Registered number
6038090

P&O Ferries Division Holdings Limited

Directors' Report and Financial Statements

31 December 2011

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 2011

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
We have seen mixed signs of recovery in our key markets through 2011, with some growth in the Short Sea contrasting with a decline in the North Sea and Irish Sea Competitive conditions have remained intense in all markets as operators have sought to maximise volumes, limiting the opportunity for price improvements Fuel prices have remained high throughout the year 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 some of the effect of the continued challenging economic situation Further, our Short Sea business benefitted in the fourth quarter from the cessation of services by Seafrance which drove additional volumes late in the year

	2011	**2010**
Ferries		
Freight Units Carried (million)	2 0	1 9
Tourist Vehicles Carried (million)	1 7	1 7
Total Passengers Carried (million)	9 5	9 4
Ferrymasters		
Total Units Transported (million)	0 5	0 6

The Group's operating profit for the year was £15 7m (2010 £13 7m) Operating profit before exceptional items was £15 8m (2010 £23 7m)

As a result of the restructuring of the P&O Pension Scheme there was an exceptional curtailment gain of £7 0m in the year Exceptional charges to operating profit for the year included a charge of £4 1m principally in respect of restructuring, which included further rationalisation of on board management structures and back office functions and a £3m impairment against the Pride of Dover which remained held for sale through the year and is expected to be sold in 2012

EBITDA (earnings before interest, tax, depreciation and amortisation) before exceptional items, as a percentage of revenue has worsened slightly to 6 2% for the year ended 31 December 2011, compared to 6 5% for the previous year

Higher finance charges year on year include the effect of foreign exchange, being net losses of £0 7m (2010 net gains £0 9m) The net foreign exchange figure includes gain of £1m (2010 credit of £1 3m) in respect of a Euro-denominated finance lease (see note 19 in the financial statements)

Losses on disposal for the year are £2 1m compared to £0 3m in 2010, this primarily results from the disposal of two ships, the European Mariner and the Norcape

Profit before taxation increased to £6 6m (2010 £5 0m) The taxation for the year is disclosed in note 10 to the financial statements

P&O Ferries Division Holdings Limited
Directors' Report

Current and future developments

Following the introduction of the Spirit of Britain on the Dover Calais route, work continued on the second vessel, the Spirit of France Total payments to STX Europe of £60 3m were made in the year The second vessel, the Spirit of France, was delivered in January 2012

The freight service between Troon and Larne was suspended in November 2011 and the dedicated freight vessel which had serviced the route was sold for scrap in December 2011

The Group is actively pursuing parallel business opportunities which leverage its core skills During 2011, a contract was secured to supply an offshore windfarm support vessel in the North Sea the contract commenced in April 2012 Further opportunities are continually being assessed

The Group has continued to review its cost base and has implemented a number of initiatives to better align its costs with current market conditions

There remains little indication of any material improvement in economic conditions In the Dover Calais market, Seafrance entered administration in November 2011 after a number of years of heavy losses, which removed some capacity from the market A bid by Eurotunnel to purchase the former Seafrance vessels was approved by the Paris Commercial Court on Monday 11th June, the future use and deployment of these ships remains uncertain In addition DFDS have recently commenced a two ship Dover Calais service alongside their service to Dunkirk

On the Irish Sea, Stena moved to their new port near to P&O's Cairnryan facility and introduced replacement vessels for the revised service, increasing competitive pressures in the sector

Management are closely monitoring the impact of these changes

Principal risks and uncertainties

<u>Financial Risk Management</u>

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 Any breakup of the Eurozone would alter the balance of Euro inflows and outflows and would probably result in an imbalance in any new currencies used in our markets

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 As a result of the Group's exposure to the industry wide Merchant Navy Officers Pension Fund and Merchant Naval Ratings 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 increased from £91 7m to £116 6m during the year (see Note 30)

Details of the Supreme Court legal judgement in the year in respect of the Group's ongoing participation in the Merchant Navy Ratings Pension Fund are given in Note 30

The current deficit funding plans were agreed on the basis of valuations carried out in 2008 and 2009, and discussions are ongoing with the Trustees of the Merchant Navy Ratings Pension Fund and P&O Ferries Division 2008 Pension Scheme regarding deficits calculated at March 2011 Valuations In addition to regular reporting under IAS19, the group regularly monitors the performance of the principal schemes

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 amortisation ('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

Subsequent to the year end, the Group has undertaken new asset backed working capital facilities

Dividends
No dividends were paid during the year (2010 £nil) The directors do not propose a final dividend for the year (2010 £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

Political and charitable donations
Neither the Group nor the Company made any political donations or incurred any political expenditure during the year *(2010 £nil)*

The Group made no charitable donations *(2010 £nil)* during the year The Company made no charitable donations during the year *(2010 £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 45 days (2010 44 days) P&O Ferries Limited (which operates the central purchase ledgers of the P&O Ferries Division Holdings Limited group) had 35 days (2010 24 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 29 June 2012

