COMPANY REGISTRATION NUMBER 6038090

P&O FERRIES DIVISION HOLDINGS LIMITED

FINANCIAL STATEMENTS

31 DECEMBER 2012

P&O FERRIES DIVISION HOLDINGS LIMITED

FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2012

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P&O FERRIES DIVISION HOLDINGS LIMITED

THE DIRECTORS' REPORT

YEAR ENDED 31 DECEMBER 2012

The directors present their report and the financial statements of the P&O Ferries Division Holdings Limited group ('the Group') for the year ended 31 December 2012

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW
The Group's principle activity during the year continued to be the 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

The P&O Ferries Division Holdings Limited Group 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 2012, 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

	2012	2011
FERRIES		
Freight units carried (thousands)	**2,128**	1,990
Tourist vehicles carried (thousands)	**1,821**	1,730
Total passengers carried (thousands)	**10,194**	9,534
FERRYMASTERS		
Total units transported (thousands)	**516**	539

The Group's operating profit for the year was £17 4m (2011 £15 7m) Operating profit before exceptional items was £8 9m (2011 £15 8m)

Exceptional charges to operating profit for the year included a charge of £2 3m (2011 £4 1m) in respect of restructuring, which included further rationalisation of on board management structures and back office functions Exceptional operating income of £10 7m (2011 £nil) relates to two items the settlement of a prior year claim by the Group for costs incurred from disruption to berthing in the Port of Calais, and the release of a prior year provision held for proposed increases to property rates at the Ports of Hull and Liverpool, which are no longer required following the passing of the Localisation Act

EBITDA (earnings before interest, tax, depreciation and amortisation) before exceptional items, as a percentage of revenue, has worsened slightly to 5 7% for the year ended 31 December 2012, compared to 6 2% for the previous year

Higher finance charges year on year include pension finance charges of £2 0m (2011 pension finance income of £0 8m)

Losses on disposal of fixed assets for the year are £2 3m compared to £2 1m in 2011, this primarily results from the disposal of two ships, the European Trader and the Pride of Dover

Profit before taxation fell to £4 3m (2011 £6 6m) The taxation for the year is disclosed in note 11 to the financial statements

The second of the new vessels on the Dover to Calais route, the Spirit of France, was delivered in January 2012 She joined her sister ship the Spirit of Britain The two new ships are expected to deliver significant economies of scale as well as helping to maintain our premium service offering in this highly competitive sector

Capital expenditure in the year amounted to £40 0m, principally relating to the final instalment for the construction of the Spirit of France Net debt at 31 December 2012 was £163 0m (2011 £177 6m)

The Group's defined benefit pension liability increased to £248 6m (2011 £116 6m) in the year, principally as a result of recognition in the year of an additional £84 7m of liabilities in respect of the Group's share of the Merchant Naval Ratings Pension Fund Further details in respect of pension schemes and risks are set out in Note 25 and within the Principal Risks and Uncertainties section of the Directors' Report

FUTURE DEVELOPMENTS
There remains little indication of any material improvement in economic conditions, with over capacity in most sectors 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

In the Dover Calais market, Myferrylink resurrected SeaFrance operations with the financial backing of Eurotunnel In June 2013 the UK competition authorities ordered Eurotunnel to stop operating from the Port of Dover by December 2013 Eurotunnel are expected to appeal this decision The reinstatement of the old Seafrance vessels has increased capacity in the market and put pressure on rates However our comprehensive service offering continues to enable us to retain volume and maintain competitive advantage

On the Irish Sea, competition remains strong with P&O's market share above its share of capacity in the sector Despite this, overcapacity is putting the rates under pressure particularly on the Cairnryan route In 2013 we refitted and re-launched our fast craft offering focused on Troon, which we anticipate will improve the customer experience on this tourist only route Liverpool Dublin is experiencing strong demand with capacity utilisation being acceptable

In the North Sea sector, 2013 will see significant improvements to performance A new, more fuel efficient ship has been deployed on the Teesport - Europort route and a significant property rates reduction has been achieved in Hull, both of which will aid profitability

The Group is actively pursuing parallel business opportunities which leverage its core skills In April 2012, we supplied an offshore wind farm support vessel in the North Sea Following the successful completion of this contract, negotiations for a similar service in the later part of 2013 are underway Further opportunities are continually being assessed

RESULTS AND DIVIDENDS
The profit for the year, after taxation, amounted to £2,897,000 The directors have not recommended a dividend

PRINCIPAL RISKS AND UNCERTAINTIES

Financial risk management objectives and policies
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

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 various defined benefit pension schemes

As a result of the Group's exposure to the industry wide Merchant Navy Officers Pension Fund and Merchant Navy Ratings Pension Fund, the group has a relatively high proportion of deferred and current pensioners compared to its active membership Both industry schemes have joint and several liabilities which increase the exposure of the group to additional liabilities

A decline in the equity market, improvements in the life expectancy or decreases in real or nominal long term interest rates could require additional contributions in excess of those currently expected and greater than the liabilities currently estimated

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, an asset backed credit facility and overdraft facilities (note 20) and ship finance leases (note 21)

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 The Board has also considered the potential commitment and timing of the Group's future defined benefit obligations

DIRECTORS

The directors who served the company during the year were as follows

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

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

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

DISABLED EMPLOYEES

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

POLITICAL AND CHARITABLE DONATIONS

During the year the Company has made no charitable or political donations (2011 £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

P&O FERRIES DIVISION HOLDINGS LIMITED

DISCLOSURE OF INFORMATION TO AUDITOR
The directors who held office at the date of this director's report confirm that, so far as they are each aware

- there is no relevant audit information of which the group's auditor is unaware, and
- each director has taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information

AUDITOR
KPMG LLP are deemed to be re-appointed in accordance with an elective resolution made under section 386 of the Companies Act 1985 which continues in force under the Companies Act 2006

Registered office
Channel House
Channel View Road
Dover
CT17 9TJ

Signed on behalf of the directors

K Howarth
Director

Approved by the directors on 26/06/13

P&O FERRIES DIVISION HOLDINGS LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

YEAR ENDED 31 DECEMBER 2012

The dırectors are responsıble for preparıng the Dırectors' Report and the financıal statements ın accordance with applıcable law and regulatıons

