Registered number
6038090

P&O Ferries Division Holdings Limited

Directors' Report and Financial Statements

31 December 2009

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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 2009

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
Whilst many of the markets in which we operate have slowed due to the widespread recession, our strong position in our chosen markets, coupled with high levels of customer service and our focus on cost control have enabled us to mitigate much of the effect of this economic downturn

The following information is represented

	2009	2008
Freight Units Carried (million)	2 0	2 0
Tourist Vehicles Carried (million)	1 8	1 7
Total Passengers Carried (million)	9 2	9 4

Turnover declined to £1,004m from £1,082m in 2008, in part due to a reduction in fuel surcharge revenue Volumes overall remained broadly in line with the prior year, with tourist vehicle volumes up 5 9% and total passenger volumes down 2 1% The relative performance of the different sectors resulted in overall average rates declining

Gross profit as a percentage of revenue improved from 9 7% to 10 4%, reflecting the net impact of the changes in fuel prices and the effects of managements ongoing focus on yield

The Group's profit after tax for the year was £1,098k (2008 loss £6,393k) and operating profit for the year was £8,721k (2008 £11,278k)

There were two one-off charges / credits within operating profit for the year a charge of £6 2m principally in respect of restructuring the Group's North Sea operations (see current and future developments) and an impairment charge of £6 2m against two of the Group's vessels

Profit before interest and tax includes a credit of £5 0m in respect of the disposal of a parcel of land by Larne Harbour Limited

EBITDA before exceptional items, as a percentage of revenue improved from to 4 8% for the year ended 31st December 2009, compared to 4 4% for the previous year

Lower finance charges year on year include reduced net foreign exchange losses offset by higher pension related charges Foreign exchange gains comprise a credit of £3 5m (2008 charge of £11 2m) in respect of a gain on a Euro-denominated finance lease (see note 19 in the financial statements)

The tax charge for the year is analysed in note 10 to the financial statements

P&O Ferries Division Holdings Limited
Directors' Report

Current and future developments
Construction on the two new ferries for the Dover Calais service continues, and total payments to STX Europe (formerly Aker Yards) of £63 7m were made in the year, of which 80% was financed with long term bank loans The first of the new vessels is now expected to enter service in January 2011 and the second in September 2011

Due to continued poor results of the North Sea sector, Management announced plans for the restructuring of its North Sea operations in July 2009 Implementation commenced during 2009 and will continue in to 2010

The 50% joint venture in Port of Cairnryan Limited, previously held by Stena Line, was purchased by the Group for a total consideration of £1m, as a result of which it is now a 100% owned subsidiary There was no goodwill on acquisition Further, as a part of this transaction, £11m lent to the Group by Stena Line was repaid

In January 2010, Management announced that the Group's operation in the Western Channel (Portsmouth to Bilbao) will cease in October 2010, when the charter for the sole vessel on this route expires

There remains considerable uncertainty surrounding the timing and speed of an economic recovery Whilst freight volumes in 2010 remain broadly in line with expectations, there is significant pressure on prices The tourist business was boosted in the short term by the Icelandic volcanic ash crisis and there are indications that customers are switching to non plane modes of travel for their main summer holidays in 2010

Funding and liquidity
As at the year end the Group had overdraft facilities of £11 7m and revolving credit facilities of £30m (2008 £45m) to fund working capital requirements, in addition to long term secured bank loans for the two new ferries During the year, cash and cash equivalent balances averaged £82 6m, of which £20m was deposited with Ports and Free Zone World via a Credit Facility This loan is repayable on demand with a validity of up to 30 September 2010

Principal risks and uncertainties

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

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

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

Credit Risk
Cash deposits and similar financial instruments give rise to credit risk Management seeks to minimise this risk by ensuring the 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
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 may seek to reduce volatility by fixing further proportions of the variable rate loans when market conditions are believed to be favourable

<u>Competition and market supply</u>
The Group closely monitors competition in its markets, both from existing operators and potential new entrants Market share is monitored on a monthly basis and demand projections incorporate both industry and wider economic predictions 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

<u>Macro Economic risk</u>
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

<u>Pensions</u>
The group may be exposed to additional liabilities with respect to its participation in defined benefit pension schemes Because of the Group's exposure to the industry wide Merchant Navy Officers Pension Fund, the Group has a relatively high proportion of deferred and current pensioners compared to its active membership A decline in the equity market, improvements in life expectancy or decreases in real or nominal long term interest rates could require additional contributions in excess of those currently expected The deficit in all schemes increased from £53 0m to £93 5m during the year (see page 26) due to a combination of these and other factors