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 the profit or loss for that period In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- 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

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 2011 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 2011 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

29 June 2012

Peter G Read (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
LONDON
E14 5GL

P&O Ferries Division Holdings Limited
Consolidated Profit and Loss Account
For the year ended 31 December 2011

	Notes	2011 £000	2010 £000
Turnover	2	**999,547**	988,398
Cost of sales		**(906,789)**	(884,109)
Gross profit		**92,758**	104,289
Administrative expenses		**(77,104)**	(90,637)
Operating profit	3	**15,654**	13,652
Analysed as			
Operating profit before exceptional items		**15,782**	23,726
Exceptional items	4	**(128)**	(10,074)
		15,654	13,652
Loss on disposal of tangible fixed assets		**(2,068)**	(266)
Profit before interest and tax		**13,586**	13,386
Interest receivable and similar income	8	**1,815**	2,282
Interest payable and similar charges	9	**(9,677)**	(8,623)
Pension finance income/(charge)	30	**849**	(2,006)
Profit on ordinary activities before taxation		**6,573**	5,039
Tax on profit on ordinary activities	10	**(848)**	6,040
Profit for the financial year		**5,725**	11,079

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 2011

	Notes	For the year ended 31 December 2011 £000	For the year ended 31 December 2010 £000
Profit for the financial year		**5,725**	11,079
Actuarial losses recognised in the pension schemes	30	**(44,047)**	(6,295)
Exchange gains/(losses)		**6**	(131)
Deferred tax arising on actuarial losses in the pension schemes	20	**23**	(186)
Total recognised gains and losses related to the year		**(38,293)**	4,467

P&O Ferries Division Holdings Limited
Consolidated Balance Sheet
As at 31 December 2011

	Notes	2011	2011	2010	2010
		£000	£000	£000	£000
Fixed assets					
Intangible assets	11		289,804		289,804
Tangible assets	12		545,810		520,967
			835,614		810,771
Current assets					
Stocks	14	13,424		11,743	
Debtors (Gross)		140,232		141,076	
Less Non-refundable amounts received		(14,972)		-	
Debtors	15	125,260		141,076	
Cash at bank and in hand		103,525		85,146	
		242,209		237,965	
Creditors amounts falling due within one year	16	(194,784)		(181,405)	
Net current assets			47,425		56,560
Total assets less current liabilities			883,039		867,331
Creditors amounts falling due after more than one year	17		(267,679)		(238,588)
Provisions for liabilities					
Deferred taxation	20		(1,554)		(2,230)
Other provisions	21		(22,061)		(21,335)
			(23,615)		(23,565)
Pension liabilities	30		(116,550)		(91,690)
Net assets			475,195		513,488
Capital and reserves					
Called up share capital	22		428,542		428,542
Share premium	23		107,135		107,135
Profit and loss account	24		(60,482)		(22,189)
Shareholders' funds	25		475,195		513,488

K Howarth
Director
Approved by the board on 29 June 2012

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 2011

	Notes	2011 £000	2011 £000	2010 £000	2010 £000
Fixed assets					
Investments	13		192,649		192,649
Current assets					
Debtors	15	305,201		303,665	
Creditors amounts falling due within one year	16	(3,631)		(3,631)	
Net current assets			301,570		300,034
Total assets less current liabilities			494,219		492,683
Net assets			494,219		492,683
Capital and reserves					
Called up share capital	22		428,542		428,542
Share premium	23		107,135		107,135
Profit and loss account	24		(41,458)		(42,994)
Shareholders' funds	25		494,219		492,683

K Howarth
Director
Approved by the board on 29 June 2012

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 2011

	Notes	2011 £000	2010 £000
Reconciliation of operating profit to net cash inflow from operating activities			
Operating profit		15,654	13,652
Depreciation charges		46,393	41,011
Impairment of tangible fixed assets		3,000	2,106
Foreign exchange gains/(losses)		6	(152)
Increase in pension liability		(19,301)	(9,849)
Increase in stocks		(1,681)	(95)
Decrease/(increase) in debtors		15,816	(3,896)
Increase/(decrease) in creditors and provisions		10,682	(4,281)
Net cash inflow from operating activities		70,569	38,496

CASH FLOW STATEMENT

	Notes	2011 £000	2010 £000
Net cash inflow from operating activities		70,569	38,496
Returns on investments and servicing of finance	26	(8,839)	(7,296)
Taxation		(437)	(431)
Capital expenditure and financial investments	26	(76,303)	(101,083)
		(15,010)	(70,314)
Financing	26	33,389	67,025
Cash inflow/(outflow) before management of liquid resources		18,379	(3,289)
Management of liquid resources	26	-	20,000
Increase in cash during the year		18,379	16,711

Reconciliation of net cash flow to movement in net debt

	Notes	2011 £000	2010 £000
Increase in cash in the year		18,379	16,711
Increase in debt and lease financing		(33,389)	(67,025)
Foreign exchange on loans		976	1,269
Change in net debt	27	(14,034)	(49,045)
Net debt at 1 January		(163,527)	(114,482)
Net debt at 31 December		(177,561)	(163,527)