Company law requıres the dırectors to prepare financıal statements for each financıal year Under that law the dırectors have elected to prepare the financıal statements ın accordance wıth Unıted Kıngdom Generally Accepted Accountıng Practıce (Unıted Kıngdom Accountıng Standards and applıcable law) Under company law the dırectors must not approve the financıal statements unless they are satısfied that they gıve a true and faır vıew of the state of affaırs of the company and the group and of the profıt or loss of the group for that year

In preparıng those financıal statements, the dırectors are requıred to

- select suıtable accountıng polıcıes and then apply them consıstently,
- make ȷudgements and accountıng estımates that are reasonable and prudent,
- state whether applıcable UK Accountıng Standards have been followed, subȷect to any materıal departures dısclosed and explaıned ın the financıal statements,
- prepare the fınancıal statements on the goıng concern basıs unless ıt ıs ınappropriate to presume that the group wıll contınue ın busıness

The dırectors are responsıble for keepıng adequate accountıng records that are suffıcıent to show and explaın the group's and company's transactıons and dısclose wıth reasonable accuracy at any tıme the fınancıal posıtıon of the group and enable them to ensure that thefınancıal statements comply wıth the Companıes Act 2006 They are also responsıble for safeguardıng the assets of the group and hence for takıng reasonable steps for the preventıon and detectıon of fraud and other ırregularıtıes

P&O FERRIES DIVISION HOLDINGS LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDER OF P&O FERRIES DIVISION HOLDINGS LIMITED

YEAR ENDED 31 DECEMBER 2012

We have audited the financial statements of P&O Ferries Division Holdings Limited for the year ended 31 December 2012, set out on pages 9 to 41 The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

This report is made solely to the company's shareholder, 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 shareholder those matters we are required to state to them in an auditor's report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's shareholder as a body, for our audit work, for this report, or for the opinions we have formed

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

As explained more fully in the Directors' Responsibilities Statement set out on page 6, 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 Ethical Standards for Auditors

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www frc org uk/auditscopeukprivate

OPINION ON FINANCIAL STATEMENTS

In our opinion the financial statements

- give a true and fair view of the state of the group's and parent company's affairs as at 31 December 2012 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

P&O FERRIES DIVISION HOLDINGS LIMITED

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 READ (Senior Statutory Auditor)
For and on behalf of KPMG LLP
Chartered Accountants
& Statutory Auditor
15 Canada Square
London
E14 5GL

27 June 2013

P&O FERRIES DIVISION HOLDINGS LIMITED

GROUP PROFIT AND LOSS ACCOUNT

YEAR ENDED 31 DECEMBER 2012

	Note	2012 £000	2011 £000
TURNOVER	2	**971,875**	999,547
Cost of sales		**(871,377)**	(887,817)
GROSS PROFIT		**100,498**	111,730
Distribution costs		**(15,661)**	(18,972)
Administrative expenses		**(78,202)**	(77,104)
Other operating income	3	**10,731**	–
Operating profit before exceptional items		**8,949**	15,782
Exceptional items	7	**8,417**	(128)
OPERATING PROFIT	4	**17,366**	15,654
Loss on disposal of fixed assets	8	**(2,328)**	(2,068)
PROFIT BEFORE INTEREST AND TAXATION		**15,038**	13,586
Interest receivable and similar income	9	**625**	839
Interest payable and similar charges	10	**(9,365)**	(8,701)
Pension finance (charge)/income	10	**(2,015)**	849
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		**4,283**	6,573
Tax on profit on ordinary activities	11	**(1,386)**	(848)
PROFIT FOR THE FINANCIAL YEAR	12	**2,897**	5,725

All of the activities of the group are classed as continuing

The company has taken advantage of section 408 of the Companies Act 2006 not to publish its own Profit and Loss Account

The notes on pages 14 to 41 form part of these financial statements.

P&O FERRIES DIVISION HOLDINGS LIMITED

GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

YEAR ENDED 31 DECEMBER 2012

	2012 £000	2011 £000
Profit for the financial year attributable to the shareholder of the parent company	**2,897**	5,725
Actuarial (loss) in respect of defined benefit pension scheme	**(142,330)**	(44,047)
Deferred tax in respect of defined benefit pension scheme	**420**	23
Exchange gains on translation of overseas subsidiaries	–	6
TOTAL RECOGNISED GAINS AND LOSSES RELATING TO THE FINANCIAL YEAR	**(139,013)**	(38,293)

The notes on pages 14 to 41 form part of these financial statements.

P&O FERRIES DIVISION HOLDINGS LIMITED

GROUP BALANCE SHEET

31 DECEMBER 2012

	Note	£000	2012 £000	2011 £000
FIXED ASSETS				
Intangible assets	13		**289,804**	289,804
Tangible assets	14		**528,672**	545,810
			818,476	835,614
CURRENT ASSETS				
Stocks	16	**13,077**		13,424
Debts factored without recourse				
Gross debts		**104,248**		110,009
less Non-returnable proceeds	20	**(41,900)**		(14,972)
	17	**62,348**		95,037
Other debtor	17	**34,769**		30,223
Cash at bank		**121,823**		103,525
TOTAL CURRENT ASSETS		**232,017**		242,209
CREDITORS: Amounts falling due within one year	18	**(177,665)**		(194,784)
NET CURRENT ASSETS			**54,352**	47,425
TOTAL ASSETS LESS CURRENT LIABILITIES			**872,828**	883,039
CREDITORS: Amounts falling due after more than one year	19		**(272,249)**	(267,679)
PROVISIONS FOR LIABILITIES				
Deferred taxation provision	22	**(378)**		(1,554)
Other provisions for liabilities	23	**(15,457)**		(22,061)
			(15,835)	(23,615)
NET ASSETS EXCLUDING PENSION LIABILITY			**584,744**	591,745
Defined benefit pension scheme liability	25		**(248,562)**	(116,550)
NET ASSETS INCLUDING PENSION LIABILITY			**336,182**	475,195
CAPITAL AND RESERVES				
Called-up equity share capital	30		**428,542**	428,542
Share premium account	31		**107,135**	107,135
Profit and loss account	31		**(199,495)**	(60,482)
SHAREHOLDER'S FUNDS	32		**336,182**	475,195

These financial statements were approved by the directors and authorised for issue on 26/06/13, and are signed on their behalf by

K HOWARTH

The notes on pages 14 to 41 form part of these financial statements.

