Registered number
6038090

P&O Ferries Division Holdings Limited

Directors' Report and Financial Statements

31 December 2010

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

P&O Ferries Division Holdings Limited
Directors' Report

The directors present their report and financial statements for P&O Ferries Division Holdings Limited and subsidiaries ("the Group") for the year ended 31 December 2010

Principal activities
The Group's principal activity during the year continued to be transportation via ferry and road transport services between Great Britain, Ireland and Continental Europe P&O Ferries Division Holdings Limited ("the Company") is a holding company

Business review and future developments
P&O Ferries Division Holdings Limited consists of two principal businesses the operation of ferry services between Great Britain, Ireland and Continental Europe (Ferries) and the provision of European transportation and logistics services (Ferrymasters)

Key Performance Indicators and Performance Review
Many of the markets in which we operate have seen little economic recovery through 2010, and the competitive conditions have intensified as operators have sought to maximise volumes in a flat market Our strong position in our chosen markets, coupled with high levels of customer service and our focus on cost control have however enabled us to mitigate much of the effect of this economic downturn Further, the business benefitted from disruption to air travel caused by the Icelandic volcanic eruption, adverse weather conditions and industrial disputes

The following information is represented

	2010	2009
Ferries		
Freight Units Carried (million)	1 9	2 0
Tourist Vehicles Carried (million)	1 7	1 8
Total Passengers Carried (million)	9 4	9 2
Ferrymasters		
Total Units Transported (million)	0 6	0 5

Turnover declined to £988m from £1,004m in 2009 Within Ferries, freight volumes fell 5 5% in the year whilst tourist volumes overall remained broadly in line with the prior year, with tourist vehicle volumes down 1 5% and total passenger volumes up 2 7% Pressure on rates and the closure of the Portsmouth-Bilbao service in September 2010 contributed to a reduction in revenues Within Ferrymasters, volumes increased by 8% from the prior year, although this was offset by lower rates due to a volatile market environment

Gross profit as a percentage of revenue improved by 0 2% to 10 6%, reflecting the net impact of the changes in fuel prices and the effects of management's ongoing focus on yield

The Group's operating profit for the year was £13 7m (2009 £8 7m) Operating profit before exceptional items was £23 7m (2009 £21 1m)

There were two exceptional charges to operating profit for the year a charge of £8 0m principally in respect of restructuring, which included the rationalisation of Ferries Head Office functions, restructuring of Ferrymasters operations and the closure of the Group's Portsmouth-Bilbao service (see current and future developments), and an impairment charge of £2 1m against capitalised computer software development costs Prior year exceptional items totalled £12 4m (note 4)

EBITDA before exceptional items, as a percentage of revenue improved to 6 5% for the year ended 31 December 2010, compared to 5 6% for the previous year

Lower finance charges year on year include the effect of reduced foreign exchange losses Foreign exchange gains comprise a credit of £1 3m (2009 credit of £3 5m) in respect of a gain on a Euro-denominated finance lease (see note 19 in the financial statements)

Profit after taxation increased to £11 1m (2009 £1 1m)

Current and future developments

Construction on the two new ferries for the Dover Calais service continues, and total payments to STX Europe (formerly Aker Yards) of £91 2m were made in the year The first of the new vessels, Spirit of Britain, entered service in January 2011 and the second, Spirit of France, will enter service later in 2011

Further to the announcement in January 2010, upon expiry of the charter for the Group's only vessel servicing the Portsmouth-Bilbao route, management decided not to renew the charter and to cease the service at the end of September 2010

During the year redundancy and reorganisation costs of £1 4m were incurred by Ferrymasters The costs related to the decision to cease with a dedicated tractor unit fleet, resulting in the redundancy of all the directly employed tractor unit drivers

During the fourth quarter of 2010, Ferries management implemented a rationalisation of back office functions, predominantly affecting the Head Office in Dover In excess of 60 positions were removed from the business with around 40 staff being made redundant The second phase of this process will be announced later in 2011

There remains considerable uncertainty surrounding the timing and speed of an economic recovery In the Dover Calais market, Eurotunnel have been highly active, regaining market share lost as a result of the serious tunnel fire in 2008 Price competition remains intense in all markets There has been some consolidation of operations in the Irish Sea as Stena Line acquired the Northern Irish portion of the former Norfolkline business from DFDS The deal is subject to regulatory approval, but management continue to assess the potential implications DFDS subsequently ceased their Central Irish operations early in 2011

Principal risks and uncertainties

Financial Risk Management

The Group is exposed to a variety of financial risks that include fuel price risk, foreign exchange rate risk, credit risk and interest rate risk

Fuel Price Risk

The Group has highly predictable requirements for bunker fuels for its ferry fleet and fuel prices remain highly volatile Ferries' strategy is to buy hedges in layers In addition, Ferries is able to mitigate some of the effect of rising fuel costs through the application of fuel surcharges

Foreign Exchange Risk

The Group is exposed to exchange rate risk principally against the dollar for purchases of fuel and the payment of some vessel charters, and more generally against the Euro Exchange rate risk against the US dollar is mitigated via currency hedges Ferries has both inflows and outflows of Euros and these generally balance For specific transactions, for example payments for new ships, the Group will undertake hedges of Euros or other applicable currency if market conditions are believed to be favourable

Credit Risk

Cash deposits and similar financial instruments give rise to credit risk Management seeks to minimise this risk by ensuring the Group's counterparties are rated in accordance with its Counterparty Limits Policy, for example a minimum of an 'AA' rating is required for exposure in excess of £20m Counterparty concentration is monitored

Credit risk procedures on trade debtors vary from customer to customer These procedures include activities such as credit checks, credit approval limits, debt insurance There has been no significant change to the composition of trade debtors within the Group

Interest Rate Risk

The Group is exposed to movements in interest rates on its cash balances and variable rate loans Management seek to reduce volatility by fixing proportions of the variable rate loans

P&O Ferries Division Holdings Limited
Directors' Report

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

Macro Economic risk
The current economic environment continues to be challenging The Directors consider that the Group has appropriate planning processes in place to address this future uncertainty and the Directors continue to monitor the trading outlook carefully and take appropriate mitigating action

Pensions
The group may be exposed to additional liabilities with respect to its participation in defined benefit pension schemes Because of the Group's exposure to the industry wide Merchant Navy Officers Pension Fund, the Group has a relatively high proportion of deferred and current pensioners compared to its active membership A decline in the equity market, improvements in life expectancy or decreases in real or nominal long term interest rates could require additional contributions in excess of those currently expected The deficit in all schemes decreased from £93 5m to £91 7m during the year (see Note 30)