P&O Ferries Division Holdings Limited
Notes to the Financial Statements
For the year ended 31 December 2011

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 instalments 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 EBITDA before exceptional items, 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

Subsequent to the year end, the Group has undertaken new asset backed working capital facilities

Basis of consolidation
The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings made up to 31 December 2011

Subsidiaries are entities controlled by the Group Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities Special purpose entities (SPEs) are consolidated if, based on an evaluation of the substance of its relationship with the Group and the SPEs' risks and rewards, the Group concludes that it controls the SPE

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 the 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 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 began accounting for the MNRPF Scheme as a defined benefit scheme, as there is now sufficient information to be able to do so, this continues throughout 2011 (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)

1 Accounting policies

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	2011 £000	2010 £000
Turnover		
Ferry Service total	**593,664**	591,371
Ferry Service inter-segment	**(29,883)**	(28,064)
Ferry Service sales to third parties	**563,781**	563,307
Ferrymasters transport and freight management	**435,766**	425 091
	999,547	988 398
Profit/(loss) on ordinary activities before taxation		
Ferry Service	**5,563**	6,314
Ferrymasters transport and freight management	**1,010**	(1,275)
	6,573	5,039
Net assets		
Ferry Service	**492,356**	532,120
Ferrymasters transport and freight management	**(17,161)**	(18,632)
	475,195	513,488

3 Operating profit before exceptional items

	2011 £000	2010 £000
This is stated after charging/(crediting)		
Depreciation of owned fixed assets	43,605	37,022
Depreciation of assets held under finance leases and hire	2,788	3,989
Ships' charter hire payments	35,985	35,793
Operating lease rentals - plant and machinery	9,650	13,076
Exchange (gains)/losses	(6)	152

Auditors' remuneration

	2011 £000	2010 £000
Audit of the financial statements of the group	469	492
Other services - including taxation and pensions	20	33

In 2011 and 2010, auditors' remuneration in respect of the Company was borne by a subsidiary undertaking The audit fee relating to the Company was as follows

	2011 £000	2010 £000
Fees for the audit of the Company	10	10

4 Exceptional items

	2011 £000	2010 £000
Impairment of tangible fixed assets (Note 12)	3,000	2,106
Pension curtailment gain (Note 30)	(7,000)	-
Restructuring costs	4,128	7,968
	128	10,074

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

5 Directors' remuneration

	2011 £000	2010 £000
Directors' remuneration	476	449
Company contributions to money purchase pension schemes	72	91
	548	540
Highest paid director		
Remuneration	294	274
Company contributions to money purchase pension schemes	7	28
	301	302
Highest paid director		
Accrued retirement benefits from defined benefit pension schemes	42	41

Number of directors in company pension schemes

	2011 Number	2010 Number
Money purchase schemes	1	1
Defined benefit schemes	1	1

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

	2011 £000	2010 £000
Wages and salaries	124,859	130,648
Social security costs	11,231	11,264
Other pension costs	6,792	8,126
	142,882	150 038

Average number of employees during the year	Number	Number
Seafaring	2,056	2,045
Shore-based	2,182	2,212
	4,238	4 257

8 Interest receivable and similar income

	2011 £000	2010 £000
Interest on bank deposits	661	803
Interest on balances due from related parties	178	210
Foreign exchange gains	976	1 269
	1,815	2,282

9 Interest payable and similar charges

	2011 £000	2010 £000
Interest on bank loans and overdrafts	7,593	5,766
Other interest charges	190	314
Finance charges payable under finance leases and hire purchase	232	2,146
Foreign exchange losses	1,662	397
	9,677	8,623

10 Taxation

	2011 £000	2010 £000
Analysis of charge/(credit) in year		
Current tax		
UK corporation tax on profits of the year	1,727	2,086
UK tonnage tax	163	151
Overseas tax	126	357
Adjustments in respect of previous years	(538)	(6,687)
	1,478	(4,093)
Deferred tax		
Origination and reversal of timing differences (Note 20)	(630)	(977)
Adjustment in respect of previous years	-	(970)
	(630)	(1,947)
Tax on profit on ordinary activities	848	(6 040)

10 Taxation (continued)

Factors affecting tax charge/(charge/(credit)) for the year
The current tax charge/(credit) for the year is lower than the standard rate of corporation tax in the UK that was applicable for the year (26 5%) The differences are explained below

	2011 £000	2010 £000
Profit on ordinary activities before tax	6,573	5 039
Standard rate of corporation tax in the UK	26 5%	28 0%
	£000	£000
Profit on ordinary activities multiplied by the standard rate of corporation tax	1,742	1,411
Effects of		
Tonnage tax	(359)	(210)
Overseas taxes	126	357
Expenses not deductible for tax purposes	(285)	59
Timing differences	1,353	977
Utilisation of current year group losses	(561)	-
Adjustments to tax charge in respect of previous periods	(538)	(6,687)
Current tax charge/(credit) for the year	1,478	(4,093)

