 | 29,183 |
| Creditors: amounts falling due after more than one year excluding pension liability | 15 | (19,118) | (28,421) |
| Provisions for liabilities | 16 | 9 | (1,174) |
| | | <hr/> | <hr/> |
| Net assets/(liabilities) before pension liabilities | | 1,521 | (412) |
| Pension liability | 20 | (273) | (5,171) |
| | | <hr/> | <hr/> |
| Net assets/(liabilities) | | 1,248 | (5,583) |
| | | <hr/> | <hr/> |
| Capital and reserves | | | |
| Called up share capital | 17 | 34,300 | 34,300 |
| Profit and loss account | 18 | (33,052) | (39,883) |
| | | <hr/> | <hr/> |
| Shareholders' funds/(deficit) | | 1,248 | (5,583) |
| | | <hr/> | <hr/> |

These financial statements were approved by the board of directors on 20 January 2009 and were signed on its behalf by:


B Belder
Director

The notes on pages 10 to 27 form part of these financial statements.

Statement of total recognised gains and losses
for the year ended 31 December 2007

| | 2007 £000 | 2006 £000 |
|--|--------------|--------------|
| Profit/(Loss) for financial year | 2,560 | (110) |
| Actuarial gain on pension scheme | 5,603 | 3,395 |
| Deferred tax arising on gain/(loss) | (1,342) | 309 |
| Other recognised gain | 10 | 15 |
| Total recognised gains relating to financial year | 6,831 | 3,609 |

Notes

1 Accounting policies

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

Cash flow statement

Under FRS 1 the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent includes the company in its own published consolidated financial statements.

Goodwill

Goodwill acquired is included within intangible fixed assets and is stated at cost less accumulated amortisation. Amortisation is calculated to write off goodwill on a straight-line basis over its expected useful life, normally 20 years. This is subject to annual impairment reviews and adjusted as necessary.

Fixed assets and depreciation

Depreciation is provided by the company to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

| | | |
|--|---|---------------|
| Owned and leased plant and machinery | - | 2 to 12 years |
| Fixtures, fittings, tool and equipment | - | 4 to 10 years |

In the case of freehold buildings and leasehold properties occupied by the company, annual depreciation is provided on a straight-line basis. Freehold properties are written off over 50 years and leasehold properties are written off over the remainder of the lease period. No depreciation is provided on freehold land.

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Leases

All leases are accounted for as 'operating leases' and the rental charges are charged to the profit and loss on a straight line basis over the life of the lease. The company has no finance leases.

Stocks

Stock consists of fuel and consumables and are valued on a FIFO basis at the lower of cost and net realisable value.

Foreign exchange

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.

Notes (continued)

Taxation

The charge for taxation is based on the profit for the year. Deferred tax is recognised in respect of all timing differences between the treatment of certain items for taxation and accountancy purposes which have arisen but not reversed by the balance sheet date, except to the extent the directors consider it is more likely than not that there will be suitable taxable profits from which the future reversal of underlying timing differences can be deducted. Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which the timing differences reverse based on the tax rates enacted or substantially enacted at the balance sheet date.

Turnover

Turnover represents the amounts (excluding value added tax) derived from transport revenue to customers during the year. Turnover is recognised at the point of delivery of the load.

Post retirement benefits

The Company participates in three 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 Company also participates in the Merchant Navy Officers' Fund (the "MNOF Scheme"), an industry wide scheme, and the P&O Irish Pension Scheme. The Company also makes contributions to various industry schemes which have assets in separate administered funds. The latest valuation of the P&O UK Scheme, the MNOF scheme and the P&O Irish Pension Scheme have been updated to 31 December 2007 by qualified independent actuaries.

The company's net obligation is calculated by estimating the amount of future benefit that employees have in return for their service in the current and prior periods. The benefit is discounted to determine the present value, and the fair value of any plan assets is deducted. The calculation is performed by a qualified actuary using the projected unit credit method. The discount rate is the yield at the balance sheet date on AA credit rated bonds or local equivalent that have maturity dates approximating to the terms of the company's obligations.

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.

Actuarial gains and losses that arise in calculating the company's obligation in respect of the plan are recognised in the period in which they arise directly in the statement of recognised income and expenses. The operating and financing costs of the defined benefit pension plan are recognised separately in the income statement; current service costs are spread systematically over the expected average remaining service lives of employees and financing costs are recognised in the periods within which they arise.