P&O FERRIES DIVISION HOLDINGS LIMITED

COMPANY BALANCE SHEET

31 DECEMBER 2012

	Note	£000	2012 £000	2011 £000
FIXED ASSETS				
Investments	15		**192,649**	192,649
CURRENT ASSETS				
Debtors	17	**160,313**		305,201
CREDITORS: Amounts falling due within one year	18	**(3,631)**		(3,631)
NET CURRENT ASSETS			**156,682**	301,570
TOTAL ASSETS LESS CURRENT LIABILITIES			**349,331**	494,219
CAPITAL AND RESERVES				
Called-up equity share capital	30		**428,542**	428,542
Share premium account	31		**107,135**	107,135
Profit and loss account	31		**(186,346)**	(41,458)
SHAREHOLDER'S FUNDS			**349,331**	494,219

These financial statements were approved by the directors and authorised for issue on 26/06/13, and are signed on their behalf by

K HOWARTH

Company Registration Number 6038090

The notes on pages 14 to 41 form part of these financial statements.

P&O FERRIES DIVISION HOLDINGS LIMITED

GROUP CASH FLOW

YEAR ENDED 31 DECEMBER 2012

	Note	£000	2012 £000	2011 £000
NET CASH INFLOW FROM OPERATING ACTIVITIES	33		**65,837**	70,569
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE	33		**(9,527)**	(8,838)
TAXATION	33		**(6,470)**	(437)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT	33		**(36,048)**	(76,304)
CASH INFLOW/(OUTFLOW) BEFORE FINANCING			**13,792**	(15,010)
FINANCING	33		**4,506**	33,389
INCREASE IN CASH			**18,298**	18,379

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

		£000	2012 £000	2011 £000
Increase in cash in the period		**18,298**		18,379
Net cash (inflow) from bank loans		**(10,119)**		(39,522)
Cash outflow in respect of finance leases		**5,613**		6,133
Change in net debt resulting from cash flows	33		**13,792**	(15,010)
Foreign exchange on loans			**787**	976
Movement in net debt in the period			**14,579**	(14,034)
Net debt at 1 January 2012	33		**(177,561)**	(163,527)
Net debt at 31 December 2012	33		**(162,982)**	(177,561)

The notes on pages 14 to 41 form part of these financial statements.

P&O FERRIES DIVISION HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2012

1. ACCOUNTING POLICIES

Basis of accounting

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

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

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 20) and ship finance leases (note 21) Bank loans are being repaid in instalments and none will be fully repaid within five years The Group also has in place working capital facilities for trade debtors factored on a non-recourse basis, which are available until 2015

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 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 mitigation actions and alternative financing measures available to the Group

The Board has also considered the potential value and timing of future contributions for the Group's defined benefit pension obligations, which, as disclosed in note 25, have increased following the adverse court judgment in respect of the Merchant Naval Ratings Pension Fund (MNRPF) No MNRPF cash contributions are expected to become due during 2013 The phasing of existing pension contribution schedules is being reviewed, in anticipation of new MNRPF contributions becoming due from 2014

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings made up to 31 December 2012

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

Investments

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

1. ACCOUNTING POLICIES *(continued)*

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

Turnover 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

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

Fixed assets

All fixed assets are initially recorded at cost

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)

Depreciation

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows

Freehold buildings	-	10 to 25 years
Ships	-	25 to 50 years
Other equipment	-	3 to 10 years

1. **ACCOUNTING POLICIES** *(continued)*

The depreciation charge for ships is calculated after adjusting for the residual value based upon a percentage of the original cost

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

Stocks

Stocks are valued at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items

Finance lease agreements

Where the company enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a finance lease The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated in accordance with the above depreciation policies Future instalments under such leases, net of finance charges, are included within creditors Rentals payable are apportioned between the finance element, which is charged to the profit and loss account on a straight line basis, and the capital element which reduces the outstanding obligation for future instalments

Operating lease agreements

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged against profits on a straight line basis over the period of the lease

Pension costs and other post-retirement benefits

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'), and Merchant Navy Ratings Pension Fund ('MNRPF'), industry wide schemes 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

Further information in respect of the Group's pension schemes is given in note 25

1. ACCOUNTING POLICIES *(continued)*

Taxation

The Group's 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

Foreign currencies

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction Exchange differences are taken into account in arriving at the operating profit

2 SEGMENTAL INFORMATION

Turnover, profit 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

	2012 £000	2011 £000
Analysis by activity		
TURNOVER		
Ferry service total	**613,161**	593,664
Ferry service inter-segment	**(30,403)**	(29,883)
Ferry service sales to third parties	**582,758**	563,781
Ferrymasters transport and freight management	**389,117**	435,766
	971,875	999,547
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		
Ferry service	**3,768**	5,563
Ferrymasters transport and freight management	**515**	1,010
	4,283	6,573

	2012 £000	2011 £000
NET ASSETS		
Ferry service	**356,498**	492,356
Ferrymasters transport and freight management	**(20,316)**	(17,161)
	336,182	475,195

3. OTHER OPERATING INCOME

	2012	2011
	£000	£000
Exceptional other operating income	10,731	–

Exceptional operating income of £10 7m (2011 £nil) relates to two items the settlement of a prior year claim by the Group for costs incurred from disruption to berthing in the Port of Calais, and the release of a prior year provision held for proposed increases to property rates at the Ports of Hull and Liverpool, which are no longer due following the passing of the Localisation Act

4. OPERATING PROFIT

Operating profit is stated after charging/(crediting)

	2012	2011
	£000	£000
Normal depreciation of owned fixed assets	42,765	43,593
Normal depreciation of assets held under finance lease agreements	3,850	2,800
Exceptional depreciation - impairment	–	3,000
Operating lease costs		
- Plant and equipment	43,401	45,636
- Other	19,478	18,972
Net profit on foreign currency translation	–	(6)

In 2011 and 2012, auditor's remuneration in respect of the company was bourne by a subsidiary undertaking The audit fee relating to the company was £10,000 in both years and included in the group fees below