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

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

<u>Going Concern</u>
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 accounts

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

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

On the basis of its forecasts, including covenant testing, the Board has concluded that the going concern basis of preparation continues to be appropriate The Board's considerations have included consideration of future forecasts, reflecting a continuing economic recession, and mitigating actions and measures available to the Group

Dividends
No dividends were paid during the year *(2008 £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 *(2008 £nil)*

The Group made charitable donations of £1,938 *(2008 £6,000)* during the year The Company made no charitable donations during the year *(2008 £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 40 days *(2008 44 days)* P&O Ferries Limited (which operates the central purchase ledgers of the P&O Ferries Division Holdings Limited group) had 22 days *(2008 27 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 2010

K Howarth
Director

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

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

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law they have elected to prepare the group and parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period In preparing each of the group and parent company financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006 They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities

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

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

We have audited the financial statements of P&O Ferries Division Holdings Limited for the year ended 31 December 2009 set out on pages 7 to 32 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 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/UKNP

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 2009 and of the group's profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matters prescribed by the Companies Act 2006
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

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

Peter G Read (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
30 June 2010

8 Salisbury Square
LONDON
EC4Y 8BB

P&O Ferries Division Holdings Limited
Consolidated Profit and Loss Account
for the year ended 31 December 2009

	Notes	2009 £000	2008 £000
Turnover	2	**1,004,257**	1,082,121
Cost of sales		**(900,022)**	(976,730)
Gross profit		**104,235**	105,391
Administrative expenses		**(95,514)**	(94,113)
Operating profit	3	**8,721**	11,278
Analysed as			
Operating profit before exceptional items		**21,084**	16,366
Exceptional items	4	**(12,363)**	(5,088)
		8,721	11,278
Profit on disposal of tangible fixed assets		**4,953**	1,294
Profit before interest and tax		**13,674**	12,572
Interest receivable and similar income	8	**5,581**	794
Interest payable and similar charges	9	**(13,402)**	(19,346)
Pension finance (charge)/income	30	**(2,588)**	2,029
Profit/(loss) on ordinary activities before taxation		**3,265**	(3,951)
Tax on profit/(loss) on ordinary activities	10	**(2,167)**	(2,442)
Profit/(loss) for the financial year		**1,098**	(6,393)

The results stated above are all derived from continuing operations

The accounting policies and the notes on pages 12 to 32 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 2009

	Notes	For the year ended 31 December 2009 £000	For the year ended 31 December 2008 £000
Profit/(loss) for the financial year		**1,098**	(6,393)
Actuarial losses recognised in the pension schemes	30	**(49,924)**	(38,552)
Exchange (losses)/gains		**(327)**	326
Deferred tax arising on actuarial losses in the pension schemes	20	**724**	(602)
Total recognised gains and losses related to the year		**(48,429)**	(45,221)

P&O Ferries Division Holdings Limited
Consolidated Balance Sheet
as at 31 December 2009

	Notes		2009 £000		2008 £000
Fixed assets					
Intangible assets	11		**289,804**		289,804
Tangible assets	12		**459,405**		430,548
Investment in joint venture	13		**-**		708
			749,209		721,060
Current assets					
Stocks	14	**11,648**		10,790	
Debtors	15	**161,053**		175,665	
Cash at bank and in hand		**68,435**		126,988	
		241,136		313,443	
Creditors: amounts falling due within one year	16	**(170,579)**		(249,793)	
Net current assets			**70,557**		63,650
Total assets less current liabilities			**819,766**		784,710
Creditors amounts falling due after more than one year	17		**(188,184)**		(144,912)
Provisions for liabilities					
Deferred taxation	20		**(4,177)**		(3,874)
Other provisions	21		**(24,838)**		(25,474)
			(29,015)		(29,348)
Pension liabilities	30		**(93,546)**		(53,000)
Net assets			**509,021**		557,450
Capital and reserves					
Called up share capital	22		**428,542**		428,542
Share premium	23		**107,135**		107,135
Profit and loss account	24		**(26,656)**		21,773
Shareholders' funds	25		**509,021**		557,450

K Howarth
Director
Approved by the board on 29 June 2010

The accounting policies and the notes on pages 12 to 32 form part of these financial statements

P&O Ferries Division Holdings Limited
Company Balance Sheet
as at 31 December 2009