Related party transactions

As the company is a wholly owned subsidiary of P&O Ferries Division Holdings Ltd, the company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group. The consolidated financial statements of P&O Ferries Division Holdings Ltd within which this company is included can be obtained from the address given in note 21.

Notes (continued)

2 Analysis of turnover

The turnover and profit before tax of the company is derived primarily from transport activities. Turnover can be analysed, by geographical market, as follows:

| | 2007 £000 | 2006 £000 |
|--------------------|----------------|----------------|
| United Kingdom | 102,709 | 96,453 |
| Continental Europe | 295,498 | 258,895 |
| | <u>398,207</u> | <u>355,348</u> |

3 Profit on ordinary activities before taxation

| | 2007 £000 | 2006 £000 |
|---|--------------|--------------|
| <i>Profit on ordinary activities before taxation is stated after charging/(crediting)</i> | | |
| Auditors' remuneration: | | |
| Audit of these financial statements | 75 | 102 |
| Other services | 15 | - |
| Depreciation and other amount written off tangible fixed assets: | | |
| Owned | 2,212 | 3,964 |
| Leased | 207 | 493 |
| Amortisation of goodwill | 68 | 58 |
| Foreign exchange losses | 300 | 88 |
| Rentals payable under operating leases: | | |
| Hire of plant and machinery | 8,552 | 6,473 |
| Land and buildings | 939 | 451 |
| Profit on disposal of fixed assets | (88) | (249) |
| Impairment of fixed assets | - | 1,578 |
| | <u></u> | <u></u> |

4 Remuneration of directors

| | 2007 £000 | 2006 £000 |
|----------------------------|--------------|--------------|
| Directors' emoluments: | | |
| Remuneration as executives | 898 | 1,012 |
| | <u></u> | <u></u> |

The emoluments, excluding pension contributions, of the highest paid director were £140,521 (2006: £179,366). Accrued pension at the year-end was £39,575 (2006: £75,387).

The aggregate amount of pension contributions paid on behalf of the directors was £210,869 (2006: £152,863). The number of directors to whom retirement benefits are accruing is 2 (2006: 3) under the P&O defined benefit Pension Scheme.

Notes (continued)

5 Staff numbers and costs

The average number of persons employed by the company (including directors) during the year, analysed by category, was as follows:

| | 2007 | 2006 |
|------------------------------|------------|------------|
| Drivers | 181 | 188 |
| Maintenance and repair | 1 | 57 |
| Administrative & supervisory | 700 | 614 |
| | <u>882</u> | <u>859</u> |

The aggregate payroll costs of these persons were as follows:

| | 2007 £000 | 2006 £000 |
|-----------------------|---------------|---------------|
| Wages and salaries | 20,098 | 20,364 |
| Social security costs | 1,930 | 1,837 |
| Other pension costs | 1,716 | 1,396 |
| | <u>23,744</u> | <u>23,597</u> |

6 Other interest receivable and similar income

| | 2007 £000 | 2006 £000 |
|--------------------------------------|--------------|--------------|
| Bank interest | 1,224 | 1,437 |
| Finance benefit on pension liability | 168 | 349 |
| Foreign exchange movement | 4 | - |
| | <u>1,396</u> | <u>1,786</u> |

Notes (continued)

7 Interest payable and similar charges

| | 2007 £000 | 2006 £000 |
|-------------------|--------------|--------------|
| Group undertaking | 457 | 878 |
| Bank interest | 1,004 | 968 |
| Foreign exchange | - | 3 |
| | <u>1,461</u> | <u>1,849</u> |

8 Taxation

| | £000 | 2007 £000 | £000 | 2006 £000 |
|--|---------|--------------|---------|--------------|
| <i>UK corporation tax</i> | | | | |
| Current tax on income for the year | 594 | | 471 | |
| Adjustments in respect of prior years | (285) | | 188 | |
| | <u></u> | 309 | <u></u> | 659 |
| <i>Foreign tax</i> | | | | |
| Current tax on income for the year | - | | - | |
| Adjustments in respect of prior years | - | | (2) | |
| | <u></u> | - | <u></u> | (2) |
| Total current tax | | 309 | | 657 |
| <i>Deferred tax (see note 16)</i> | | | | |
| Origination/reversal of timing differences | 286 | | (473) | |
| Adjustment in respect of previous year | (1,469) | | 523 | |
| | <u></u> | (1,183) | <u></u> | 50 |
| | | <u>(874)</u> | | <u>707</u> |