The current deficit funding plans were agreed on the basis of valuations carried out in 2006 to 2008, and discussions are ongoing with the Trustee of the Merchant Navy Officers Pension Fund regarding the deficit calculated at the March 2009 valuation In addition to regular reporting under IAS19, the group regularly monitors the performance of the principal schemes

Details of an ongoing legal challenge in respect of the group's ongoing participation in the Merchant Naval Ratings Pension Fund are given in Note 30

Going Concern
After making enquiries, the Directors have a reasonable expectation that the business has adequate resources to continue in operational existence for the foreseeable future, and accordingly the going concern basis continues to be adopted in the preparation of the financial statements

The Board continues to carefully manage the Group's funding and liquidity position and covenant compliance The main sources of debt funding are external bank loans, a multi-currency credit facility and overdraft facilities (note 18) and ship finance leases (note 19)

The Group's debt funding is subject to the following covenants, comprising the following ratios net debt to earnings before exceptional items, interest, tax, depreciation and amortization ('EBITDA'), EBITDA to interest payable, and secured borrowings to tangible fixed assets All covenants, which are tested six monthly, were met during the year and as at the year end

On the basis of its forecasts, including covenant testing, the Board has concluded that the going concern basis of preparation continues to be appropriate The Board's considerations have included consideration of future forecasts, adjusted for worse economic conditions, and mitigating actions and alternative financing measures available to the Group

Dividends
No dividends were paid during the year *(2009 £nil)* The directors do not propose a final dividend for the year *(2009 £nil)*

Directors and directors' interests
The following persons served as directors during the year and up to the date of this report

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

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

Details in respect of directors' indemnification are given in note 6

P&O Ferries Division Holdings Limited
Directors' Report

Political and charitable donations
Neither the Group nor the Company made any political donations or incurred any political expenditure during the year *(2009 £nil)*

The Group made no charitable donations *(2009 £1,938)* during the year The Company made no charitable donations during the year *(2009 £nil)*

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

Employment of disabled persons
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

Policy and practice on payment to creditors
The Group does not follow any formal code or practice in respect of the payment of 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 approach is communicated and followed by the Group's purchasing and finance functions The Group has procedures for dealing promptly with complaints and disputes

The Company did not have any trade creditors at the year-end or at any time during the year The Group's principal subsidiary undertakings had the following creditor days outstanding at year end P&O Ferrymasters Limited had 44 days (2009 40 days) P&O Ferries Limited (which operates the central purchase ledgers of the P&O Ferries Division Holdings Limited group) had 24 days (2009 22 days)

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 11 April 2011

K Howarth
Director

P&O Ferries Division Holdings Limited
Channel House
Channel View Road
Dover
Kent
CT17 9TJ
Registered number 6038090

P&O Ferries Division Holdings Limited
Statement of Directors' Responsibilities

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 group and parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period In preparing each of the group and parent company 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,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006 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

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

KPMG LLP
Independent Auditors' Report
to the shareholders of P&O Ferries Division Holdings Limited

We have audited the financial statements of P&O Ferries Division Holdings Limited for the year ended 31 December 2010 set out on pages 7 to 33 The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice)

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' 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

As explained more fully in the Directors' Responsibilities Statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

Scope of the audit

A description of the scope of an audit of financial statements is provided on the APB's web-site at www frc org uk/apb/scope/private cfm

Opinion on the financial statements

In our opinion the financial statements

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2010 and of the group's profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

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

Peter G Reed (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
14 April 2011

15 Canada Square
LONDON
E14 5GL

P&O Ferries Division Holdings Limited
Consolidated Profit and Loss Account
for the year ended 31 December 2010

	Notes	2010 £000	2009 £000
Turnover	2	**988,398**	1,004,257
Cost of sales		**(884,109)**	(900,022)
Gross profit		**104,289**	104,235
Administrative expenses		**(90,637)**	(95,514)
Operating profit	3	**13,652**	8,721
Analysed as			
Operating profit before exceptional items		**23,726**	21,084
Exceptional items	4	**(10,074)**	(12,363)
		13,652	8,721
(Loss)/profit on disposal of tangible fixed assets		**(266)**	4,953
Profit before interest and tax		**13,386**	13,674
Interest receivable and similar income	8	**2,282**	5,581
Interest payable and similar charges	9	**(8,623)**	(13,402)
Pension finance charge	30	**(2,006)**	(2,588)
Profit on ordinary activities before taxation		**5,039**	3,265
Tax on profit on ordinary activities	10	**6,040**	(2,167)
Profit for the financial year		**11,079**	1,098

The results stated above are all derived from continuing operations

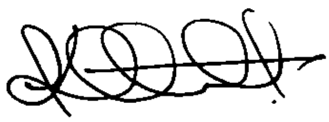
The accounting policies and the notes on pages 12 to 33 form part of these financial statements

P&O Ferries Division Holdings Limited
Consolidated Statement of Total Recognised Gains and Losses
for the year ended 31 December 2010

	Notes	For the year ended 31 December 2010 £000	For the year ended 31 December 2009 £000
Profit for the financial year		**11,079**	1,098
Actuarial losses recognised in the pension schemes	30	**(6,295)**	(49,924)
Exchange losses		**(131)**	(327)
Deferred tax arising on actuarial losses in the pension schemes	20	**(186)**	724
Total recognised gains and losses related to the year		**4,467**	(48,429)

P&O Ferries Division Holdings Limited
Consolidated Balance Sheet
as at 31 December 2010

	Notes		2010 £000		2009 £000
Fixed assets					
Intangible assets	11		**289,804**		289,804
Tangible assets	12		**520,967**		459,405
			810,771		749,209
Current assets					
Stocks	14	**11,743**		11,648	
Debtors	15	**141,076**		161,053	
Cash at bank and in hand		**85,146**		68,435	
		237,965		241,136	
Creditors amounts falling due within one year	16	**(181,405)**		(170,579)	
Net current assets			**56,560**		70,557
Total assets less current liabilities			**867,331**		819,766
Creditors amounts falling due after more than one year	17		**(238,588)**		(188,184)
Provisions for liabilities					
Deferred taxation	20		**(2,230)**		(4,177)
Other provisions	21		**(21,335)**		(24,838)
			(23,565)		(29,015)
Pension liabilities	30		**(91,690)**		(93,546)
Net assets			**513,488**		509,021
Capital and reserves					
Called up share capital	22		**428,542**		428,542
Share premium	23		**107,135**		107,135
Profit and loss account	24		**(22,189)**		(26,656)
Shareholders' funds	25		**513,488**		509,021