	2012	2011
	£000	£000
Auditor's remuneration - audit of the financial statements	469	469
Auditor's remuneration - other fees		
- Other services - including taxation and pensions	25	20

5. PARTICULARS OF EMPLOYEES

The average number of staff employed by the group during the financial year amounted to

	2012	2011
	No	No
Seafaring	2,143	2,056
Shore-based	1,978	2,182
	4,121	4,238

The aggregate payroll costs of the above were

	2012	2011
	£000	£000
Wages and salaries	130,621	124,859
Social security costs	12,455	11,231
Other pension costs	7,661	6,792
	150,737	142,882

Other pension costs are amounts charged to operating profit and do not include amounts credited to finance income (see note 9), charged to finance costs (see note 10), and amounts recognised in the statement of recognised gains and losses

6. DIRECTORS' REMUNERATION

The directors' aggregate remuneration in respect of qualifying services were

	2012	2011
	£000	£000
Remuneration receivable	859	476
Value of company pension contributions to money purchase schemes	98	72
	957	548

The number of directors who accrued benefits under company pension schemes was as follows

	2012	2011
	No	No
Money purchase schemes	1	1
Defined benefit schemes	1	1

Remuneration of highest paid director:

	2012	2011
	£000	£000
Total remuneration (excluding pension contributions)	621	294
Value of company pension contributions to money purchase schemes	–	7
	621	301

Benefits are accruing under a defined benefits pension scheme and, at the year end, the accrued pension amounted to £74,000 (2011 - £42,000)

7. EXCEPTIONAL ITEMS

	2012 £000	2011 £000
Recognised in arriving at operating profit		
Exceptional administrative expenses - Restructuring	**(2,314)**	(4,128)
Exceptional administrative expenses - Pension curtailment gain	-	7,000
Exceptional depreciation - impairment	-	(3,000)
Exceptional other operating income (note 3)	**10,731**	-
	8,417	(128)

Exceptional charges to operating profit for the year included a charge of £2 3m (2011 £4 1m) principally in respect of restructuring, which included further rationalisation of on board management structures and back office functions

The impairment charge in the prior year related to the Pride of Dover (note 8)

8. LOSS ON DISPOSAL OF FIXED ASSETS

	2012 £000	2011 £000
Loss on disposal of fixed assets	**(2,328)**	(2,068)

Losses on disposal in the current year mostly relate to the disposal of two ships, the European Trader and the Pride of Dover (2011 the European Mariner and the Norcape)

9. INTEREST RECEIVABLE AND SIMILAR INCOME

	2012 £000	2011 £000
Bank interest receivable	**403**	661
Other loan interest receivable	**222**	178
Net finance income in respect of defined benefit pension schemes	**-**	849
	625	1,688

10. INTEREST PAYABLE AND SIMILAR CHARGES

	2012 £000	2011 £000
Interest payable on bank borrowing	**6,842**	7,593
Foreign exchange loss	**617**	686
Finance charges	**1,641**	232
Interest on other loans	**265**	190
Net finance costs in respect of defined benefit pension schemes	**2,015**	-
	11,380	8,701

11. TAXATION ON ORDINARY ACTIVITIES

(a) Analysis of charge in the year

	2012 £000	2011 £000
Current tax		
UK Taxation		
In respect of the year		
UK Corporation tax based on the results for the year at 24 50% (2011 - 26 50%)	**1,276**	1,890
Under/(over) provision in prior year	**1,069**	(538)
	2,345	1,352
Foreign tax		
Current tax on income for the year	**217**	126
Total current tax	**2,562**	1,478
Deferred tax		
Origination and reversal of timing differences	**(1,176)**	(630)
Tax on profit on ordinary activities	**1,386**	848

(b) Factors affecting current tax charge

The tax assessed on the profit on ordinary activities for the year is lower than the standard rate of corporation tax in the UK of 24 50% (2011 - 26 50%)

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 the standard rates above

	2012 £000	2011 £000
Profit on ordinary activities before taxation	**4,283**	6,573
Profit on ordinary activities by rate of tax	**1,049**	1,742
Expenses not deductible for tax purposes	**(133)**	(285)
Capital allowances for period in excess of depreciation	**533**	1,353
Utilisation of current year group tax losses	**-**	(561)
Adjustments to tax charge in respect of previous periods	**1,069**	(538)
Tonnage tax	**(173)**	(359)
Overseas tax	**217**	126
Total current tax (note 11(a))	**2,562**	1,478

11 TAXATION ON ORDINARY ACTIVITIES *(continued)*

(c) Factors that may affect future tax charges

A reduction in the UK corporation tax rate from 26% to 25% (effective from 1 April 2012) was substantively enacted on 5 July 2011, and further reductions to 24% (effective from 1 April 2012) and 23% (effective from 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively These changes resulted in a statutory tax rate of 24 5% for the year ended 31 December 2012 (2011 26 5%) Deferred tax balances have been measured at 23% at 31 December 2012 (2011 25%) being the corporation tax rate substantively enacted for the period after 31 December 2012

The March 2013 Budget announced that the rate will further reduce to 20% by 2015

The Group's future tax charge is expected to differ from this rate, to the extent the Group's UK profits qualify for the UK tonnage tax regime

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

12. LOSS ATTRIBUTABLE TO MEMBERS OF THE PARENT COMPANY

The loss dealt with in the financial statements of the parent company was (£144,888,000) (2011 - £1,536,000) The loss for the year principally arises from provisions recorded for intra-group receivables and is eliminated on group consolidation

13. INTANGIBLE FIXED ASSETS

Group	**Goodwill £000**
COST	
At 1 January 2012 and 31 December 2012	**289,804**
NET BOOK VALUE	
At 31 December 2012	**289,804**
At 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 175 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 (2011 £nil) being applied against the goodwill