Notes (continued)

8 Taxation (continued)

Factors affecting the tax credit for the current period

The current tax charge for the period is lower (2006: higher) than the standard rate of corporation tax in the UK, 30%, (2006: 30%). The differences are explained below:

| | 2007 £000 | 2006 £000 |
|--|--------------|--------------|
| <i>Current tax reconciliation</i> | | |
| Profit on ordinary activities before tax | 1,686 | 597 |
| | <hr/> | <hr/> |
| Current tax at 30% (2006: 30%) | 506 | 179 |
| <i>Effects of:</i> | | |
| Expenses not deductible for tax purposes | 372 | (181) |
| Accelerated capital allowances | 136 | 473 |
| Other short term timing differences | (421) | - |
| Adjustments to tax charge in respect of previous periods | (285) | 186 |
| Rate adjustment 30% - 28% | 1 | |
| | <hr/> | <hr/> |
| Total current tax charge (see above) | 309 | 657 |
| | <hr/> | <hr/> |

9 Intangible fixed assets

| | |
|-----------------------|----------------------|
| Goodwill | 2007 £000 |
| <i>Cost</i> | |
| At beginning of year | 1,441 |
| Foreign exchange | 92 |
| | <hr/> |
| At end of year | 1,533 |
| <i>Amortisation</i> | |
| At beginning of year | (469) |
| Charge for the year | (68) |
| Foreign exchange | (40) |
| | <hr/> |
| At end of year | (577) |
| <i>Net book value</i> | |
| At 31 December 2007 | 956 |
| | <hr/> |
| At 31 December 2006 | 972 |
| | <hr/> |

Notes (continued)

10 Tangible fixed assets

| | Long lease land and buildings | Plant machinery owned | Fixtures fittings tools and equipment | Total |
|-----------------------|----------------------------------|-----------------------------|---|----------|
| | £000 | £000 | £000 | £000 |
| Cost | | | | |
| At beginning of year | 3,195 | 24,568 | 6,177 | 33,940 |
| Additions | 284 | 132 | 780 | 1,196 |
| Disposals | (7) | (9,686) | (3,537) | (13,230) |
| At end of year | 3,472 | 15,014 | 3,420 | 21,906 |
| Depreciation | | | | |
| At beginning of year | (1,582) | (16,648) | (4,690) | (22,920) |
| Charge for the year | (207) | (1,581) | (631) | (2,419) |
| Disposals | 3 | 9,270 | 3,534 | 12,807 |
| At end of year | (1,786) | (8,959) | (1,787) | (12,532) |
| Net book value | | | | |
| At 31 December 2007 | 1,686 | 6,055 | 1,633 | 9,374 |
| 31 December 2006 | 1,613 | 7,919 | 1,487 | 11,019 |

11 Investments

**Unlisted
investments
2007
£000**

Cost

As at January 1st and December 31st 2007

8

Notes (continued)

12 Stocks

| | 2007 £000 | 2006 £000 |
|-------------------------------|--------------|--------------|
| Raw materials and consumables | 820 | 817 |

13 Debtors

| | 2007 £000 | 2006 £000 |
|------------------------------------|---------------|---------------|
| Trade debtors | 66,724 | 62,015 |
| Amounts owed by Group undertakings | 257 | 135 |
| Corporation tax | - | 380 |
| Other Debtors | 1,668 | 2,258 |
| Other taxes and social security | - | - |
| Prepayments and accrued income | 15,152 | 10,246 |
| | <u>83,801</u> | <u>75,034</u> |

14 Creditors: amounts falling due within one year

| | £000 | 2007 £000 | £000 | 2006 £000 |
|--|---------|---------------|---------|----------------|
| Trade creditors | | 61,133 | | 56,441 |
| Amounts owed to Group undertakings | | 5,258 | | 9,627 |
| Other creditors | 1,892 | | | |
| Other taxes and social security | 135 | | 2,395 | |
| Pensions | 116 | | 366 | |
| | <u></u> | <u>2,143</u> | <u></u> | <u>2,761</u> |
| Accruals and deferred income | | 8,132 | | 8,140 |
| Group relief Corporation Tax | | 893 | | 148 |
| | | <u>77,559</u> | | <u>77,117</u> |
| Creditors: amounts falling due after more than one year, excluding pension liability (Note 15) | | <u>19,118</u> | | <u>28,421</u> |
| Total Creditors | | <u>96,677</u> | | <u>105,538</u> |