K Howarth
Director
Approved by the board on 11 April 2011

The accounting policies and the notes on pages 12 to 33 form part of these financial statements

P&O Ferries Division Holdings Limited
Company Balance Sheet
as at 31 December 2010

	Notes		2010 £000		2009 £000
Fixed assets					
Investments	13		**192,649**		180,119
Current assets					
Debtors	15	**303,665**		305,067	
Creditors amounts falling due within one year	16	**(3,631)**		(1,305)	
Net current assets			**300,034**		303,762
Total assets less current liabilities			**492,683**		483,881
Net assets			**492,683**		483,881
Capital and reserves					
Called up share capital	22		**428,542**		428,542
Share premium	23		**107,135**		107,135
Profit and loss account	24		**(42,994)**		(51,796)
Shareholders' funds	25		**492,683**		483,881

K Howarth
Director
Approved by the board on 11 April 2011

The accounting policies and the notes on pages 12 to 33 form part of these financial statements

P&O Ferries Division Holdings Limited
Consolidated Cash Flow Statement
for the year ended 31 December 2010

	Notes	2010 £000	2009 £000
Reconciliation of operating profit to net cash inflow from operating activities			
Operating profit		**13,652**	8,721
Depreciation charges		**41,011**	35,597
Impairment of tangible fixed assets		**2,106**	6,190
Foreign exchange losses		**(549)**	(293)
Decrease in pension liability		**(9,849)**	(11,211)
Increase in stocks		**(95)**	(858)
(Increase)/decrease in debtors		**(3,896)**	34,612
Decrease in creditors and provisions		**(4,281)**	(29,698)
Net cash inflow from operating activities		**38,099**	43,060
CASH FLOW STATEMENT			
Net cash inflow from operating activities		**38,099**	43,060
Returns on investments and servicing of finance	26	**(6,899)**	(9,831)
Taxation		**(431)**	(625)
Capital expenditure and financial investments	26	**(101,083)**	(65,558)
		(70,314)	(32,954)
Financing	26	**67,025**	19,569
Cash outflow before management of liquid resources		**(3,289)**	(13,385)
Management of liquid resources	26	**20,000**	(20,000)
Increase/(decrease) in cash during the year		**16,711**	(33,385)
Reconciliation of net cash flow to movement in net debt			
Increase/(decrease) in cash in the year		**16,711**	(33,385)
Increase in debt and lease financing		**(67,025)**	(19,569)
Foreign exchange on loans		**1,269**	3,499
Change in net debt	27	**(49,045)**	(49,455)
Net debt at 1 January		**(114,482)**	(65,027)
Net debt at 31 December		**(163,527)**	(114,482)

P&O Ferries Division Holdings Limited
Notes to the Financial Statements
for the year ended 31 December 2010

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
The financial statements have been prepared under the historical cost convention and in accordance with applicable United Kingdom Accounting Standards

Going concern
The financial statements have been prepared on a going concern basis The Board continues to carefully manage the Group's funding and liquidity position The main sources of debt funding are external bank loans, a multi-currency credit facility and overdraft facilities (note 18) and ship finance leases (note 19) Bank loans are being repaid in installments and none will be fully repaid within five years The multi-currency credit facility is available until 2012

The Group's debt funding is subject to the following covenants, comprising the following ratios net debt to earnings before exceptional items, interest, tax, depreciation and amortization ('EBITDA'), EBITDA to interest payable, and secured borrowings to tangible fixed assets All covenants, which are tested six monthly, were met during the year and as at the year end

On the basis of its forecasts, including covenant testing, the Board has concluded that the going concern basis of preparation continues to be appropriate The Board's considerations have included consideration of future forecasts, adjusted for significantly worse economic conditions and mitigating actions and alternative financing measures available to the Group

Basis of consolidation
The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings made up to 31 December 2010

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 s408 of the Companies Act 2006 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 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

Freehold land is not depreciated Ships and other assets under construction are not depreciated until first brought into operation Finance costs incurred during asset construction are not capitalised

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

Stocks
Stock is valued 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

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

1 Accounting policies (continued)

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction or, if hedged forward, at the rate of exchange under the related forward currency contract Monetary assets and liabilities denominated in foreign currencies are translated using the contracted rate or the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account

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

Pensions

Defined contribution schemes

The Group operates a number of defined contribution pension schemes The assets of the schemes are held separately from those of the Group in independently administered funds The amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period

Defined benefit schemes

The Group operates and participates in pension schemes providing benefits based on final pensionable pay The assets of the schemes are held separately from those of the Group The principal schemes include the P&O UK Scheme operated by the Company and the Merchant Navy Officers Pension Fund ('MNOPF'), an industry scheme in which the Group's employees participate

Defined benefit pension scheme assets are measured using market values For quoted securities the current bid price is taken as market value Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability The measurement is undertaken by a qualified actuary

The pension scheme surplus (to the extent that it is recoverable) or deficit is recognised in full The movement in the scheme surplus/deficit is split between operating charges, finance items and, in the statement of total recognised gains and losses, actuarial gains and losses

A further scheme is the Merchant Navy Ratings Pension Fund ('MNRPF') The Group was previously unable to identify its share of the underlying assets and liabilities of the MNRPF Scheme on a consistent and reasonable basis and has therefore, up to 31 December 2009, accounted for the MNRPF Scheme as if it were a defined contribution scheme As of 1 January 2010, the Group is accounting for the MNRPF Scheme as a defined benefit scheme, as there is now sufficient information to be able to do so (Further information in respect of the MNRPF and the Group's interest in this scheme is in Note 30)

Dry dock overhaul

Where the Group has a legal obligation arising under the terms of an operating lease, provision is made for vessel maintenance and dry dock overhauls The provisions are calculated based on current factors including the lease term and latest yard costs Costs incurred are charged against the provision

Similar costs for owned or finance leased vessels are deferred as a component of the related tangible fixed asset and depreciated over their useful economic lives (typically over a period of 24 months or more to the next estimated overhaul) During the year, the Group has transferred these dry dock refit costs from prepayments to tangible fixed assets to better reflect this asset as a separate component of the related vessel (Further information in this regard is given in Note 12)