14. TANGIBLE FIXED ASSETS

Group	Land and buildings	Ships	Other equipment	Assets under construction	Total
	£000	£000	£000	£000	£000
COST					
At 1 January 2012	11,763	537,494	39,381	121,950	710,588
Additions	8	3,440	3,320	33,257	40,025
Disposals	(200)	(87,342)	(2,706)	–	(90,248)
Transfers	–	155,207	–	(155,207)	–
At 31 December 2012	11,571	608,799	39,995	–	660,365
DEPRECIATION					
At 1 January 2012	3,292	144,821	16,665	–	164,778
Charge for the year	899	40,626	5,090	–	46,615
On disposals	(48)	(77,406)	(2,246)	–	(79,700)
At 31 December 2012	4,143	108,041	19,509	–	131,693
NET BOOK VALUE					
At 31 December 2012	7,428	500,758	20,486	–	528,672
At 31 December 2011	8,471	392,673	22,716	121,950	545,810

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

The transfer from assets under construction during the year of £155 2m is the new build ship the Spirit of France

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

The net book value of the groups' land and buildings comprises

	2012	2011
	£000	£000
Freehold	6,942	7,904
Short leasehold	486	567
	7,428	8,471

Finance lease agreements

Included within the net book value of £528,672,000 is £52,057,000 (2011 - £55,100,000) relating to assets held under finance lease agreements The depreciation charged to the financial statements in the year in respect of such assets amounted to £3,850,000 (2011 - £2,800,000)

15. INVESTMENTS

Company	Group companies £000
SHARES IN GROUP UNDERTAKINGS	
At 1 January 2012 and 31 December 2012	**35,123**
LOANS	
At 1 January 2012 and 31 December 2012	**157,526**
NET BOOK VALUE	
At 31 December 2012 and 31 December 2011	**192,649**

Group investments

The parent company and the group have investments in the following subsidiary undertakings which are unlisted

Name	Country of incorporation	Holding	Proportion of voting rights	Principal activity
P&O Ferries Holdings Limited *(i)	Great Britain	Ordinary shares	100%	Holdings company
P&O Ship Management Holdings (Jersey) Limited *(i)	Jersey	Ordinary shares	100%	Holdings company
P&O Ferrymasters Holdings Limited *(i)	Great Britain	Ordinary shares	100%	Holdings company
P&O Ferries Limited	Great Britain	Ordinary shares	100%	Ferry services
P&O Short Sea Ferries Limited	Great Britain	Ordinary shares	100%	Holdings company
Larne Harbour Limited *(i)	Northern Ireland	Ordinary shares	100%	Harbour operator
P&O Ferries (Ship Management) Limited	Great Britain	Ordinary shares	100%	Ship management
P&O European Ferries (Portsmouth) Limited	Great Britain	Ordinary shares	100%	Ferry services
P&O European Ferries (Vizcaya) SA	Spain	Ordinary shares	100%	Terminal Operator
P&O European Ferries (Irish Sea) Limited	Great Britain	Ordinary shares	100%	Ferry services
P&O North Sea Ferries Limited	Great Britain	Ordinary shares	100%	Ferry services
P&O North Sea Ferries BV	Netherlands	Ordinary shares	100%	Ferry services
P&O Ferrymasters Limited	Northern Ireland	Ordinary shares	100%	International unit loads
Norbay (UK) Limited	Great Britain	Ordinary shares	100%	Leasing
Port of Cairnryan Limited	Great Britain	Ordinary shares	100%	Harbour operator
SNC Gris-Nez Bail *(ii)	France	Ordinary shares	n/a	Leasing
SNC White Cliffs Bail *(ii)	France	Ordinary shares	n/a	Leasing

*(i) directly owned
*(ii) consolidated on the basis of control only

16 STOCKS

	Group		Company	
	2012	2011	**2012**	2011
	£000	£000	**£000**	£000
Raw materials	**7,045**	6,928	–	–
Finished goods	**6,032**	6,496	–	–
	13,077	13,424	–	–

17. OTHER DEBTORS

	Group		Company	
	2012	2011	**2012**	2011
	£000	£000	**£000**	£000
Amounts owed by group undertakings	**844**	626	**160,313**	305,201
Other debtors	**9,907**	3,804	–	–
Prepayments and accrued income	**24,018**	25,793	–	–
	34,769	30,223	**160,313**	305,201

Total debtors, net of non-returnable proceeds are £97,117,000 (2011 £125,260,000), comprising trade receivables of £62,348,000 (2011 £95,037,000), presented on the face of the balance sheet, and other debtors (above) of £34,769,000 (2011 £30,233,000)

18 CREDITORS: Amounts falling due within one year

	Group		Company	
	2012	2011	**2012**	2011
	£000	£000	**£000**	£000
Bank loans	**18,365**	17,626	–	–
Trade creditors	**81,345**	96,015	–	–
Amounts owed to group undertakings	–	–	**3,023**	3,023
Finance lease agreements	**4,651**	4,694	–	–
Other creditors including taxation				
Corporation tax	**1,811**	5,719	**608**	608
Other taxation	**19,386**	14,909	–	–
Other creditors	**4,494**	6,600	–	–
Accruals and deferred income	**47,613**	49,221	–	–
	177,665	194,784	**3,631**	3,631

19. CREDITORS: Amounts falling due after more than one year

	Group		Company	
	2012	2011	**2012**	2011
	£000	£000	**£000**	£000
Bank loans	**217,640**	208,260	–	–
Finance lease agreements	**44,149**	50,506	–	–
Other creditors	**10,460**	8,913	–	–
	272,249	267,679	–	–

20. BANK LOANS

The Group has three loans which mature as follows

Repayment basis of loans	2012 £000 Due in less than 1 year	2012 £000 Due in more than 1 year	2011 £000 Due in less than 1 year	2011 £000 Due in more than 1 year
Amounts payable				
Quarterly until 2015	**8,416**	**98,658**	1,618	13,404
Quarterly until 2023*	**8,233**	**107,295**	8,028	107,074
Half yearly until 2024*	**1,716**	**11,687**	7,980	87,782
	18,365	**217,640**	17,626	208,260

There is a total facility for the ships that were under construction in prior years of €284m The last tranche of this facility was drawn down in early 2012 Both loans had increased as various stages of construction were reached, and repayments have now begun The first ship, Spirit of Britain, was delivered in early 2011, repayments began during 2011 The second ship, Spirit of France, was delivered in early 2012, repayments began during the year These will not be fully repaid within 5 years and are subject to interest rates ranging from 1 86% - 5 89%

Bank loans include £13 4m of loans that will be fully repaid within 5 years, which is subject to an interest rate of 1 84% as at the year end