Notes (continued)

15 Creditors: amounts falling due after more than one year, excluding pension liability

| | 2007 £000 | 2006 £000 |
|------------------------------------|--------------|--------------|
| Amounts owed to group undertakings | 19,118 | 28,421 |

16 Provisions for liabilities and charges

| | Deferred Taxation £000 |
|--|------------------------------|
| At beginning of year | 1,174 |
| Charged to profit and loss account in the year | (1,183) |
| At end of year | (9) |

The elements of deferred taxation are as follows:

| | 2007 £000 | 2006 £000 |
|--|--------------|--------------|
| Difference between accumulated depreciation and capital allowances | 369 | 1,174 |
| Other timing differences | (378) | - |
| Deferred tax (asset)/liability | (9) | 1,174 |

17 Called up share capital

| | 2007 £000 | 2006 £000 |
|---|--------------|--------------|
| Authorised 35,000,000 ordinary shares of £1 each | 35,000 | 35,000 |
| Allotted, called up and fully paid 34,300,000 ordinary shares of £1 each | 34,300 | 34,300 |

Notes (continued)

18 Reconciliation of movement in shareholders' funds

| | Called up Share Capital £000 | Profit and loss account £000 | Total £000 |
|--|---------------------------------------|------------------------------------|---------------|
| At the beginning of the year as previously reported | 34,300 | (39,883) | (5,583) |
| Retained profit for the year | - | 2,560 | 2,533 |
| Actuarial gain arising on defined benefit pension scheme | - | 7,782 | 7,782 |
| Transfer of Funds | - | (2,179) | (2,179) |
| Deferred tax arising on gain | - | (1,342) | (1,316) |
| Other recognised gains and losses | - | 10 | 11 |
| At end of year | 34,300 | (33,052) | 1,248 |

19 Commitments

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

| | 2007 £000 | 2006 £000 |
|------------|--------------|--------------|
| Contracted | 490 | 219 |

(b) Annual commitments under non-cancellable operating leases are as follows:

| | Land and buildings £000 | 2007 Other £000 | Land and buildings £000 | 2006 Other £000 |
|--|-------------------------------|-----------------------|-------------------------------|-----------------------|
| Operating leases which expire: | | | | |
| Within one year | 82 | 446 | 2 | 279 |
| In the second to fifth years inclusive | 470 | 4,178 | 491 | 3,105 |
| Over five years | 114 | 2,585 | 647 | 2,109 |
| | 666 | 7,209 | 1,140 | 5,493 |

Notes (continued)

20 Pension schemes

The Company participates in three 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 Company also participates in the Merchant Navy Officers' Fund (the "MNOFF Scheme"), an industry wide scheme, and the P&O Irish Pension Scheme.

The Company also makes contributions to various industry schemes which have assets in separate administered funds.

The latest valuation of the P&O UK Scheme, the MNOFF scheme and the P&O Irish Pension Scheme have been updated to 31 December 2007 by qualified independent actuaries.

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.

| | <u>P&O UK Scheme</u> | | | <u>MNOFF Scheme</u> | | | <u>P&O Irish Scheme</u> | | |
|---|--------------------------|-----------|-----------|---------------------|-----------|-----------|-----------------------------|-----------|-----------|
| | 2007 % | 2006 % | 2005 % | 2007 % | 2006 % | 2005 % | 2007 % | 2006 % | 2005 % |
| Discount rates | 5.80 | 5.10 | 4.75 | 5.80 | 5.10 | 4.75 | 5.50 | 4.60 | 4.00 |
| Expected rates of salary increases | 4.75 | 4.40 | 4.20 | 4.75 | 4.40 | 4.20 | 4.40 | 4.30 | 4.20 |
| Pension increases: | | | | | | | | 2.30 | 2.20 |
| - deferment | 3.25 | 2.90 | 2.70 | 3.25 | 2.90 | 2.70 | - | - | - |
| - payment | 2.95 | 2.70 | 2.50 | 3.25 | 2.70 | 2.50 | - | - | - |
| Inflation | 3.25 | 2.90 | 2.70 | 3.25 | 2.90 | 2.70 | 2.40 | 2.30 | 2.20 |
| Expected rates of return on plan assets | 7.37 | 5.70 | 5.80 | 6.50 | 6.85 | 6.60 | 6.53 | 6.35 | 6.32 |