1 Accounting policies (continued)

Derivative financial instruments
The Group uses various derivative financial instruments to manage its exposure to foreign exchange risks and fuel price movements Gains and losses on hedges of firm commitments or anticipated transactions are deferred and are recognised in the profit and loss account when the hedged transaction occurs

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 the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 which requires that all goodwill be amortised The directors consider that this would fail to give a true and fair view of the profit for the year and that the economic measure of performance in any period is properly made by reference only to any impairment that may have arisen It is not practicable to quantify the effects on the financial statements of this departure

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

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

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

Revenue from tourist and freight ferry traffic (including on-board sales) is recognised on departure of the relevant sailing Road transport revenue is recognised at the point of delivery of the load

2 Segmental information

Turnover, profit/(loss) on ordinary activities before taxation and net assets for each of the Groups industry segments are split out below All activities are primarily derived within Europe

Analysis by activity	2010 £000	2009 £000
Turnover		
Ferry Service total	**591,371**	625,947
Ferry Service inter-segment	**(28,064)**	(32,000)
Ferry Service sales to third parties	**563,307**	593,947
Ferrymasters transport and freight management	**425,091**	410,310
	988,398	1,004,257
Profit/(loss) on ordinary activities before taxation		
Ferry Service	**6,314**	4,162
Ferrymasters transport and freight management	**(1,275)**	(897)
	5,039	3,265
Net assets		
Ferry Service	**532,120**	541,909
Ferrymasters transport and freight management	**(18,632)**	(32,888)
	513,488	509,021

3 Operating profit before exceptional items

	2010 £000	2009 £000
This is stated after charging		
Depreciation of owned fixed assets	37,022	32,334
Depreciation of assets held under finance leases and hire purchase contracts	3,989	3,263
Ships' charter hire payments	35,793	43,546
Operating lease rentals - plant and machinery	13,076	14,349
Exchange losses	202	20
Auditors' remuneration		
Audit of the financial statements of the group	492	545
Other services - including taxation and pensions	33	36

In 2010 and 2009, auditors' remuneration in respect of the Company was borne by a subsidiary undertaking The audit fee relating to the Company was as follows

	2010 £000	2009 £000
Fees for the audit of the Company	10	10

4 Exceptional items

	2010 £000	2009 £000
Impairment of tangible fixed assets (Note 12)	(2,106)	(6,190)
Restructuring costs	(7,968)	(6,173)
	(10,074)	(12,363)

Restructuring costs incurred in the year relate to the rationalisation of Ferries' head office functions, restructuring of Ferrymasters operations and the closure of the Group's Portsmouth-Bilbao service In the prior year, they relate to the restructuring of the Group's North Sea operations

5 Directors' remuneration

	2010 £000	2009 £000
Directors' remuneration	449	446
Company contributions to money purchase pension schemes	91	90
	540	536

	2010 £000	2009 £000
Highest paid director		
Remuneration	274	273
Company contributions to money purchase pension schemes	28	28
	302	301

	2010 £000	2009 £000
Highest paid director		
Accrued retirement benefits from defined benefit pension schemes	41	40

Number of directors in company pension schemes	2010 Number	2009 Number
Money purchase schemes	1	1
Defined benefit schemes	1	1

P&O Ferries Division Holdings Limited
Notes to the Financial Statements
for the year ended 31 December 2010

6 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

7 Staff costs

	2010 £000	2009 £000
Wages and salaries	130,648	135,865
Social security costs	11,264	13,306
Other pension costs	8,126	10,952
	150,038	160,123

Average number of employees during the year	Number	Number
Seafaring	2,045	2,190
Shore-based	2,212	2,425
	4,257	4,615

8 Interest receivable and similar income

	2010 £000	2009 £000
Interest on bank deposits	803	1,680
Interest on balances due from related parties	210	402
Foreign exchange gains	1,269	3,499
	2,282	5,581

9 Interest payable and similar charges

	2010 £000	2009 £000
Interest on bank loans and overdrafts	5,766	4,656
Other interest charges	314	1,489
Finance charges payable under finance leases and hire purchase contracts	2,146	2,876
Foreign exchange losses	397	4,381
	8,623	13,402

10 Taxation

	2010 £000	2009 £000
Analysis of (credit)/charge in year		
Current tax		
UK corporation tax on profits of the year	2,086	3,383
UK tonnage tax	151	172
Overseas tax	357	338
Adjustments in respect of previous years	(6,687)	(1,892)
	(4,093)	2,001
Deferred tax		
Origination and reversal of timing differences (Note 20)	(977)	(1,240)
Adjustment in respect of previous years	(970)	1,406
	(1,947)	166
Tax on profit on ordinary activities	(6,040)	2,167

10 Taxation (continued)

Factors affecting tax (credit)/charge for the year

The current tax credit for the year is lower (2009 charge higher) than the standard rate of corporation tax in the UK (28%) The differences are explained below

	2010 £000	2009 £000
Profit on ordinary activities before tax	5,039	3,265
Standard rate of corporation tax in the UK	28 0%	28 0%
	£000	£000
Profit on ordinary activities multiplied by the standard rate of corporation tax	1,411	914
Effects of		
Tonnage tax	(210)	1,162
Overseas taxes	357	338
Expenses not deductible for tax purposes	59	59
Timing differences	977	1,420
Adjustments to tax charge in respect of previous periods	(6,687)	(1,892)
Current tax (credit)/charge for the year	(4,093)	2,001

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 non-qualifying activities the Group pays corporation tax at 28% (2009 28%) of the profits earned by these activities

The current tax adjustment in respect of prior years principally arises from the final agreement by the Group of prior year tax liabilities, owing for UK tax loss group relief These group relief liabilities, owed to fellow group undertakings, were in respect of prior year taxable profits which were not included within the Group's tonnage tax regime election

Factors that may affect future tax charges

The future tax charge is expected to be significantly lower than the UK statutory rate of corporation tax of 26% (with effect from 1 April 2011) as a result of the majority of the Group's UK profits qualifying for the UK tonnage tax regime

There are no unprovided deferred tax liabilities or unrecognised deferred tax assets

11 Intangible fixed assets

Goodwill	2010 £000
Cost and net book value	
At 1 January 2010 and 31 December 2010	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 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

Accordingly, the goodwill is not amortised, but is annually tested for impairment and has resulted in no impairment charge for the year (2009 £nil) being applied against the goodwill