	Notes		2009		2008
			£000		£000
Fixed assets					
Investments	13		**180,119**		180,119
Current assets					
Debtors	15	**305,067**		376,178	
Creditors amounts falling due within one year	16	**(1,305)**		(15,000)	
Net current assets			**303,762**		361,178
Total assets less current liabilities			**483,881**		541,297
Net assets			**483,881**		541,297
Capital and reserves					
Called up share capital	22		**428,542**		428,542
Share premium	23		**107,135**		107,135
Profit and loss account	24		**(51,796)**		5,620
Shareholders' funds	25		**483,881**		541,297

K Howarth
Director
Approved by the board on 29 June 2010

The accounting policies and the notes on pages 12 to 32 form part of these financial statements

P&O Ferries Division Holdings Limited
Consolidated Cash Flow Statement
for the year ended 31 December 2009

	Notes	2009 £000	2008 £000
Reconciliation of operating profit to net cash inflow from operating activities			
Operating profit		**8,721**	11,278
Depreciation charges		**35,597**	36,132
Impairment of tangible fixed assets		**6,190**	-
Foreign exchange losses		**(293)**	(2,110)
Decrease in pension liability		**(11,211)**	(8,636)
(Increase)/decrease in stocks		**(858)**	2,887
Decrease/(increase) in debtors		**34,612**	(21,202)
(Decrease)/increase in creditors and provisions		**(29,698)**	36,121
Net cash inflow from operating activities		**43,060**	54,470
CASH FLOW STATEMENT			
Net cash inflow from operating activities		**43,060**	54,470
Returns on investments and servicing of finance	26	**(9,831)**	(5,010)
Taxation		**(625)**	(321)
Capital expenditure and financial investments	26	**(65,558)**	(77,844)
		(32,954)	(28,705)
Financing	26	**19,569**	55,291
Cash (outflow) / inflow before management of liquid resources		**(13,385)**	26,586
Management of liquid resources	26	**(20,000)**	-
(Decrease)/increase in cash during the year		**(33,385)**	26,586
Reconciliation of net cash flow to movement in net debt			
(Decrease)/increase in cash in the period		**(33,385)**	26,586
Increase in debt and lease financing		**(19,569)**	(55,291)
Foreign exchange on loans		**3,499**	(11,220)
Change in net debt	27	**(49,455)**	(39,925)
Net debt at 1 January		**(65,027)**	(25,102)
Net debt at 31 December		**(114,482)**	(65,027)
Liquid resources - parent credit facility		**20,000**	-
Adjusted net debt at 31 December		**(94,482)**	(65,027)

Liquid resources within the cashflow statement represents a deposit with Ports and Free Zone World via an interest bearing credit facility which is repayable on demand

1 Accounting policies

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

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

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

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

Basis of consolidation
The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings made up to 31 December 2009

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

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

Stocks
Stock is valued at the lower of cost and net realisable value

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

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

1 Accounting policies (continued)

Foreign currencies

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

Leases

Assets acquired under finance leases are capitalised as tangible fixed assets The capital elements of future obligations under leases are shown as liabilities in the balance sheet The total finance charge is allocated to accounting periods to produce a constant periodic rate of charge on the outstanding obligation during the lease term

Operating lease rentals and charter hire costs are charged to the profit and loss account on a straight-line basis over the period of the lease or charter

Pensions

Defined contribution schemes

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

Defined benefit schemes

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

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

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

A further scheme is the Merchant Navy Ratings Pension Fund ('MNRPF') The Group cannot identify its share of the underlying assets and liabilities of the MNRPF on a consistent and reasonable basis and is therefore, for the year ended 31 December 2009 and prior years, the Group has accounted for the MNRPF as if it were a defined contribution scheme Further information in respect of the MNRPF and the Group's interest in this scheme is in Note 30

Maintenance costs

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 prepaid as current assets and amortised over their useful economic life (typically over a period of 12-24 months to match the period prior to the next overhaul)

1 Accounting policies (continued)

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

Goodwill
Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of separable net assets acquired) arising on consolidation in respect of acquisitions is capitalised Goodwill is considered to have an indefinite useful life as the P&O brand has over 150 years of positive usage, so it is not amortised but is annually tested for impairment which is written off through the profit and loss account

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

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

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

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

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

2 Segmental information

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

Analysis by activity	**2009 £000**	2008 £000
Turnover		
Ferry Service total	**625,947**	645,585
Ferry Service inter-segment	**(32,000)**	(29,952)
Ferry Service sales to third parties	**593,947**	615,633
Transport and freight management	**410,310**	466,488
	1,004,257	1,082,121
Profit/(loss) on ordinary activities before taxation		
Ferry Service	**4,162**	(1,258)
Transport and freight management	**(897)**	(2,693)
	3,265	(3,951)
Net assets		
Ferry Service	**541,909**	587,436
Transport and freight management	**(32,888)**	(29,986)
	509,021	557,450