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:

Notes (continued)

20 Pension schemes (continued)

| | P&O UK Scheme | | MNOFF Scheme | | P&O Irish Scheme | | Total Market value £000 |
|-------------------------------------|---|-------------------------|---|-------------------------|---|-------------------------|-------------------------------|
| | Expected long term rate of return % | Market value £000 | Expected long term rate of return % | Market value £000 | Expected long term rate of return % | Market value £000 | |
| | | | | | | | |
| 2007 | | | | | | | |
| Equities | 7.75 | 15,702 | 7.75 | 1,320 | 7.00 | 2,741 | 19,763 |
| Bonds | 6.00 | 2,295 | 5.15 | 1,164 | 4.70 | 385 | 3,844 |
| Property | - | - | - | - | 6.00 | - | - |
| Cash | - | - | - | - | 2.40 | - | - |
| Other | 4.80 | 1,083 | 6.15 | 247 | - | 268 | 1,598 |
| | | <u>19,080</u> | | <u>2,731</u> | | <u>3,394</u> | <u>25,205</u> |
| Present value of scheme liabilities | | (19,630) | | (2,949) | | (3,016) | (25,595) |
| Deficit in scheme pension liability | | (550) | | (218) | | 378 | (390) |
| Related deferred tax asset | | 165 | | 65 | | (113) | 117 |
| Net pensions liability | | <u>(385)</u> | | <u>(153)</u> | | <u>265</u> | <u>(273)</u> |
| 2006 | | | | | | | |
| Equities | 7.70 | 29,441 | - | - | - | - | 29,441 |
| Bonds | 4.60 | 49,237 | - | - | - | - | 49,237 |
| Property | - | - | - | - | - | - | - |
| Cash | - | - | - | - | - | - | - |
| Other | 4.20 | 2,097 | - | - | - | - | 2,097 |
| | | <u>80,775</u> | | <u>-</u> | | <u>-</u> | <u>80,775</u> |
| Present value of scheme liabilities | | (87,120) | | - | | - | (87,120) |
| Deficit in scheme pension liability | | (6,345) | | - | | - | (6,345) |
| Related deferred tax asset | | 1,174 | | - | | - | 1,174 |
| Net pensions liability | | <u>(5,171)</u> | | <u>-</u> | | <u>-</u> | <u>(5,171)</u> |
| 2005 | | | | | | | |
| Equities | 7.70 | 32,510 | - | - | - | - | 32,510 |
| Bonds | 4.40 | 44,700 | - | - | - | - | 44,700 |
| Property | - | - | - | - | - | - | - |
| Cash | - | - | - | - | - | - | - |
| Other | 3.70 | 795 | - | - | - | - | 795 |
| | | <u>78,005</u> | | <u>-</u> | | <u>-</u> | <u>78,005</u> |
| Present value of scheme liabilities | | (88,420) | | - | | - | (88,420) |
| Deficit in scheme pension liability | | (10,415) | | - | | - | (10,415) |
| Related deferred tax asset | | 1,124 | | - | | - | 1,124 |
| Net pensions liability | | <u>(9,291)</u> | | <u>-</u> | | <u>-</u> | <u>(9,291)</u> |

Notes (continued)

20 Pension schemes (continued)

The pension costs for defined schemes are as follows:

| | P&O UK Scheme £000 | MNOFF Scheme £000 | P&O Irish Scheme £000 | Total £000 |
|---|---|----------------------------------|--|-----------------------|
| 2007 | | | | |
| Operating Profit | | | | |
| Current service costs | (770) | (16) | (70) | (856) |
| Past service costs | - | - | - | - |
| Net gain on settlements and curtailments | - | - | - | - |
| Total charge to the operating profit | (770) | (16) | (70) | (856) |
| Other finance income/(expense) | | | | |
| Expected return on pension scheme assets | 1,900 | 170 | 62 | 2,132 |
| Interest on pension scheme liabilities | (1,810) | (154) | - | (1,964) |
| Net return | 90 | 16 | 62 | 168 |
| Statement of total recognised gains and losses | | | | |
| Actual return less expected return on pension assets | 7,732 | 119 | 192 | 8,043 |
| Experience gains and losses on pension scheme liabilities | (2,506) | (172) | (72) | (2,750) |
| Transfer of funds | (2,260) | - | 81 | (2,179) |
| Changes in assumptions underlying the present value of the scheme liabilities | 2,849 | (360) | - | 2,489 |
| Actuarial (loss)/gain recognised in statement of total recognised gains and losses | 5,815 | (413) | 201 | 5,603 |