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 26 5% (2010 28%) of the profits earned by these activities

The tax adjustments in respect of prior years principally arise 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 main rate of UK corporation tax reduced from 28% to 26% with effect from 1 April 2011 The Group's future tax charge is expected to be significantly lower than the this rate as a result of the majority of the Group's UK profits qualifying for the UK tonnage tax regime Legislation to further reduce the main rate of corporation tax from 26% to 25% from 1 April 2012 was included in the Finance Act 2011 These tax changes became substantively enacted on 29 March 2011 and 5 July 2011 respectively, and hence the effect of the changes on the deferred tax balances has been included in the figures above

On 21 March 2012 the Chancellor announced a further reduction in the main rate of UK corporation tax to 24 per cent with effect from 1 April 2012 This change became substantively enacted 26 March 2012 The effect of the change would create an additional reduction in the deferred tax liability at 31 December 2011 of approximately £0 1m This has not been reflected in the figures above as the rate change was not substantively enacted at the balance sheet date

The Chancellor also proposed changes to further reduce the main rate of corporation tax by one per cent per annum to 22 per cent by 1 April 2014 These changes were not substantively enacted at the year end and therefore are not reflected in the figures above The overall effect of the further reductions from 24 per cent to 22 per cent, if these applied to the deferred tax balance at 31 December 2011, would be to further reduce the deferred tax liability by approximately £0 1m

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

11 Intangible fixed assets

	2011 £000 Goodwill
Cost and net book value	
At 1 January 2011 and 31 December 2011	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 (2010 £nil) being applied against the goodwill

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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 2011	380,519	11,517	32,430	225,822	650,288
Additions	9,905	254	2,884	65,755	78,798
Disposals	(14,652)	(8)	(3,838)	-	(18,498)
Transfers to assets in use	161,722	-	7,905	(169,627)	-
At 31 December 2011	537,494	11,763	39 381	121,950	710,588
Depreciation					
At 1 January 2011	114,351	2,347	12,623	-	129,321
Charge for the year	38,872	953	6,568	-	46,393
Impairment of assets	3,000	-	-	-	3,000
Disposals	(11,402)	(8)	(2,526)	-	(13,936)
At 31 December 2011	144 821	3,292	16,665	-	164,778
Net book value					
At 31 December 2011	**392,673**	**8,471**	**22,716**	**121,950**	**545,810**
At 31 December 2010	266,168	9,170	19,807	225,822	520,967

The impairment charge in the current year relates to a laid up vessel which is being carried at its expected net realisable value

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 These dry dock refit costs are included in the value of each vessel as a separate component

Transfers from work in progress during the year include both a new build ship, £161 7m, and computer systems shown in other equipment

Included in the total net book value of owned and leased ships is £55 1m (2010 £58 0m) in respect of assets held under finance leases Depreciation for the period on these assets was £2 8m (2010 £4 0m)

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

The asset under construction is a new build ship (2010 two new build ships and computer systems under development)

The net book value of land and buildings comprises

Group	2011 £000	2010 £000
Freehold	**7,904**	8,541
Long leasehold	-	-
Short leasehold	**567**	629
	8,471	9,170

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13 Investments

Company	Company shares in group undertakings £000	Loans to subsidiary undertakings £000	Total £000
Cost and net book value			
At 1 January 2011	35,123	157,526	192,649
Additions	-	-	-
At 31 December 2011	35,123	157,526	192,649

Company shares in group undertakings
Investments include the following subsidiaries

	Country of incorporation	Principal Activity	%	Share Class
P&O Ferries Holdings Limited [(i)]	Great Britain	Holding company	100%	Ordinary
P&O Ship Management Holdings (Jersey) Limited [(i)]	Jersey	Holding company	100%	Ordinary
P&O Ferrymasters Holdings Limited [(i)]	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 [*(i)]	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
SNC Gris-Nez Bail [(ii)]	France	Leasing	0%	n/a

[(i)] directly owned
[*(ii)] consolidated on the basis of control, shareholding is legally owned by Credit Agricole

14 Stocks

	2011 £000	2010 £000
Raw materials and consumables	6,928	4,915
Finished goods and goods for resale	6,496	6,828
	13,424	11 743

15 Debtors

	2011 £000 Group	2011 £000 Company	2010 £000 Group	2010 £000 Company
Trade debtors (Gross)	110,009	-	107,368	-
Less Non-refundable amounts received	(14,972)	-	-	-
Debtors	95,037	-	107,368	-
Amounts owed by subsidiaries	-	305,201	-	303,665
Amounts owed by group undertakings	-	-	749	-
Amounts owed by parent company	626	-	422	-
Other debtors	3,804	-	5,570	-
Prepayments and accrued income	25,793	-	26,967	-
	125,260	305,201	141,076	303 665