P&O Ferries Division Holdings Limited
Notes to the Financial Statements
for the year ended 31 December 2009

3 Operating profit before exceptional items

	2009 £000	2008 £000
This is stated after charging		
Depreciation of owned fixed assets	32,334	32,881
Depreciation of assets held under finance leases and hire purchase contracts	3,263	3,251
Ships' charter hire payments	43,546	50,291
Operating lease rentals - plant and machinery	14,349	2,846
Exchange losses	20	321
Auditors' remuneration		
Audit of the financial statements of the group	545	450
Other services - taxation	36	23

In 2009 and 2008, auditors' remuneration in respect of the Company was borne by a subsidiary undertaking The audit fee relating to the Company was as follows

	2009 £000	2008 £000
Fees for the audit of the Company	10	10

4 Exceptional items

	2009 £000	2008 £000
Impairment of group vessels (Note 12)	(6,190)	-
Back-dated rates charges (Note 21)	-	(5,088)
Restructuring costs (Note 21)	(6,173)	-
	(12,363)	(5,088)

5 Directors' remuneration

	2009 £000	2008 £000
Directors' remuneration	446	713
Company contributions to money purchase pension schemes	90	88
	536	801

	2009 £000	2008 £000
Highest paid director		
Remuneration	273	454
Company contributions to money purchase pension schemes	22	-
	295	454

	2009 £000	2008 £000
Highest paid director		
Accrued retirement benefits from defined benefit pension schemes	68	26

Number of directors in company pension schemes

	2009 Number	2008 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

	2009 £000	2008 £000
Wages and salaries	135,865	147,443
Social security costs	13,306	12,652
Other pension costs	10,952	9,617
	160,123	169,712

Average number of employees during the year	Number	Number
Seafaring	2,190	2,368
Shore-based	2,425	2,611
	4,615	4,979

8 Interest receivable and similar income

	2009 £000	2008 £000
Interest on bank deposits	1,680	794
Interest on balances due from related parties	402	-
Foreign exchange gains	3,499	
	5,581	794

9 Interest payable and similar charges

	2009 £000	2008 £000
Interest on bank loans and overdrafts	4,656	2,187
Other interest charges	1,489	-
Finance charges payable under finance leases and hire purchase contracts	2,876	3,617
Foreign exchange losses	4,381	13,542
	13,402	19,346

10 Taxation

	2009 £000	2008 £000
Analysis of charge in year		
Current tax		
UK corporation tax on profits of the year	3,893	3,245
Adjustments in respect of previous years	(1,892)	606
	2,001	3,851
Deferred tax		
Origination and reversal of timing differences (Note 20)	(1,240)	(1,409)
Adjustment in respect of previous years	1,406	-
	166	(1,409)
Tax on profit on ordinary activities	2,167	2,442

10 Taxation (continued)

Factors affecting tax charge for the year
The UK standard rate of corporation tax change from 30% to 28% with effect from 1 April 2008, resulting in a combined rate of 28 5% for the 2008 financial year

The current tax charge for the year is higher *(2008 higher)* than the standard rate of corporation tax in the UK *(28%, 2008 28 5%)* The differences are explained below

	2009 £000	2008 £000
Profit/(loss) on ordinary activities before tax	**3,265**	(3,951)
Standard rate of corporation tax in the UK	**28 0%**	28 5%
	£000	£000
Profit on ordinary activities multiplied by the standard rate of corporation tax	**914**	(1,126)
Effects of		
Tonnage tax	**1,500**	2,475
Profits not attributable to UK companies	**-**	405
Expenses not deductible for tax purposes	**59**	340
Timing differences	**1,420**	1,151
Adjustments to tax charge in respect of previous periods	**(1,892)**	606
Current tax charge for the year	**2,001**	3,851

Most of the Group's activities are qualifying activities for the purpose of the UK tonnage tax regime and the Group pays corporation tax on these activities by reference to the tonnage of the ships owned or operated For its road transportation business and certain other minor non-qualifying activities the Group pays corporation tax at 28% (2008 28 5%) of the profits earned by these activities Adjustments in respect of prior years arise from amendments to current tax computations submitted to HMRC and are largely offset by opposite prior year adjustments to deferred taxation timing differences

Factors that may affect future tax charges
The future tax charge is expected to be at a consistent level to the current year, before taking into account any changes which may arise to the tonnage of the Group's shipping fleet or changes to the UK tonnage tax regime