Bank loans are secured on certain ships and other assets

In addition to bank loans, the Group has in place invoice financing facilities of £50m which are due for review in June 2015, as well as overdraft facilities of £12m that are reviewed annually As at 31 December 2012 none of the overdrafts were being utilised and £41 9m (2011 £15 0m) of the invoice financing facilities were drawn All invoice financing is undertaken on a non-recourse basis

21. COMMITMENTS UNDER FINANCE LEASES AGREEMENTS

Future commitments under finance leases agreements are as follows

	Group		Company	
	2012	2011	**2012**	2011
	£000	£000	**£000**	£000
Amounts payable within 1 year	**4,651**	4,694	-	-
Amounts payable between 2 to 5 years	**28,964**	21,019	-	-
Amounts payable after more than 5 years	**15,185**	29,487	-	-
	48,800	55,200	-	-

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 €37 3m (2011 €40 5m) 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 £0 8m (2010 reduction of £1 0m), which has been credited to the profit and loss account within foreign exchange gains/losses (Note 10)

Repayment basis of finance leases	**2012**	2011
	£000	£000
Quarterly until 2017	**18,618**	21,419
Annually until 2021	**30,182**	33,781
	48,800	55,200

22. DEFERRED TAXATION

The movement in the deferred taxation provision during the year was

	Group		Company	
	2012	2011	**2012**	2011
	£000	£000	**£000**	£000
Provision brought forward	**1,554**	2,184	-	-
Decrease in provision	**(1,176)**	(630)	-	-
Provision carried forward	**378**	1,554	-	-

The group's provision for deferred taxation consists of the tax effect of timing differences in respect of

Group	**2012**		2011	
	Provided	**Unprovided**	Provided	Unprovided
	£000	**£000**	£000	£000
Excess of taxation allowances over depreciation on fixed assets	**378**	-	1,554	-

A further deferred tax asset is held in respect of pension liabilities (see note 25)

23. PROVISIONS FOR LIABILITIES

	Group		Company	
	2012	2011	**2012**	2011
	£000	£000	**£000**	£000
Back-dated rates	**409**	4,100	**-**	-
Ship reinstatements	**1,130**	3,559	**-**	-
Re-organisation	**1,516**	3,349	**-**	-
Legal costs	**12,402**	11,053	**-**	-
	15,457	22,061	**-**	-

Following a change in the law the backdated rates provision was released to other operating income to the extent that it is no longer required Vessel reinstatements were utilised during the year on settlement with a charteror, the remaining reinstatement balance is still required at the year end Certain re-organisation provisions were utilised during the year while additional legal provisions were made as a result of various on-going legal cases

	2012	2011
	£000	£000
Provisions as at 1 January	**22,061**	21,335
Charges/(credits) to the profit and loss account	**(2,725)**	2,246
Utilised during the year	**(3,879)**	(1,520)
Provisions as at 31 December	**15,457**	22,061

24. DERIVATIVES

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

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

Fuel - Purchase Heavy Fuel Oil for $41 1m and Gas Oil for $12 7m, in 2013,

USD - Purchase $42 5m and $2 6m in 2014

Comparative figures as at 31 December 2011 were as follows

Fuel - Purchase Heavy Fuel Oil in 2012 for $43 9m,

USD - Purchase $44 8m in 2012,

EUR - Purchase €28 8m in 2012

25. PENSIONS AND OTHER POST RETIREMENT BENEFITS

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's non-UK subsidiaries have participated continuously in the MNRPF Scheme and in prior years 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 Group's larger UK subsidiaries ceased to employ members of the MNRPF and settled their statutory debt obligation to this 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 on-going 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 and subsequently in the 2011 financial statements, this position was challenged by Stena Line Limited, a remaining 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 The judgment affects both the Group and a significant number of other employers who formerly participated in the MNRPF scheme and who had also previously settled their statutory obligations

At 31 December 2011, following the final legal judgment, the valuation methodology to be applied by the MNRPF Trustees in allocating the deficit to participating employers remained uncertain Consequently, the Group was not able to adopt defined benefit pension accounting at 31 December 2011 and accounted for its UK obligations under the MNRPF as a defined contribution plan At that date, there was no contractual agreement in respect of future contributions and no provision for future contributions was made

In November 2012 the MNRPF Trustees provided a preliminary calculation of the share of the scheme obligations to be borne by the Group's UK subsidiaries and other employers, together with details of the allocation methodology to be applied The provision of this calculation is considered sufficient information to enable the directors to estimate the Group's UK share of the MNRPF deficit at 31 December 2012 In forming this judgment, the Directors have considered the sensitivity of the assumptions which may alter the share of the deficit recognised in the future, including in respect of the ability of other employers to satisfy their obligations to the Scheme The materiality of the Group's participation in the MNRPF Scheme is also relevant

At 31 December 2012, the Group has provided for an additional pension deficit of £84 7m relating to the MNRPF Scheme, as a result of adopting defined benefit pension accounting The additional deficit has been recorded as a current year actuarial losses within the Statement of Total Recognised Gains and Losses on the basis that it is a change in estimate in respect of the Group's pension scheme obligations

25. PENSIONS AND OTHER POST RETIREMENT BENEFITS *(continued)*

The Group expects to contribute a total of approximately £10 4m 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 2012 was £3 9m (2011 £2 8m)

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

All schemes

	2012	2011
	£000	£000
Present value of funded defined benefit obligations	**(1,023,501)**	(613,053)
Fair value of plan assets	**773,326**	502,624
Surplus not recognised	**–**	(7,314)
Deferred tax asset	**1,613**	1,193
Deficit	**(248,562)**	(116,550)

25. PENSIONS AND OTHER POST RETIREMENT BENEFITS *(continued)*

Movement 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 2011	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 losses/(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)
Exchange adjustments	–	–	–	(1,003)	(1,003)
Curtailments	(7,000)	–	–	–	(7,000)
At 31 December 2011	113,656	423,043	42,500	33,854	613,053
Current service cost	1,950	1,500	–	397	3,847
Interest cost	5,350	19,200	1,900	1,708	28,158
Experience losses/(gains)	504	10,157	1,100	223	11,984
Changes in assumptions	20,800	32,400	324,100	13,351	390,651
Contributions by members	960	700	–	132	1,792
Benefits paid	(2,660)	(20,000)	(1,800)	(899)	(25,359)
Exchange adjustments	–	–	–	(625)	(625)
At 31 December 2012	140,560	467,000	367,800	48,141	1,023,501