Notes (continued)

20 Pension schemes (continued)

| | P&O UK Scheme £000 | MNOFF Scheme £000 | P&O Irish Scheme £000 | Total £000 |
|---|-----------------------------|-------------------------|--------------------------------|---------------|
| 2006 | | | | |
| Operating Profit | | | | |
| Current service costs | (870) | - | - | (870) |
| Past service costs | - | - | - | - |
| Total charge to the operating profit | (870) | - | - | (870) |
| Other finance income/(expense) | | | | |
| Expected return on pension scheme assets | (4,469) | - | - | (4,469) |
| Interest on pension scheme liabilities | 4,120 | - | - | 4,120 |
| Net return | (349) | - | - | (349) |
| Statement of total recognised gains and losses | | | | |
| Actual return less expected return on pension assets | 1,215 | - | - | 1,215 |
| Experience gains and losses on pension scheme liabilities | 2,180 | - | - | 2,180 |
| Changes in assumptions underlying the present value of the scheme liabilities | - | - | - | - |
| Actuarial (loss)/gain recognised in statement of total recognised gains and losses | 3,395 | - | - | 3,395 |

As the P&O UK Scheme and MNOFF 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.

| | 2007 | 2006 | 2005 |
|--|---------|-------|---------|
| P&O UK Scheme | | | |
| Difference between the expected and actual return on scheme assets (£000) | 7,732 | 1,215 | 4,894 |
| As a percentage of the scheme assets (%) | 40.5% | 1.5% | 6.3% |
| Experience gains and losses on pension scheme liabilities (£000) | (2,506) | 2,180 | (7,290) |
| As a percentage of the present value of scheme liabilities (%) | (13.5%) | 2.5% | (8.2%) |
| Total actuarial gain/(loss) recognised in the consolidated statement of total recognised gains and losses (£000) | 5,815 | 3,395 | 8,583 |
| As a percentage of the present value of scheme liabilities (%) | 31.4% | 3.9% | 9.7% |

Notes (continued)

20 Pension schemes (continued)

| MNOPF Scheme | 2007 | 2006 | 2005 |
|--|-------------|-------------|-------------|
| Difference between the expected and actual return on scheme assets (£000) | 119 | - | - |
| As a percentage of the scheme assets (%) | 4.4% | - | - |
| Experience gains and losses on pension scheme liabilities (£000) | (172) | - | - |
| As a percentage of the present value of scheme liabilities (%) | (5.8%) | - | - |
| Total actuarial gain/(loss) recognised in the consolidated statement of total recognised gains and losses (£000) | (413) | - | - |
| As a percentage of the present value of scheme liabilities (%) | (14%) | - | - |
| P&O Irish Scheme | 2007 | 2006 | 2005 |
| Difference between the expected and actual return on scheme assets (£000) | 192 | - | - |
| As a percentage of the scheme assets (%) | 5.7% | - | - |
| Experience gains and losses on pension scheme liabilities (£000) | (72) | - | - |
| As a percentage of the present value of scheme liabilities (%) | (2.4%) | - | - |
| Total actuarial gain/(loss) recognised in the consolidated statement of total recognised gains and losses (£000) | 201 | - | - |
| As a percentage of the present value of scheme liabilities (%) | 6.7% | - | - |