11 Intangible fixed assets

Goodwill	**2009 £000**
Cost and net book value	
At 1 January 2009 and 31 December 2009	**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 *(2008 £nil)* being applied against the goodwill

12 Tangible fixed assets

Group	Owned and leased ships	Land and buildings £000	Other equipment £000	Assets under construction £000	Total £000
Cost					
At 1 January 2009	375,308	11,777	45,417	58,524	491,026
Reclassifications	-	-	(8,166)	8,166	-
Additions	596	223	2,337	67,206	70,362
Assets acquired with subsidiaries	-	1,064	-	-	1,064
Foreign exchange	-	(16)	(98)	-	(114)
Disposals	-	(1,375)	(4,424)	-	(5,799)
At 31 December 2009	375,904	11,673	35,066	133,896	556,539
Depreciation					
At 1 January 2009	49,034	1,958	9,486	-	60,478
Charge for the year	29,498	762	5,337	-	35,597
Foreign exchange	-	(9)	(71)	-	(80)
Impairment of assets	6,190	-	-	-	6,190
On disposals	-	(1,361)	(3,690)	-	(5,051)
At 31 December 2009	84,722	1,350	11,062	-	97,134
Net book value					
At 31 December 2009	**291,182**	**10,323**	**24,004**	**133,896**	**459,405**
At 31 December 2008	326,274	9,819	35,931	58,524	430,548

The impairment charge in the current year relates to two ships and is based on the Directors' estimate of the vessels' net realisable value, having had regard to external valuation reports The remaining value of the ships carried on the balance sheet is £36 5m

Included in the total net book value of owned and leased ships is £64,499,000 *(2008 £67,743,000)* in respect of assets held under finance leases Depreciation for the period on these assets was £3,263,000 *(2008 £3,251,000)*

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

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

The net book value of land and buildings comprises

Group	2009 £000	2008 £000
Freehold	**8,148**	7,284
Long leasehold	**47**	48
Short leasehold	**2,128**	2,487
	10,323	9,819

13 Investments

Group	Participating interest in joint venture £000
Cost	
At 1 January 2009	4,112
Reversal due to consolidation * *	(4,112)
At 31 December 2009	-
Provisions	
At 1 January 2009	3,404
Reversal due to consolidation * *	(3,404)
At 31 December 2009	-
Net book value	
At 31 December 2009	-
At 31 December 2008	708

Company	Company shares in group undertakings £000	Loans to subsidiary undertakings £000	Total £000
Cost and net book value			
At 1 January 2009 and 31 December 2009	22,593	157,526	180,119

Company shares in group undertakings
Investments include the following subsidiaries

	Country of incorporation	Principal Activity	%	Share Class
P&O Ferries Holdings Limited *	Great Britain	Holding company	100%	Ordinary
Ship Management Holdings (Gibraltar) Limited *	Gibraltar	Holding company	100%	Ordinary
P&O Ferrymasters Holdings Limited *	Great Britain	Holding company	100%	Ordinary
P&O Ferries Limited	Great Britain	Ferry Services	100%	Ordinary
P&O Short Sea Ferries Limited	Great Britain	Holding company	100%	Ordinary
Larne Harbour Limited *	Northern Ireland	Harbour operator	100%	Ordinary
P&O Ferries Ship Management Limited	Great Britain	Ship Management	100%	Ordinary
P&O European Ferries (Portsmouth) Limited	Great Britain	Ferry Services	100%	Ordinary
P&O European Ferries (Vizcaya) SA	Spain	Terminal Operator	100%	Ordinary
P&O European Ferries (Irish Sea) Limited	Great Britain	Ferry Services	100%	Ordinary
P&O North Sea Ferries Limited	Great Britain	Ferry Services	100%	Ordinary
P&O North Sea Ferries BV	Netherlands	Ferry Services	100%	Ordinary
P&O Ferrymasters Limited	Northern Ireland	International unit loads	100%	Ordinary
Norbay (UK) Limited	Great Britain	Leasing	100%	Ordinary
Port of Cairnryan Limited	Great Britain	Harbour operator	100%	Ordinary

* directly owned

* * On 9 September 2009, the Group acquired the remaining 50% stake in the Port of Cairnryan Limited joint venture for a total consideration of £1 million Port of Cairnryan Limited is consolidated as a wholly owned subsidiary from this date No goodwill arose as a part of this transaction Net assets acquired principally comprised land (Note 12)