Movement 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 2011	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 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
Expected return on plan assets	6,340	16,500	1,600	1,703	26,143
Actuarial gains	9,381	7,915	236,300	(605)	252,991
Contributions by employer	3,370	11,000	850	847	16,067
Contributions by members	960	700	–	132	1,792
Benefits paid	(2,660)	(20,000)	(1,800)	(899)	(25,359)
Management expense	–	–	–	(122)	(122)
Exchange adjustments	–	–	–	(810)	(810)
At 31 December 2012	124,080	339,400	271,200	38,646	773,326

25. PENSIONS AND OTHER POST RETIREMENT BENEFITS *(continued)*

The amounts recognised in the profit and loss account are as follows

	2012 £000	2011 £000
Amounts charged/(credited) to operating profit		
Current service cost	**3,847**	3,993
Management expense	**122**	127
Gains on settlements and curtailments	**-**	(7,000)
Total operating charge/(credit)	**3,969**	(2,880)
Amounts included in other finance cost/(income)		
Expected return on scheme assets	**(26,143)**	(30,731)
Interest on scheme liabilities	**28,158**	29,882
Other finance cost/(income)	**2,015**	(849)
Total charge/(credit) to the profit and loss account	**5,984**	(3,729)

The total operating charge/(credit) is recognised in the following line items in the profit and loss account

	2012 £000	2011 £000
Cost of sales	**2,869**	3,218
Administrative expenses	**1,100**	(6,098)
Total operating charge/(credit)	**3,969**	(2,880)

Other finance cost is included in the profit and loss account within interest payable and similar charges

25. PENSIONS AND OTHER POST RETIREMENT BENEFITS *(continued)*

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

	2012 £000	2011 £000
Actuarial gains on assets	**252,991**	1,757
Actuarial losses on liabilities	**(11,984)**	(1,672)
Actuarial losses on changes in assumptions	**(390,651)**	(41,598)
Release/(increase) in surplus not recognised	**7,314**	(2,534)
At 31 December 2012	**(142,330)**	(44,047)

Actuarial losses recognised in the year include a net loss of £84 7m in relation to the adoption of defined benefit accounting for the Group's UK subsidiary participation in the MNRPF scheme

Deferred tax on defined benefit pension obligation

The accumulated position in respect of deferred tax on defined benefit pension obligations is as follows

	2012 £000	2011 £000
At 1 January 2012	**1,193**	1,170
Deferred tax on actuarial losses recognised in the year	**420**	23
At 31 December 2012	**1,613**	1,193

25. PENSIONS AND OTHER POST RETIREMENT BENEFITS *(continued)*

The history of the defined benefit schemes for the current and prior periods are as follows

P&O Ferries UK Scheme

	2012	2011	2010	2009	2008
Balance sheet	**£000**	£000	£000	£000	£000
Present value of scheme liabilities	**(140,560)**	(113,656)	(111,586)	(107,298)	(76,210)
Fair value of scheme assets	**124,080**	106,689	102,129	89,549	71,019
Deficit	**(16,480)**	(6,967)	(9,457)	(17,749)	(5,191)
Experience adjustments					
Experience losses/(gains) on scheme liabilities	**(504)**	(1,500)	490	490	(5,055)
Experience (losses)/gains on scheme assets	**9,381**	(3,740)	4,870	11,070	(23,880)

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

	2012	2011
	£000	£000
Equities	**60,340**	50,660
Bonds	**51,820**	44,500
Cash	**–**	369
Other	**11,920**	11,160
	124,080	106,689
Actual return on plan assets	**15,721**	2,990

The overall expected rate of return 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

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

	2012	2011
Discount rate	**4.15%**	4 70%
Expected rate of return on plan assets	**5.67%**	5 60%
Expected rate of return on plan assets at the beginning of the period	**5.60%**	6 54%
Future salary increases	**n/a**	n/a
Future pension increases - deferment	**2.20%**	2 60%
Future pension increases - payment	**3.00%**	2 50%
Inflation	**2.20%**	2 80%

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

25. PENSIONS AND OTHER POST RETIREMENT BENEFITS *(continued)*

MNOPF Scheme

	2012	2011	2010	2009	2008
Balance sheet	**£000**	£000	£000	£000	£000
Present value of scheme liabilities	**(467,000)**	(423,043)	(384,043)	(344,243)	(292,844)
Fair value of scheme assets	**339,400**	323,285	307,386	268,088	247,087
Deficit	**(127,600)**	(99,758)	(76,657)	(76,155)	(45,757)
Experience adjustments					
Experience losses/(gains) on scheme liabilities	**(10,157)**	2,100	20,701	20,701	(5,700)
Experience (losses)/gains on scheme assets	**7,915**	3,699	29,499	10,701	(64,288)

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

	2012	2011
	£000	£000
Equities	**81,500**	66,300
Bonds	**188,400**	191,400
Other	**69,500**	65,585
	339,400	323,285
Actual return on plan assets	**24,415**	23,999

The overall expected rate of return 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

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

	2012	2011
Discount rate	**4.15%**	4 65%
Expected rate of return on plan assets	**4.65%**	5 14%
Expected rate of return on plan assets at the beginning of the period	**5 14%**	6 68%
Future salary increases	**4 05%**	4 10%
Future pension increases - deferment	**2 20%**	2 10%
Future pension increases - payment	**3.00%**	3 05%
Inflation	**2.20%**	3 10%

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

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

25. PENSIONS AND OTHER POST RETIREMENT BENEFITS *(continued)*

MNRPF Scheme

	2012	2011	2010	2009	2008
Balance sheet	**£000**	£000	£000	£000	£000
Present value of scheme liabilities	**(367,800)**	(42,500)	(38,100)	-	-
Fair value of scheme assets	**271,200**	34,250	32,100	-	-
Deficit	**(96,600)**	(8,250)	(6,000)	-	-
Experience adjustments					
Experience losses/(gains) on scheme liabilities	**(1,100)**	(1,200)	800	-	-
Experience (losses)/gains on scheme assets	**236,300**	1,300	31,200	-	-