12 Tangible fixed assets

Group	Owned and leased ships £000	Land and buildings £000	Other equipment £000	Assets under construction £000	Total £000
Cost					
At 1 January 2010	375,904	11,673	35,066	133,896	556,539
Additions	4,507	184	3,000	96,019	103,710
Disposals	(8,273)	(334)	(9,689)	-	(18,296)
Transfers	8,381	-	4,093	(4,093)	8,381
Foreign exchange	-	(6)	(40)	-	(46)
At 31 December 2010	380,519	11,517	32,430	225,822	650,288
Depreciation					
At 1 January 2010	84,722	1,350	11,062	-	97,134
Charge for the year	33,394	1,270	6,347	-	41,011
Impairment of assets	-	-	2,106	-	2,106
On disposals	(8,273)	(269)	(6,861)	-	(15,403)
Transfers	4,508	-	-	-	4,508
Foreign exchange	-	(4)	(31)	-	(35)
At 31 December 2010	114,351	2,347	12,623	-	129,321
Net book value					
At 31 December 2010	**266,168**	**9,170**	**19,807**	**225,822**	**520,967**
At 31 December 2009	291,182	10,323	24,004	133,896	459,405

The impairment charge in the current year relates to project costs incurred during the development of computer systems, whereby the future economic benefits are expected to be lower than the costs of delivery

Dry dock refit costs for owned or finance leased ships are depreciated over their useful economic life from date of expenditure to the estimated next vessel overhaul During the year, the Group has transferred these dry dock refit costs from prepayments to tangible fixed assets to better reflect this asset as a separate component of the related vessel The transfer to tangible fixed assets at 1 January 2010 resulted in an increase in net book value of £3 9m, as shown in the table Based on the materiality of this change in accounting presentation, comparative financial information has not been restated

Included in the total net book value of owned and leased ships is £58 0m (2009 £64 5m) in respect of assets held under finance leases Depreciation for the period on these assets was £4 0m (2009 £3 3m)

Other equipment comprises plant, machinery, computer hardware and software and other fixtures and fittings

Assets under construction comprise two new build ships and computer systems under development

The net book value of land and buildings comprises

Group	2010 £000	2009 £000
Freehold	**8,541**	9,296
Long leasehold	-	-
Short leasehold	**629**	1,027
	9,170	10,323

13 Investments

Company	Company shares in group undertakings £000	Loans to subsidiary undertakings £000	Total £000
Cost and net book value			
At 1 January 2010	22,593	157,526	180,119
Additions	12,530	-	12,530
At 31 December 2010	35,123	157,526	192,649

On 29 December 2010 a loan of £12 53m to a subsidiary, P&O Ferrymasters Limited, was capitalised, resulting in the Company acquiring 12,530,000 of the subsidiary's £1 ordinary shares

Company shares in group undertakings
Investments include the following subsidiaries

	Country of incorporation	Principal Activity	%	Share Class
P&O Ferries Holdings Limited *	Great Britain	Holding company	100%	Ordinary
P&O Ship Management Holdings (Jersey) Limited	Jersey	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
Port of Cairnryan Limited	Great Britain	Harbour operator	100%	Ordinary

* directly owned

P&O Ferries Division Holdings Limited
Notes to the Financial Statements
for the year ended 31 December 2010

14 Stocks

	2010 £000	2009 £000
Raw materials and consumables	4,915	4,649
Finished goods and goods for resale	6,828	6,999
	11,743	11,648

15 Debtors

	2010 £000 Group	2010 £000 Company	2009 £000 Group	2009 £000 Company
Trade debtors	107,368	-	112,286	-
Amounts owed by subsidiaries	-	303,665	-	305,067
Amounts owed by group undertakings	749	-	-	-
Amounts owed by parent company	422	-	20,000	-
Other debtors	5,570	-	5,358	-
Prepayments and accrued income	26,967	-	23,409	-
	141,076	303,665	161,053	305,067

16 Creditors amounts falling due within one year

	2010 £000 Group	2010 £000 Company	2009 £000 Group	2009 £000 Company
Bank loans	12,684	-	1,446	-
Obligations under finance lease and hire purchase contracts	4,760	-	4,609	-
Trade creditors	90,724	-	89,581	-
Amounts owed to group undertakings	-	-	2,502	-
Amounts owed to subsidiaries	-	3,023	-	697
Corporation tax payable	4,632	608	6,201	608
Other taxes and social security costs	13,278	-	13,168	-
Other creditors	7,497	-	6,472	-
Accruals and deferred income	47,830	-	46,600	-
	181,405	3,631	170,579	1,305

Bank loans of £186 4m *(2009 £114 8m)*, included in Notes 16 and 17, are secured on certain of the Group's ships and other assets

17 Creditors amounts falling due after one year

	2010 £000 Group	2010 £000 Company	2009 £000 Group	2009 £000 Company
Bank loans	173,680	-	113,338	-
Obligations under finance lease and hire purchase contracts	57,549	-	63,524	-
Other creditors	7,359	-	11,322	-
	238,588	-	188,184	-

Bank loans and finance leases for which there are amounts repayable in more than five years are detailed in notes 18 and 19 respectively

18 Bank loans

The Group has three loans which finally mature after five years

Repayment basis of loans over five years	2010 £000 Due in less than 1 year	2010 £000 Due in more than one year	2009 £000 Due in less than 1 year	2009 £000 Due in more than one year
Amounts payable				
Quarterly until 2015	1,531	15,022	1,446	16,554
Quarterly for 12 years *	8,155	89,710	-	74,345
Half yearly for 12 years *	2,998	68,948	-	22,440
	12,684	173,680	1,446	113,339

* There is a total facility for the ships in construction of Euros 284m of which £170m 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 within 12 months of the balance sheet date for both ships The first ship, Spirit of Britain, was delivered in early 2011

Bank loans include £186 4m of loans that will not be fully repaid within 5 years These loans are subject to interest rates ranging from 1 36 - 5 89% as at 31 December 2010

The Group had in place multi-currency credit facilities with various banks of £30 million which are available until May 2012, and overdraft facilities of £14 5m As at 31 December 2010 none of the multi-currency credit facility was being utilised

19 Obligations under finance leases and hire purchase contracts

	2010 £000 Group	2010 £000 Company	2009 £000 Group	2009 £000 Company
Amounts payable				
Within one year	4,760	-	4,609	-
Within two to five years	21,483	-	20,861	-
After five years	36,066	-	42,663	-
	62,309	-	68,133	-

Finance leases include £36 1m (2009 £42 7m) of leases that will not be fully repaid within 5 years These leases are subject to interest rates ranging from 0 7% to 4 7% as at 31 December 2010