14 Stocks

	2009 £000	2008 £000
Raw materials and consumables	**4,649**	2,940
Finished goods and goods for resale	**6,999**	7,850
	11,648	10,790

15 Debtors

	2009 £000 Group	2009 £000 Company	2008 £000 Group	2008 £000 Company
Trade debtors	**112,286**	**-**	134,103	-
Amounts owed by subsidiaries	**-**	**305,067**	-	376,178
Other debtors	**5,358**	**-**	4,242	-
Prepayments and accrued income	**23,409**	**-**	37,320	-
Amounts owed by parent company *	**20,000**	**-**	-	-
	161,053	**305,067**	175,665	376,178

* Amounts owed by parent company represents cash deposited with Ports and Free Zone World via a credit facility and repayable on demand

16 Creditors amounts falling due within one year

	2009 £000 Group	2009 £000 Company	2008 £000 Group	2008 £000 Company
Bank loans and overdrafts	**1,446**	**-**	41,534	15,000
Other loans	**-**	**-**	11,000	-
Obligations under finance lease and hire purchase contracts	**4,609**	**-**	4,582	-
Trade creditors	**89,581**	**-**	113,626	-
Amounts owed to group undertakings	**2,502**	**-**	-	-
Amounts owed to subsidiaries	**-**	**697**	-	-
Corporation tax payable	**6,201**	**608**	7,333	-
Other taxes and social security costs	**13,168**	**-**	10,181	-
Other creditors	**6,472**	**-**	9,518	-
Accruals and deferred income	**46,600**	**-**	52,019	-
	170,579	**1,305**	249,793	15,000

Bank loans and overdrafts of £114,784,000 *(2008 £88,558,000)* are secured on certain of the Group's ships and other assets

17 Creditors amounts falling due after one year

	2009 £000 Group	2009 £000 Company	2008 £000 Group	2008 £000 Company
Bank loans	**113,338**	**-**	63,390	-
Obligations under finance lease and hire purchase contracts	**63,524**	**-**	71,509	-
Other creditors	**11,322**	**-**	10,013	-
	188,184	**-**	144,912	-

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

18 Bank loans

The Group has three loans which finally mature after five years

Repayment basis of loans over five years	2009 £000	2009 £000	2008 £000	2008 £000
	Due in less than 1 year	Due in more than one year	Due in less than 1 year	Due in more than one year
Amounts payable				
Quarterly until 2015	1,446	16,554	1,366	17,997
Quarterly for 12 years *	-	74,345	-	22,953
Half yearly for 12 years *	-	22,440	-	22,440
	1,446	113,339	1,366	63,390

* There is a total facility for the ships in construction of Euros 284m of which £96 8m has been drawn Both loans will increase as various stages of construction are reached, and repayments only begin after the ship is launched, which is expected to be at least 12 months from the balance sheet date

Bank loans include £114,785,000 of loans that will not be fully repaid within 5 years These loans are subject to interest rates ranging from 1 8 - 5 6% as at 31 December 2009

The Group had in place multi-currency credit facilities with various banks of £30 million which are available until 2012, and overdraft facilities of £14 4m As at 31 December 2009 none of the multi-currency credit facility was being utilised

19 Obligations under finance leases and hire purchase contracts

	2009 £000 Group	2009 £000 Company	2008 £000 Group	2008 £000 Company
Amounts payable				
Within one year	4,609	-	4,582	-
Within two to five years	20,861	-	20,795	-
After five years	42,663	-	50,714	-
	68,133	-	76,091	-

Finance leases include £33,563,000 of leases that will not be fully repaid within 5 years These leases are subject to interest rates ranging from 1 8% to 5 0% as at 31 December 2009

Finance lease liabilities include an amount of €47,416,000 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 £3 5 milion, which has been credited to the profit and loss account within net foreign exchange losses

Repayment basis of finance leases over 5 years	2009 £000	2008 £000
Quarterly until 2017	26,135	27,974
Annually until 2021	41,998	48,117
	68,133	76,091

20 Deferred taxation

Group

	2009 £000	2008 £000
Accelerated capital allowances	2,771	3,874
Other timing differences	1,406	-
Pension deficit payments	(1,402)	(541)
	2,775	3,333

	2009 £000	2008 £000
At 1 January	3,333	4,742
Deferred tax charge/(credit) in profit and loss account (Refer to Note 10)	166	(2,011)
Deferred tax (credit)/charge in statement of total recognised gains and losses	(724)	602
At 31 December	2,775	3,333

Deferred taxation is presented in the balance sheet as follows (the 2008 comparatives have been presented on a consistent basis)