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

	2012	2011
	£000	£000
Equities	**51,800**	6,200
Bonds	**161,400**	21,750
Other	**58,000**	6,300
	271,200	34,250
Actual return on plan assets	**237,900**	3,100

The overall expected rate of return 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

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

	2012	2011
Discount rate	**4.15%**	4 65%
Expected rate of return on plan assets	**4.54%**	4 10%
Expected rate of return on plan assets at the beginning of the period	**4 82%**	5 65%
Future salary increases	**4 05%**	4 10%
Future pension increases - deferment	**2 20%**	2 10%
Future pension increases - payment	**3 00%**	3 05%
Inflation	**2 20%**	3 10%

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

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

25 PENSIONS AND OTHER POST RETIREMENT BENEFITS *(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

	2012	2011	2010	2009	2008
Balance sheet	**£000**	£000	£000	£000	£000
Present value of scheme liabilities	**(48,141)**	(33,854)	(33,518)	(36,057)	(35,989)
Fair value of scheme assets	**38,646**	38,400	37,776	36,625	35,637
Deficit	**(9,495)**	4,546	4,258	568	(352)
Experience adjustments					
Experience losses/(gains) on scheme liabilities	**(223)**	(128)	(1,871)	(1,635)	(508)
Experience (losses)/gains on scheme assets	**(605)**	498	549	1,068	(6,118)

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

	2012	2011
	£000	£000
Equities	**10,680**	11,232
Bonds	**27,788**	26,316
Cash	**–**	852
Other	**178**	–
	38,646	38,400
Actual return on plan assets	**1,098**	2,399

The overall expected rate of return 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

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

	2012	2011
Discount rate	**3.07%**	5 35%
Expected rate of return on plan assets	**3.83%**	3 00%
Expected rate of return on plan assets at the beginning of the period	**5 03%**	3 59%
Future salary increases	**2 27%**	3 00%
Future pension increases - deferment	**0 54%**	1 07%
Future pension increases - payment	**0.54%**	1 07%
Inflation	**2.00%**	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

26. COMMITMENTS UNDER OPERATING LEASES

At 31 December 2012 the group had annual commitments under non-cancellable operating leases as set out below

Group	2012		2011	
	Land and buildings £000	**Other items £000**	Land and buildings £000	Other items £000
Operating leases which expire				
Within 1 year	**2,220**	**16,181**	388	1,682
Within 2 to 5 years	**1,314**	**14,216**	3,847	41,532
After more than 5 years	**15,072**	**7,960**	15,243	187
	18,606	**38,357**	19,478	43,401

27. CAPITAL COMMITMENTS

Following the completion and delivery of the new build ships, the group had no contracted capital commitments at the year end (2011 £35 2m)

28. CONTINGENCIES

The Company acts as guarantor for all group borrowings as detailed in notes 20 and 21

29. RELATED PARTY TRANSACTIONS

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 that require disclosure

30. SHARE CAPITAL

Allotted, called up and fully paid.

	2012		2011	
	No	**£000**	No	£000
428,542,000 Ordinary shares of £1 each	**428,542,000**	**428,542**	428,542,000	428,542

31. RESERVES

Group	Share premium account £000	Profit and loss account £000
Balance brought forward	107,135	(60,482)
Profit for the year	–	2,897
Amortisation of issue expenses on non-equity shares	–	420
Defined benefit pension scheme actuarial losses	–	(142,330)
Balance carried forward	107,135	(199,495)

Company	Share premium account £000	Profit and loss account £000
Balance brought forward	107,135	(41,458)
Loss for the year	–	(144,888)
Balance carried forward	107,135	(186,346)

32. RECONCILIATION OF MOVEMENTS IN SHAREHOLDER'S FUNDS

	2012 £000	2011 £000
Profit for the financial year	2,897	5,725
Defined benefit pension scheme actuarial losses	(142,330)	(44,047)
Deferred tax arising on actuarial losses	420	23
Exchange gains on retranslation of overseas subsidiaries	–	6
Net reduction to shareholder's funds	(139,013)	(38,293)
Opening shareholder's funds	475,195	513,488
Closing shareholder's funds	336,182	475,195

33. NOTES TO THE CASH FLOW STATEMENT

RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2012 £000	2011 £000
Operating profit	17,366	15,654
Depreciation	46,615	49,393
Decrease/(increase) in stocks	347	(1,681)
Decrease in debtors	32,386	15,816
(Decrease)/increase in creditors	(13,907)	9,956
Loss on foreign currency retranslation on debt	–	6
(Decrease)/increase in provisions	(5,057)	726
(Increase)/decrease in pension liability	(11,913)	(19,301)
Net cash inflow from operating activities	65,837	70,569

33. NOTES TO THE CASH FLOW STATEMENT *(continued)*

RETURNS ON INVESTMENTS AND SERVICING OF FINANCE

	2012 £000	2011 £000
Interest received	625	839
Interest paid	(8,511)	(9,445)
Interest element of finance leases	(1,641)	(232)
Net cash outflow from returns on investments and servicing of finance	(9,527)	(8,838)

TAXATION

	2012 £000	2011 £000
Taxation	(6,470)	(437)

CAPITAL EXPENDITURE

	2012 £000	2011 £000
Payments to acquire tangible fixed assets	(40,025)	(78,798)
Receipts from sale of fixed assets	3,977	2,494
Net cash outflow from capital expenditure	(36,048)	(76,304)

FINANCING

	2012 £000	2011 £000
Increase in bank loans	10,119	39,522
Capital element of finance leases	(5,613)	(6,133)
Net cash inflow from financing	4,506	33,389

ANALYSIS OF CHANGES IN NET DEBT

	At 1 Jan 2012 £000	Cash flows £000	Exchange movement £000	At 31 Dec 2012 £000
Net cash				
Cash in hand and at bank	103,525	18,298	–	121,823
Debt				
Debt due within 1 year	(17,626)	(739)	–	(18,365)
Debt due after 1 year	(208,260)	(9,380)	–	(217,640)
Finance lease agreements	(55,200)	5,613	787	(48,800)
	(281,086)	(4,506)	787	(284,805)
Net debt	(177,561)	13,792	787	(162,982)

34. 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