Finance lease liabilities include an amount of €44 4m relating to a finance lease to purchase the European Endeavour A change in the GBP Euro exchange rate has resulted in the liability reducing by £1 3 million (2009 reduction of £3 5 million), which has been credited to the profit and loss account within foreign exchange gains (Note 8)

Repayment basis of finance leases over 5 years	2010 £000	2009 £000
Quarterly until 2017	24,183	26,135
Annually until 2021	38,126	41,998
	62,309	68,133

20 Deferred taxation

Group

	2010 £000	2009 £000
Provision/ (asset)		
Other timing differences	2,230	4,177
Pension deficit payments	(1,216)	(1,402)
	1,014	2,775

	2010 £000	2009 £000
At 1 January	2,775	3,333
Deferred tax (credit)/charge in profit and loss account (Refer to Note 10)	(1,947)	166
Deferred tax charge/(credit) in statement of total recognised gains and losses	186	(724)
At 31 December	1,014	2,775

	2010 £000	2009 £000
Provisions for liabilities	2,230	4,177
Pension liabilities (Refer note 30)	(1,216)	(1,402)
	1,014	2,775

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 Group's Dutch operations also fall within Dutch tonnage tax 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 2010 was £nil (2009 £nil) assuming such disposal occurred at book value

Company

The Company has no deferred tax assets/liabilities

21 Provisions for liabilities

	Back-dated rates £000	Ship reinstatements £000	Re-organisation £000	Legal costs £000	Total £000
At 1 January 2010	4,617	4,585	4,184	11,452	24,838
Charged during the year	-	-	5,123	434	5,557
Utilised during the year	(517)	(974)	(7,426)	(143)	(9,060)
Reclassified during the year	-	-	602	(602)	-
At 31 December 2010	4,100	3,611	2,483	11,141	21,335

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 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 2011

The legal provision relates to disputed vehicle transit costs, contractual employee rights and potential duty fines

22 Share capital

	2010 No	2009 No	2010 £000	2009 £000
Authorised				
Ordinary shares of £1 each	750,000,000	750,000,000	750,000	750,000
Allotted, called up and fully paid				
Ordinary shares of £1 each	428,542,000	428,542,000	428,542	428,542

23 Share premium
Group and Company

	2010 £000
At 1 January 2010 and 31 December 2010	107,135

24 Profit and loss account

	2010 £000	2009 £000
Group		
At 1 January	(26,656)	21,773
Profit for the financial year	11,079	1,098
Actuarial losses recognised in the pension schemes	(6,295)	(49,924)
Exchange losses	(131)	(327)
Deferred tax arising on actuarial losses in the pension schemes	(186)	724
At 31 December	(22,189)	(26,656)
Company		
At 1 January	(51,796)	5,620
Profit/(loss) for the financial year	8,802	(57,416)
At 31 December	(42,994)	(51,796)

25 Reconciliation of movement in shareholders' funds

	2010 £000	2009 £000
Group		
At 1 January	509,021	557,450
Profit for the financial year	11,079	1,098
Actuarial losses recognised in the pension schemes	(6,295)	(49,924)
Exchange losses	(131)	(327)
Deferred tax arising on actuarial losses in the pension schemes	(186)	724
At 31 December	513,488	509,021
Company		
At 1 January	483,881	541,297
Profit/(loss) for the financial year	8,802	(57,416)
At 31 December	492,683	483,881

P&O Ferries Division Holdings Limited
Notes to the Financial Statements
for the year ended 31 December 2010

26 Gross cash flows

	2010 £000	2009 £000
Returns on investments and servicing of finance		
Interest received	1,013	2,082
Interest paid	(5,766)	(9,037)
Interest element of finance lease rental payments	(2,146)	(2,876)
	(6,899)	(9,831)
Capital expenditure and financial investments		
Payments to acquire tangible fixed assets	(103,710)	(70,362)
Payments to acquire investments	-	(1,064)
Receipts from sales of tangible fixed assets	2,627	5,701
Cash acquired with subsidiaries	-	167
	(101,083)	(65,558)
Financing		
New loans raised	73,027	51,391
Loan repayments	(1,447)	(27,363)
Capital element of finance lease rental payments	(4,555)	(4,459)
	67,025	19,569
Management of liquid resources		
Amount received from/(deposited) with the Group's intermediate parent	20,000	(20,000)
	20,000	(20,000)

Liquid resources represents a deposit made in the previous year with Ports and Free Zone World via an interest bearing credit facility which is repayable on demand The deposit was repaid in the current year

27 Analysis of changes in net debt

	At 1 Jan 2010 £000	Cash flows £000	Non-cash changes £000	At 31 Dec 2010 £000
Cash at bank and in hand	68,435	16,711	-	85,146
Overdrafts	-	-	-	-
	68,435	16,711	-	85,146
Debt due within 1 year	(1,446)	1,447	(12,685)	(12,684)
Debt due after 1 year	(113,338)	(73,027)	12,685	(173,680)
Finance leases	(68,133)	4,555	1,269	(62,309)
	(182,917)	(67,025)	1,269	(248,673)
Net debt	(114,482)	(50,314)	1,269	(163,527)

P&O Ferries Division Holdings Limited
Notes to the Financial Statements
for the year ended 31 December 2010

28 Capital commitments

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

	2010 £000	2009 £000
Contracted		
Ships	**92,442**	189,064
Other	**71**	777
	92,513	189,841

29 Other financial commitments

At the year end the company had annual commitments under non-cancellable operating leases as set out below

	Land and buildings 2010 £000	Other 2010 £000	Land and buildings 2009 £000	Other 2009 £000
Operating leases which expire				
within one year	**512**	**6,156**	299	14,194
within two to five years	**2,226**	**23,991**	2,226	20,776
in over five years	**4,174**	**7,928**	4,140	8,300
	6,912	**38,075**	6,665	43,270

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

Fuel - Purchase 27% of the expected usage in 2011 for $39 6 million,
USD - Purchase $51 2 million in 2011 and $2 8 million in 2012 for £33 5 million
EUR - Purchase €79 2million in 2011 for £67 3 million

Comparative figures as at 31 December 2009 were as follows

Fuel - Purchase 46% of the expected usage in 2010 for $50 4 million,
USD - Purchase $38 4 million in 2010 and $7 0 million in 2011 to 2012 for £26 1 million
EUR - Sell €40 2 million in 2010 and €7 2 million in 2011, for £42 5 million