	2009 £000	2008 £000
Provisions for liabilities	4,177	3,874
Pension liabilities (Refer note 30)	(1,402)	(541)
	2,775	3,333

The operational ferry companies elected to enter the UK tonnage tax regime in 2001 & 2002, which eliminated future potential tax liabilities on most of their activities' profits The tonnage tax regime includes provision whereby a proportion of capital allowances previously claimed by the company may be subject to tax in the event that a significant number of ships were sold and not replaced This contingent liability decreases to nil over the first seven years following entry to the regime The contingent liability at 31 December 2009 was £nil *(2008 £nil)* assuming such disposal occurred at book value No provision has been made as no liability is expected to arise

Company

The Company has no deferred tax assets/liabilities

21 Provisions for liabilities

	Back-dated rates £000	Ship reinstatements £000	Re-organisation £000	Legal costs £000	Total £000
At 1 January 2009	5,088	4,585	6,231	9,570	25,474
Charged during the year	-	-	6,173	3,044	9,217
Utilised during the year	(354)	-	(8,220)	(1,162)	(9,736)
Released during the year	(117)	-	-	-	(117)
At 31 December 2009	4,617	4,585	4,184	11,452	24,838

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

The ship reinstatement provision relates to reinstatement of charter ships at the end of their contract

The reorganisation provision includes restructuring and redundancy costs and the company's obligations to pay costs under contracts for properties returned to lessor The expectation is that most of these costs will be paid in 2010

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

22 Share capital

	2009 No	2008 No	2009 £000	2008 £000
Authorised				
Ordinary shares of £1 each	**750,000,000**	750,000,000	**750,000**	750,000
Allotted, called up and fully paid				
Ordinary shares of £1 each	**428,542,000**	428,542,000	**428,542**	428,542

23 Share premium
Group and Company

	2009 £000
At 1 January 2009 and 31 December 2009	**107,135**

24 Profit and loss account

	2009 £000	2008 £000
Group		
At 1 January	**21,773**	66,994
Profit/(loss) for the financial year	**1,098**	(6,393)
Actuarial losses recognised in the pension schemes	**(49,924)**	(38,552)
Exchange (losses)/gains	**(327)**	326
Deferred tax arising on actuarial losses in the pension schemes	**724**	(602)
At 31 December	**(26,656)**	21,773
Company		
At 1 January	**5,620**	2,500
Loss for the financial year	**(57,416)**	3,120
At 31 December	**(51,796)**	5,620

The loss for the year in respect of the Company principally comprises a charge for a provision in respect of loans to subsidiary undertakings

25 Reconciliation of movement in shareholders' funds

	2009 £000	2008 £000
Group		
At 1 January	**557,450**	602,671
Profit/(loss) for the financial year	**1,098**	(6,393)
Actuarial losses recognised in the pension schemes	**(49,924)**	(38,552)
Exchange (losses)/gains	**(327)**	326
Deferred tax arising on actuarial losses in the pension schemes	**724**	(602)
At 31 December	**509,021**	557,450
Company		
At 1 January	**541,297**	538,177
(Loss)/profit for the financial year	**(57,416)**	3,120
At 31 December	**483,881**	541,297

26 Gross cash flows

	2009 £000	2008 £000
Returns on investments and servicing of finance		
Interest received	2,082	794
Interest paid	(9,037)	(2,187)
Interest element of finance lease rental payments	(2,876)	(3,617)
	(9,831)	(5,010)
Capital expenditure and financial investments		
Payments to acquire tangible fixed assets	(70,362)	(84,208)
Payments to acquire investments	(1,064)	(294)
Receipts from sales of tangible fixed assets	5,701	6,658
Cash acquired with subsidiaries	167	-
	(65,558)	(77,844)
Management of liquid resources		
Amount deposited with intermediate parent (Refer to Note 15)	(20,000)	-
	(20,000)	-
Financing		
New loans raised	51,391	60,393
Loan repayments	(27,363)	(1,287)
Capital element of finance lease rental payments	(4,459)	(3,815)
	19,569	55,291

27 Analysis of changes in net debt

	At 1 Jan 2009 £000	Cash flows £000	Non-cash changes £000	At 31 Dec 2009 £000
Cash at bank and in hand	126,988	(58,553)	-	68,435
Overdrafts	(25,168)	25,168	-	-
	101,820	(33,385)	-	68,435
Debt due within 1 year	(27,366)	25,920	-	(1,446)
Debt due after 1 year	(63,390)	(49,948)	-	(113,338)
Finance leases	(76,091)	7,958	-	(68,133)
	(166,847)	(16,070)	-	(182,917)
Net Debt	(65,027)	(49,455)	-	(114,482)
Liquid resources - parent credit facility	-	20,000		20,000
Adjusted net debt	(65,027)	(29,455)	-	(94,482)