At 31 December 2011, the Group has in place working capital facilities for trade debtors factored on a non-recourse basis A linked presentation is adopted as, although the seller has retained some benefits and risks relating to the factored debts there is no doubt that its downside exposure to loss is limited to a fixed monetary amount and amounts advanced are non-refundable

16 Creditors amounts falling due within one year

	2011 £000 Group	2011 £000 Company	2010 £000 Group	2010 £000 Company
Bank loans	17,626	-	12 684	-
Obligations under finance lease and hire purchase contracts	4,694	-	4,760	-
Trade creditors	96,015	-	90,724	-
Amounts owed to subsidiaries	-	3,023	-	3,023
Corporation tax payable	5,719	608	4,632	608
Other taxes and social security costs	14,909	-	13,278	-
Other creditors	6,600	-	7,497	-
Accruals and deferred income	49,221	-	47,830	-
	194,784	3,631	181,405	3 631

Bank loans of £225 9m (2010 £186 4m), 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

	2011 £000 Group	2011 £000 Company	2010 £000 Group	2010 £000 Company
Bank loans	208,260	-	173,680	-
Obligations under finance lease and hire purchase	50,506	-	57,549	-
Other creditors	8,913	-	7,359	-
	267,679	-	238,588	-

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

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18 Bank loans

The Group has three loans which mature as follows

Repayment basis of loans over five years	2011 £000 Due in less than one year	2011 £000 Due in more than one year	2010 £000 Due in less than one year	2010 £000 Due in more than one year
Amounts payable				
Quarterly until 2015	1,618	13,404	1,531	15,022
Quarterly until 2023 *	8,028	107,074	8,155	89,710
Half yearly until 2024 *	7,980	87,782	2,998	68,948
	17,626	208,260	12,684	173,680

* There is a total facility for the ships in construction of €284m of which £210 9m (2010 £210 0m) has been drawn Both loans have increased as various stages of construction are reached, and repayments begin after the ship is launched The first ship, Spirit of Britain, was delivered in early 2011, repayments began during the year The second ship, Spirit of France, was delivered in early 2012, repayments are scheduled to begin during the coming year These will not be fully repaid within 5 years and are subject to interest rates ranging from 1 52% - 5 89%

Bank loans include £15 0m of loans that will be fully repaid within 5 years, which is subject to an interest rate of 1 72% as at the year end

The Group had in place multi-currency credit facilities with various banks of £30 million which are available until May 2012 an invoice financing facility of £15m which is available until December 2013 and overdraft facilities of £10m that are reviewed annually As at 31 December 2011 none of the multi-currency credit facility or overdrafts were being utilised and £15m of the invoice financing facility was being utilised (Note 15)

19 Obligations under finance leases and hire purchase contracts

	2011 £000 Group	2011 £000 Company	2010 £000 Group	2010 £000 Company
Amounts payable				
Within one year	4,694	-	4,760	-
Within two to five years	21,019	-	21,483	-
After five years	29,487	-	36,066	-
	55,200	-	62,309	-

The finance lease agreements expiring in 2017 and 2021 have interest rates of 1 1% and 4 75% respectively

Finance lease liabilities include an amount of €40 5m (2010 €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 0m (2010 reduction of £1 3m), which has been credited to the profit and loss account within foreign exchange gains (Note 8)

Repayment basis of finance leases over 5 years	2011 £000	2010 £000
Quarterly until 2017	21,419	24,183
Annually until 2021	33,781	38,126
	55,200	62,309

20 Deferred taxation

Group

	2011 £000	2010 £000
Provision/ (asset)		
Other timing differences	**1,554**	2,230
Pension deficit payments	**(1,193)**	(1,216)
	361	1,014

	2011 £000	2010 £000
At 1 January	**1,014**	2,775
Deferred tax credit in profit and loss account (Refer to Note 10)	**(630)**	(1,947)
Deferred tax (credit)/charge in statement of total recognised gains and losses	**(23)**	186
At 31 December	**361**	1,014

	2011 £000	2010 £000
Provisions for liabilities	**1,554**	2,230
Pension liabilities (Refer note 30)	**(1,193)**	(1,216)
	361	1,014

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 31st December 2011 was £nil (2010 £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 reinstate-ments £000	Re - organisation £000	Legal costs £000	Total £000
At 1 January 2011	4,100	3,611	2,483	11,141	21,335
Charged/(released) during the year	-	-	2,334	(88)	2,246
Utilised during the year	-	(52)	(1,468)	-	(1,520)
At 31 December 2011	**4,100**	**3,559**	**3,349**	**11,053**	**22,061**

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 was being disputed with the Government and a provision was made for the portion that related to prior years Subsequent to the year end, in May 2012 a change to the law has occurred in favour of the Group As a result a provision release of £3 5m will be recorded in 2012

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 2012

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

22 Share capital

	2011 No	2010 No	2011 £000	2010 £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	428,542,000	428,542,000	428,542	428 542