30 Pension schemes

The Group participates in three company sponsored funded defined benefit pension schemes The principal scheme, The P&O Ferries Division 2008 Pension Scheme (the "P&O Ferries UK Scheme") is closed to new members 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, also closed to new members, and the P&O North Sea Ferries (Netherlands) Scheme, which remains open

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

The Group has, until the current year, accounted for its remaining (non-UK) participation in the MNRPF Scheme as if it were a defined contribution scheme as the Group could not identify its share of the underlying assets and liabilties on a consistent and reasonable basis The Group has now been able to identify its share of these assets and liabilities, and is therefore now accounting for the MNRPF Scheme as a defined benefit scheme In accordance with FRS 17, this change has been recorded as a current year actuarial movement through the Statement of Total Recognised Gains and Losses

The Group's UK companies are no longer current employers of members of the MNRPF and, having settled their statutory debt obligation a number of years ago, were not considered to have any legal obligation with respect to the ongoing deficit in the fund This position has, however, been challenged by Stena Line Limited in the High Court Judgment was handed down in this case on 27 July 2010, with the judgment going against the Company Leave to appeal was granted and the appeal was heard on 28 March 2011 Judgment is not expected to be handed down before June 2011 After consideration of legal advice, the directors consider that it continues to be appropriate not to recognise a share of the ongoing scheme deficit and consequently no provision has been made The value of any potential future scheme contributions to be paid by the Group, should the litigation ultimately be unsuccessful, is not able to be quantified at this stage

On 8 July 2010, the UK Government announced its intention to alter the basis for calculating statutory pension increases in future from the Retail Price index (RPI) to the Consumer Price Index (CPI) This change does not automatically affect all UK pension schemes and affects only those schemes which require pensions to be increased in line with statutory provisions, and not those whose rules that refer explicitly to RPI In respect of the Group's pensions schemes, the impact of change from RPI to CPI is a reduction of £4 7m and £1 4m in the benefit obligations of MNOPF and MNRPF respectively, giving a total reduction of around £6 1m accounted for as actuarial gains through reserves The impact on P&O Ferries scheme is deemed to be negligible as the scheme is predominantly active members with very little benefits linked to CPI As the P&O Ferries North Sea and P&O Ferries Irish Sea pensions schemes are non-UK schemes, they are unaffected by this change

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 2010 was £2 7m (2009 £3 8m)

The Group expects to contribute approximately £15 9m to its defined benefit plans in the next financial year

The Company did not participate in any pension scheme during the current or prior years

All schemes

	2010 **£000**	2009 £000
Present value of funded defined benefit obligations	**(567,247)**	(487,598)
Fair value of plan assets	**479,391**	394,262
Surplus not recognised	**(5,050)**	(1,612)
Deferred tax asset	**1,216**	1,402
Deficit	**(91,690)**	(93,546)

P&O Ferries Division Holdings Limited
Notes to the Financial Statements
for the year ended 31 December 2010

30 Pension schemes (continued)

Movements in present value of defined benefit obligation

	P&O Ferries UK Scheme £000	MNOPF Scheme £000	MNRPF Scheme * £000	Other schemes £000	Total £000
At 1 January 2009	76,210	292,844	-	35,989	405,043
Current service cost	2,478	1,098	-	617	4,193
Interest cost	4,740	17,700	-	1,983	24,423
Experience losses/(gains)	260	-	-	(1,635)	(1,375)
Changes in assumptions	24,860	47,801	-	2,106	74,767
Contributions by members	980	600	-	141	1,721
Benefits paid	(2,230)	(15,800)	-	(447)	(18,477)
Exchange adjustments	-	-	-	(2,697)	(2,697)
At 31 December 2009	107,298	344,243	-	36,057	487,598
Current service cost	3,358	1,500	-	557	5,415
Interest cost	6,030	18,800	2,100	1,953	28,883
Experience losses/(gains)	490	20,701	(800)	(1,871)	18,520
Changes in assumptions	(3,040)	16,599	38,400	(1,504)	50,455
Contributions by members	920	600	-	155	1,675
Benefits paid	(3,470)	(18,400)	(1,600)	(714)	(24,184)
Exchange adjustments	-	-	-	(1,115)	(1,115)
At 31 December 2010	111,586	384,043	38,100	33,518	567,247

Movements in fair value of plan assets

	P&O Ferries UK Scheme £000	MNOPF Scheme £000	MNRPF Scheme * £000	Other schemes £000	Total £000
At 1 January 2009	71,019	247,087	-	35,637	353,743
Expected return on plan assets	4,870	15,199	-	1,766	21,835
Actuarial gains	11,070	10,701	-	1,068	22,839
Contributions by employer	3,840	10,301	-	1,263	15,404
Contributions by members	980	600	-	141	1,721
Benefits paid	(2,230)	(15,800)	-	(447)	(18,477)
Management expense	-	-	-	(125)	(125)
Exchange adjustments	-	-	-	(2,678)	(2,678)
At 31 December 2009	89,549	268,088	-	36,625	394,262
Expected return on plan assets	5,870	17,300	1,800	1,907	26,877
Actuarial gains	4,870	29,499	31,200	549	66,118
Contributions by employer	4,390	10,299	700	507	15,896
Contributions by members	920	600	-	155	1,675
Benefits paid	(3,470)	(18,400)	(1,600)	(714)	(24,184)
Management expense	-	-	-	(123)	(123)
Exchange adjustments	-	-	-	(1,130)	(1,130)
At 31 December 2010	102,129	307,386	32,100	37,776	479,391

* The Group's share in the MNRPF Scheme has been treated as a defined benefit pension scheme from 1 January 2010

30 Pension schemes (continued)

Expense recognised in the profit and loss account	**2010**	2009
	£000	£000
Current service cost	**(5,415)**	(4,193)
Interest on defined benefit plan obligation	**(28,883)**	(24,423)
Expected return on defined benefit pension plan assets	**26,877**	21,835
Management expense	**(123)**	(125)
Total	**(7,544)**	(6,906)

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

	2010	2009
	£000	£000
Cost of sales	**(3,218)**	(3,346)
Administrative expenses	**(2,320)**	(972)
Pension finance charge	**(2,006)**	(2,588)
Total	**(7,544)**	(6,906)