| | P&O UK Scheme £000 | MNOPF Scheme £000 | P&O Irish Scheme £000 | Total £000 |
|--|--------------------------|-------------------------|--------------------------------|----------------|
| Movement in the deficit during the two years ended 31 December 2007 | | | | |
| Deficit in schemes as at 1 January 2006 | (10,415) | - | - | (10,415) |
| Current service costs | (870) | - | - | (870) |
| Exchange gain | - | - | - | - |
| Contributions paid | 1,196 | - | - | 1,196 |
| Past service cost | - | - | - | - |
| Net gain on settlements and curtailments | - | - | - | - |
| Other finance expenses | 349 | - | - | 349 |
| Actuarial gain | 3,395 | - | - | 3,395 |
| Deficit/surplus in schemes as at 31 December 2006 | (6,345) | - | - | (6,345) |
| Current service costs | (770) | (16) | (84) | (870) |
| Exchange gain | - | - | 14 | 14 |
| Contributions paid | 660 | 100 | 114 | 874 |
| Past service cost | - | - | - | - |
| Net gain on settlements and curtailments | - | - | - | - |
| Other finance expenses | 90 | 16 | 62 | 168 |
| Actuarial gain | 5,815 | (413) | 201 | 5,603 |
| Reclassification to defined benefit scheme | - | 95 | 71 | 166 |
| Deficit/surplus in schemes as at 31 December 2007 | (550) | (218) | 378 | (390) |

Notes (continued)

20 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 (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 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 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.

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 |

Notes (continued)

20 Pension schemes (continued)

Industry Schemes

Merchant Navy Officers' Pension Fund ("MNOFF")

The MNOFF Scheme is a defined benefit multi-employer scheme in which officers employed by the Company 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 increase 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 Company that the share of its deficit in the New Section is 5.0 per cent, and for the 2003 valuation, has issued a schedule of regular deficit payments from the Company totalling £1.5m per annum commencing on 30 September 2005 and payable on 30 March thereafter until 2014. Therefore, the Company has accounted for the MNOFF New Section as a defined benefit scheme from 30 September 2005. Prior to that date, the Company accounted for the New Section as a defined contribution scheme as it was unable to determine its share of the scheme. The Company 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.

Merchant Navy Ratings Pension Fund ("MNRPF")

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

As at 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 earnings increase | 4.20 |
| Rate of pension increases (where increases apply) | 2.70 |

Notes (continued)

20 Pension schemes (continued)

As a result of this valuation a revised fixed schedule of payments was drawn up which remained in place until 31 March 2007. While the company is no longer a current employer in the MNRPF, and has no legal obligation with respect to the on-going deficit in the fund, having settled its statutory debt obligation, it is participating on a voluntary basis to the fixed schedule of payments.

For the year ended 31 December 2007 the Company 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 company accounts in 2007 was £Nil (2006:£18,790).

21 Ultimate parent company and parent undertaking of largest group of which the company is a member

The smallest group of companies for which consolidated financial statements are prepared and in which the company is consolidated is that of the P&O Ferries Division Holdings Limited (registration number 6038090), copies of whose accounts can be obtained from:

The Registrar of Companies
Companies House
Crown Way
Maindy
Cardiff
CF14 3UZ

The largest group of companies for which consolidated financial statements are prepared and in which the company is consolidated is Port and Free Zone World FZE, whose parent is Dubai World Corporation. These statements are not publicly filed.

The company's immediate controlling party at 31 December 2007 is P&O Ferries Limited, a company incorporated in Great Britain and registered in England and Wales.

At 1 January 2007 the ultimate UK parent company was The Peninsular and Oriental Steam Navigation Company. On that date, Thunder FZE, the immediate parent undertaking of The Peninsular and Oriental Steam Navigation Company, was purchased by Galaxy Investments Ltd (now called DP World) and in the opinion of the directors, the ultimate parent undertaking from that date is Dubai World Corporation, a company incorporated in Dubai.

On 30 March 2007, a group reorganisation was completed that moved the company from the Ports sector of Port and Free Zone World FZE to its own sector. The ultimate parent undertaking remains Dubai World Corporation.

To achieve this reorganisation, P&O Ferrymasters Limited was sold by P&O Properties BV to P&O Ferrymasters Holdings Limited, which is a direct subsidiary of P&O Ferries Division Holdings Limited. P&O Ferries Division Holdings Limited was incorporated with share capital representing ownership by Dubai World Corporation of £536m.

22 Contingent Liability

The company is involved in an ongoing investigation with the French Tax authorities regarding its operations and fiscal presence in France in relation to VAT. The potential liability of the reassessed VAT is €4.15m with additional late payment interest of €0.16m. In management's view they have a strong defence case and consider no financial provision is required.