23 Share premium

Group and Company	2011 £000
At 1 January 2011 and 31 December 2011	107,135

24 Profit and loss account

	2011 £000	2010 £000
Group		
At 1 January	(22,189)	(26,656)
Profit for the financial year	5,725	11,079
Actuarial losses recognised in the pension schemes	(44,047)	(6,295)
Exchange gains/(losses)	6	(131)
Deferred tax arising on actuarial losses in the pension schemes	23	(186)
At 31 December	(60,482)	(22,189)
Company		
At 1 January	(42,994)	(51,796)
Profit for the financial year	1,536	8,802
At 31 December	(41,458)	(42,994)

25 Reconciliation of movement in shareholders' funds

	2011 £000	2010 £000
Group		
At 1 January	513,488	509,021
Profit for the financial year	5,725	11,079
Actuarial losses recognised in the pension schemes	(44,047)	(6,295)
Exchange gains/(losses)	6	(131)
Deferred tax arising on actuarial losses in the pension schemes	23	(186)
At 31 December	475,195	513,488
Company		
At 1 January	492,683	483,881
Profit for the financial year	1,536	8 802
At 31 December	494,219	492,683

26 Gross cash flows

	2011 £000	2010 £000
Returns on investments and servicing of finance		
Interest received	839	1,013
Interest paid	(7,783)	(5,766)
Interest element of finance lease rental payments	(232)	(2 146)
Foreign exchange gains and losses	(1,663)	(397)
	(8,839)	(7 296)
Capital expenditure and financial investments		
Payments to acquire tangible fixed assets	(78,798)	(103,710)
Receipts from sales of tangible fixed assets	2,495	2,627
	(76,303)	(101,083)
Financing		
New loans raised	48,086	73,027
Loan repayments	(8,564)	(1,447)
Capital element of finance lease rental payments	(6,133)	(4,555)
	33,389	67,025
Management of liquid resources		
Amount received from with the Group's intermediate parent undertaking	-	20,000
	-	20,000

27 Analysis of changes in net debt

	At 1 Jan 2011 £000	Cash flows £000	Non-cash changes £000	At 31 Dec 2011 £000
Cash at bank and in hand	85,146	18,379	-	103,525
Overdrafts	-	-	-	-
	85,146	18,379	-	103,525
Debt due within 1 year	(12,684)	8,564	(13,506)	(17,626)
Debt due after 1 year	(173,680)	(48,086)	13,506	(208,260)
Finance leases	(62,309)	6,133	976	(55,200)
	(248,673)	(33,389)	976	(281,086)
Net debt	(163,527)	(15,010)	976	(177,561)

28 Capital commitments

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

	2011 £000	2010 £000
Contracted		
Ships	29,735	92,442
Other	5,505	71
	35,240	92,513

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 2011 £000	Other 2011 £000	Land and buildings 2010 £000	Other 2010 £000
Operating leases which expire				
within one year	388	1,682	512	6,156
within two to five years	3,847	41,532	2,226	23,991
in over five years	15,243	187	14,274	7,928
	19,478	43,401	17,012	38,075

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

Fuel - Purchase 11% of the expected usage in 2012 for $43 9m,
USD - Purchase $44 8m in 2012 for £27 4m
EUR - Purchase €28 8m in 2012 for £24 6m

Comparative figures as at 31 December 2010 were as follows

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

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

With effect from 1 April 2011, benefits earned in the P&O Ferries UK Scheme were changed from Final Salary to Career Average Revalued Earnings (CARE) This change resulted in an exceptional curtailment gain of £7 0 million in the year ended 31 December 2011

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's non-UK subsidiaries participate in the MNRPF Scheme In the prior year, the Group considered it was able to determine its share of the underlying assets and liabilities on a consistent and reliable basis and accounts for its non-UK participation in the MNRPF Scheme as a defined benefit pension plan The potential uncertainty arising from the matter below, in respect of the Group's UK subsidiaries, is not anticipated to have a material impact on the non-UK MNRPF share currently recognised by the Group, due to the relative size of the non-UK share as a proportion of the total MNRPF Scheme Therefore defined benefit pension accounting for the Group's non-UK share has continued to be adopted in the current year

The Group's UK subsidiaries ceased to employ members of the MNRPF and settled their statutory debt obligation to the pension fund a number of years ago The Group's UK subsidiaries were therefore not considered to have any legal or constructive obligation with respect to the ongoing deficit in the MNRPF fund and no share of the scheme deficit was recognised by the Group in respect of these UK subsidiaries