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

	2010	2009
	£000	£000
Actuarial gains on assets	**66,118**	22,839
Actuarial (losses)/gains on liabilities	**(18,520)**	1,375
Actuarial losses on changes in assumptions	**(50,455)**	(74,767)
Increase in surplus not recognised	**(3,438)**	(610)
Deficit contributions in excess of valuation	**-**	1,239
Total actuarial losses for the period	**(6,295)**	(49,924)

Cumulative actuarial losses reported in the statement of total recognised gains and losses for accounting periods ending on or after June 2002, and subsequently included by prior year adjustment under paragraph 96 of FRS 17, are £85 1m *(2009 £78 8m)*

30 Pension schemes (continued)

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

P&O Ferries UK Scheme

Balance sheet	**2010**	2009	2008	2007
	£000	£000	£000	£000
Present value of scheme liabilities	**(111,586)**	(107,298)	(76,210)	(102,710)
Fair value of scheme assets	**102,129**	89,549	71,019	99,760
Deficit	**(9,457)**	(17,749)	(5,191)	(2,950)
Experience adjustments				
Experience (gains)/losses on scheme liabilities	**490**	260	(5,055)	980
Experience gains/(losses) on scheme assets	**4,870**	11,070	(23,880)	(7,123)

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

	2010	2009
	£000	£000
Equities	**53,579**	46,439
Bonds	**48,280**	43,110
Other	**270**	-
	102,129	89,549
Actual return on plan assets	**10,740**	15,940

The overall expected rate of return on plan assets is calculated by weighting the individual rates of return, adjusted for current and anticipated market performance, in accordance with the expected balance in the plan's investment portfolio

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

		2010	2009
Discount rate		**5 50%**	5 60%
Expected rate of return on plan assets		**6 54%**	6 54%
Expected return on plan assets at beginning of the period		**6 54%**	6 87%
Future salary increases		**4 40%**	4 70%
Future pension increases	- deferment	**3 10%**	3 25%
	- payment	**3 10%**	3 25%
Inflation		**3 40%**	3 70%

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

30 Pension schemes (continued)

MNOPF Scheme

Balance sheet	**2010 £000**	2009 £000	2008 £000	2007 £000
Present value of scheme liabilities	**(384,043)**	(344,243)	(292,844)	(319,700)
Fair value of scheme assets	**307,386**	268,088	247,087	296,100
Deficit	**(76,657)**	(76,155)	(45,757)	(23,600)
Experience adjustments				
Experience (gains)/losses on scheme liabilities	**20,701**	-	(5,700)	(14,875)
Experience gains/(losses) on scheme assets	**29,499**	10,701	(64,288)	323

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

	2010 £000	2009 £000
Equities	**130,393**	117,294
Bonds	**121,693**	134,094
Other	**55,300**	16,700
	307,386	268,088
Actual return on plan assets	**46,799**	25,900

The overall expected rate of return on plan assets is calculated by weighting the individual rates of return, adjusted for current and anticipated market performance, in accordance with the expected balance in the plan's investment portfolio

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

		2010	2009
Discount rate		**5 40%**	5 60%
Expected rate of return on plan assets		**6 68%**	6 53%
Expected return on plan assets at beginning of the period		**6 53%**	6 18%
Future salary increases		**4 60%**	5 20%
Future pension increases	- deferment	**2 90%**	3 70%
	- payment	**3 40%**	3 50%
Inflation		**3 60%**	3 70%

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

30 Pension schemes (continued)

MNRPF Scheme

Balance sheet	2010 £000	2009 £000	2008 £000	2007 £000
Present value of scheme liabilities	(38,100)	n/a	n/a	n/a
Fair value of scheme assets	32,100	n/a	n/a	n/a
Deficit	(6,000)	n/a	n/a	n/a
Experience adjustments				
Experience losses on scheme liabilities	(800)	n/a	n/a	n/a
Experience gains on scheme assets	31,200	n/a	n/a	n/a

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

	2010 £000	2009 £000
Equities	7,100	n/a
Bonds	23,300	n/a
Other	1,700	n/a
	32,100	n/a
Actual return on plan assets	33,000	n/a

The overall expected rate of return on plan assets is calculated by weighting the individual rates of return, adjusted for current and anticipated market performance, in accordance with the expected balance in the plan's investment portfolio

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

		2010	2009
Discount rate		5 40%	n/a
Expected rate of return on plan assets		5 65%	n/a
Expected return on plan assets at beginning of the period		n/a	n/a
Future salary increases		4 60%	n/a
Future pension increases	- deferment	2 90%	n/a
	- payment	3 40%	n/a
Inflation		3 60%	n/a

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

30 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

Balance sheet	**2010 £000**	2009 £000	2008 £000	2007 £000
Present value of scheme liabilities	**(33,518)**	(36,057)	(35,989)	(28,424)
Fair value of scheme assets	**37,776**	36,625	35,637	30,819
(Deficit)/surplus	**4,258**	568	(352)	2,395
Surplus not recognised	**(5,050)**	(1,612)	(1,002)	(1,499)
(Deficit)/surplus in financial statements	**(792)**	(1,044)	(1,354)	896
Experience adjustments				
Experience (gains)/losses on scheme liabilities	**(1,871)**	(1,635)	(508)	1,586
Experience gains/(losses) on scheme assets	**549**	1,068	(6,118)	(1,486)

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

	2010 £000	2009 £000
Equities	**13,124**	9,399
Bonds	**24,454**	26,994
Other	**198**	232
	37,776	36,625
Actual return on plan assets	**2,456**	2,834

The overall expected rate of return on plan assets is calculated by weighting the individual rates of return, adjusted for current and anticipated market performance, in accordance with the expected balance in the plan's investment portfolio

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

		2010	2009
Discount rate		**5 41%**	5 55%
Expected rate of return on plan assets		**3 59%**	5 43%
Expected return on plan assets at beginning of the period		**5 43%**	5 23%
Future salary increases		**3 59%**	3 61%
Future pension increases	- deferment	**1 21%**	2 00%
	- payment	**1 21%**	2 00%
Inflation		**1 98%**	2 00%

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

31 Contingent liabilities

The Company acts as guarantor for all group borrowings as detailed in Notes 18 and 19

32 Related party disclosures

The Company has taken advantage of the exemption contained in Financial Reporting Standard No 8 "Related Party Disclosure" as it is a wholly-owned subsidiary of Dubai World Corporation Therefore the Company has not disclosed transactions or balances with wholly owned entities that form part of the Group headed by Dubai World Corporation

The directors confirm that there are no other related party transactions which require disclosure

33 Ultimate parent company

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

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

The ultimate parent undertaking is Dubai World Corporation