As disclosed in the 2010 financial statements, this position was challenged by Stena Line Limited, an MNRPF participating employer, in the High Court and subsequently in the Court of Appeal where judgments were handed down against the Group on 27 July 2010 and 12 May 2011 respectively Final leave for the Group to appeal to the Supreme Court was refused in November 2011 and therefore it is now expected that the Trustees of the MNRPF will require a number of the Group's UK subsidiaries to make future pension contributions The judgment against the Group affects both the Group and a significant number of other employers who formerly participated in the MNRPF scheme and who had also settled their statutory debt obligations These other employers may or may not continue to exist or be able to make future contributions and, notwithstanding the Group's UK subsidiaries are the largest former employers affected by the judgment, the participation of other former employers will influence the future contributions payable by the Group's UK subsidiaries The basis of calculation of future contributions and the share of the pension obligation payable by the Group's subsidiaries will also be influenced by the valuation methodology used by the Trustees, the allowances which are made for previous voluntary contributions paid since 2001, and the settlements made by employers when they previously settled their MNRPF statutory debt obligations

These factors make it not possible, at the date of these financial statements, to estimate the present value of the future contributions that may be required to be made by the Group's UK subsidiaries and it is not practical for the Group to account for its proportionate share of the related obligation and asset in the same way as for its other defined benefit pension plans Therefore, pending further determination of the Group's future obligations, the Group is accounting for its UK obligations under the MNRPF scheme as a defined contribution plan At the balance sheet date and the date of these financial statements, no contractual agreement exists in respect of future contributions and no provision for future contributions has therefore been made Prior to any such agreement being put into place, the Group is accounting for its contributions through profit and loss in the period in which such contributions are agreed No such contributions were charged to the profit and loss account in the year ending 31 December 2011 The timing for determination of the above matters remains uncertain and will be dependent on a number of factors outside of the control of the Group, including possible further Court approvals

The total MNRPF scheme deficit at 31 December 2011, in which the Group's UK subsidiaries are now expected to be required to participate by the MNRPF Trustees, is disclosed for information purposes The total deficit (before deferred tax) at 31 December 2011 was £175m (2010 £128m) comprising gross liabilities of £905m (2010 £811m) and gross assets of £730m (2010 £683m), although it should be noted that the Group's UK subsidiaries will only be liable for a proportion of the total deficit

The Group expects to contribute approximately £26m to its defined benefit plans in the next financial year

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 2011 was £2 8m (2010 £2 7m)

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

The information disclosed below is in respect of the plans for which Group companies are either the sponsoring employer or have been allocated a share of cost under an agreed group policy throughout the periods shown

30 Pension schemes (continued)

All schemes

	2011 £000	2010 £000
Present value of funded defined benefit obligations	**(613,053)**	(567,247)
Fair value of plan assets	**502,624**	479,391
Surplus not recognised	**(7,314)**	(5,050)
Deferred tax asset	**1,193**	1,216
Deficit	**(116,550)**	(91,690)

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 2010	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
Current service cost	2 240	1,300	-	453	3,993
Interest cost	5,850	20,200	2,000	1,832	29,882
Experience gains	(1 500)	2,100	1,200	(128)	1,672
Changes in assumptions	4,620	33,900	2,900	178	41,598
Contributions by members	980	700	-	149	1,829
Benefits paid	(3,120)	(19 200)	(1,700)	(1,145)	(25,165)
Curtailments	(7,000)	-	-	-	(7,000)
Exchange adjustments	-	-	-	(1,003)	(1,003)
At 31 December 2011	113,656	423,043	42,500	33,854	613,053

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	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
Expected return on plan assets	6,730	20,300	1,800	1,901	30,731
Actuarial (losses)/gains	(3,740)	3,699	1,300	498	1 757
Contributions by employer	3,710	10,400	750	492	15,352
Contributions by members	980	700	-	149	1,829
Benefits paid	(3,120)	(19,200)	(1,700)	(1,145)	(25,165)
Management expense	-	-	-	(127)	(127)
Exchange adjustments	-	-	-	(1,144)	(1,144)
At 31 December 2011	106,689	323 285	34 250	38 400	502 624

* 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	**2011**	2010
	£000	£000
Current service cost	**(3,993)**	(5,415)
Gains on curtailments and settlements	**7,000**	-
Interest on defined benefit plan obligation	**(29,882)**	(28 883)
Expected return on defined benefit pension plan assets	**30,731**	26,877
Management expense	**(127)**	(123)
Total	**3,729**	(7 544)

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

	2011	2010
	£000	£000
Cost of sales	**(3,218)**	(3,346)
Administrative expenses	**(902)**	(2,192)
Gains on curtailments and settlements	**7,000**	-
Pension finance income/(charge)	**849**	(2,006)
Total	**3,729**	(7,544)

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

	2011	2010
	£000	£000
Actuarial gains on assets	**1,757**	66,118
Actuarial losses on liabilities	**(1,672)**	(18,520)
Actuarial losses on changes in assumptions	**(41,598)**	(50,455)
Increase in surplus not recognised	**(2,534)**	(3,438)
Total actuarial losses for the period	**(44,047)**	(6,295)

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 £129 2m (2010 £85 1m)

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	**2011**	2010	2009	2008	2007
	£000	£000	£000	£000	£000
Present value of scheme liabilities	**(113,656)**	(111,586)	(107,298)	(76,210)	(102,710)
Fair value of scheme assets	**106,689**	102,129	89,549	71,019	99,760
Deficit	**(6,967)**	(9,457)	(17,749)	(5,191)	(2,950)
Experience adjustments					
Experience losses/(gains) on scheme liabilities	**(1,500)**	490	260	(5,055)	980
Experience (losses)/gains on scheme assets	**(3,740)**	4,870	11,070	(23,880)	(7 123)

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

	2011	2010
	£000	£000
Equities	**50,660**	53,579
Bonds	**44,500**	48,280
Cash	**369**	-
Other	**11,160**	270
	106,689	102,129
Actual return on plan assets	**2,990**	10 740

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

		2011	2010
Discount rate		**4 70%**	**5 50%**
Expected rate of return on plan assets		**5 60%**	**6 54%**
Expected return on plan assets at beginning of the period		**6 54%**	**6 54%**
Future salary increases*		**n/a**	**4 40%**
Future pension increases	- deferment	**2 60%**	**3 10%**
	- payment	**2 50%**	**3 10%**
Inflation		**2 80%**	**3 40%**

*The switch of the P&O Ferries UK scheme from Final Salary to CARE during the year has meant that future salary increases are no longer relevant

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	**2011** **£000**	*2010* £000	*2009* £000	*2008* £000	*2007* £000
Present value of scheme liabilities	**(423,043)**	(384,043)	(344,243)	(292,844)	(319 700)
Fair value of scheme assets	**323,285**	307,386	268,088	247,087	296 100
Deficit	**(99,758)**	(76 657)	(76,155)	(45 757)	(23 600)
Experience adjustments					
Experience losses on scheme liabilities	**2,100**	20 701	-	(5,700)	(14,875)
Experience gains on scheme assets	**3,699**	29,499	10,701	(64,288)	323

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

	2011 **£000**	2010 £000
Equities	**66,300**	130,393
Bonds	**191,400**	121,693
Other	**65,585**	55 300
	323,285	307,386
Actual return on plan assets	**23,999**	46 799

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

		2011	*2010*
Discount rate		**4 65%**	5 40%
Expected rate of return on plan assets		**5 14%**	6 68%
Expected return on plan assets at beginning of the period		**6 68%**	6 53%
Future salary increases		**4 10%**	4 60%
Future pension increases	- deferment	**2 10%**	2 90%
	- payment	**3 05%**	3 40%
Inflation		**3 10%**	3 60%

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	**2011 £000**	2010 £000	2009 £000	2008 £000	2007 £000
Present value of scheme liabilities	**(42,500)**	(38,100)	n/a	n/a	n/a
Fair value of scheme assets	**34,250**	32,100	n/a	n/a	n/a
Deficit	**(8,250)**	(6,000)	n/a	n/a	n/a
Experience adjustments					
Experience (gains)/losses on scheme liabilities	**1,200**	(800)	n/a	n/a	n/a
Experience gains on scheme assets	**1,300**	31 200	n/a	n/a	n/a

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

	2011 £000	2010 £000
Equities	**6,200**	7,100
Bonds	**21,750**	23,300
Other	**6,300**	1,700
	34,250	32,100
Actual return on plan assets	**3,100**	33,000

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

		2011	2010
Discount rate		**4 65%**	5 40%
Expected rate of return on plan assets		**4 10%**	5 65%
Expected return on plan assets at beginning of the year		**5 65%**	n/a
Future salary increases		**4 10%**	4 60%
Future pension increases	- deferment	**2 10%**	2 90%
	- payment	**3 05%**	3 40%
Inflation		**3 10%**	3 60%

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

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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	**2011 £000**	2010 £000	2009 £000	2008 £000	2007 £000
Present value of scheme liabilities	**(33,854)**	(33 518)	(36,057)	(35,989)	(28,424)
Fair value of scheme assets	**38,400**	37,776	36,625	35,637	30,819
(Deficit)/surplus	**4,546**	4,258	568	(352)	2,395
Surplus not recognised	**(7,314)**	(5,050)	(1,612)	(1,002)	(1,499)
(Deficit)/surplus in financial statements	**(2,768)**	(792)	(1,044)	(1,354)	896
Experience adjustments					
Experience (gains)/losses on scheme liabilities	**(128)**	(1,871)	(1,635)	(508)	1,586
Experience gains/(losses) on scheme assets	**498**	549	1,068	(6,118)	(1,486)

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

	2011 £000	2010 £000
Equities	**11,232**	13,124
Bonds	**26,316**	24,454
Other	**852**	198
	38,400	37,776
Actual return on plan assets	**2,399**	2,456

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

		2011	2010
Discount rate		**5 35%**	5 41%
Expected rate of return on plan assets		**3 00%**	3 59%
Expected return on plan assets at beginning of the year		**3 59%**	5 43%
Future salary increases		**3 00%**	3 59%
Future pension increases	- deferment	**1 07%**	1 21%
	- payment	**1 07%**	1 21%
Inflation		**2 00%**	1 98%

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