28 Capital commitments

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

	2009	2008
	£000	£000
Contracted		
Ships	**189,064**	272,417
Other	**777**	1,102
	189,841	273,519

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 2009 £000	**Other 2009 £000**	Land and buildings 2008 £000	Other 2008 £000
Operating leases which expire				
within one year	**299**	**14,194**	420	562
within two to five years	**2,226**	**20,776**	957	43,917
in over five years	**4,140**	**8,300**	3,177	21,704
	6,665	**43,270**	4,554	66,183

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

Fuel - Purchase 46% of the expected usage in 2010 for $50 4 million,
USD - Purchase $38 4 million in 2010 and $7 0 million in 2011 to 2012 for £26 1 million
EUR - Sell €40 2million in 2009 and €7 2million in 2010, for £42 5 million

30 Pension schemes

The Group participates in three company sponsored funded defined benefit pension schemes The principal scheme, The P&O Ferries Division 2008 Pension Scheme (the "P&O Ferries UK Scheme") is closed to new members The assets of the scheme are managed on behalf of the trustee by independent fund managers The two smaller schemes are the P&O Irish Pension Scheme and the P&O North Sea Ferries (Netherlands) Scheme

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

For the year ended 31 December 2009 the Group cannot identify its share of the underlying assets and liabilities of the MNRPF on a consistent and reasonable basis and is therefore, for the year ended 31 December 2009, accounting for the MNRPF under FRS17 as if it were a defined contribution scheme

As the group's UK companies are no longer current employers in the MNRPF, they have no legal obligation with respect to the on-going deficit in the fund, having settled their statutory debt obligation This position is, however, currently being challenged by Stena Line Limited in the High Court The case is not expected to be heard until after the date of these financial statements The Gibraltar companies' proportion of the deficit required a payment of £608,974 in March 2009 *(2008 £612,000)* These payments make up the annual charge included in the group accounts

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 2009 was £3,802,000 *(2008 £3,545,000)*

The Group expects to contribute approximately £15,438,000 to its defined benefit plans in the next financial year

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

The information disclosed below is in respect of the 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

	2009	2008
	£000	£000
Present value of funded defined benefit obligations	**(487,598)**	(405,043)
Fair value of plan assets	**394,262**	353,743
Surplus not recognised	**(1,612)**	(1,002)
Deficit contributions excess of valuation	**-**	(1,239)
Deferred tax asset	**1,402**	541
Deficit	**(93,546)**	(53,000)

The comparative pension deficit has been reported net of related deferred tax asset at 31 December 2009 and 31 December 2008 (Note 20)

30 Pension schemes (continued)

Movements in present value of defined benefit obligation

	P&O Ferries UK Scheme £000	MNOPF Scheme £000	Other schemes £000	Total £000
At 1 January 2008	102,710	319,700	28,424	450,834
Current service cost	3,450	1,600	665	5,715
Interest cost	5,330	18,100	1,742	25,172
Experience gains	(5,055)	(5,700)	(508)	(11,263)
Changes in assumptions	(15,153)	(26,600)	(2,221)	(43,974)
Contributions by members	1,183	645	137	1,965
Benefits paid	(584)	(14,901)	(649)	(16,134)
Payments to fellow group undertakings	(15,671)	-	-	(15,671)
Exchange adjustments	-	-	8,399	8,399
At 31 December 2008	76,210	292,844	35,989	405,043
Current service cost	2,478	1,098	617	4,193
Interest cost	4,740	17,700	1,983	24,423
Experience losses/(gains)	260	-	(1,635)	(1,375)
Changes in assumptions	24,860	47,801	2,106	74,767
Contributions by members	980	600	141	1,721
Benefits paid	(2,230)	(15,800)	(447)	(18,477)
Exchange adjustments	-	-	(2,697)	(2,697)
At 31 December 2009	107,298	344,243	36,057	487,598

Movements in fair value of plan assets

	P&O Ferries UK Scheme £000	MNOPF Scheme £000	Other schemes £000	Total £000
At 1 January 2008	99,760	296,100	30,819	426,679
Expected return on plan assets	6,300	19,108	1,793	27,201
Actuarial losses	(23,880)	(64,288)	(6,118)	(94,286)
Contributions by employer	3,690	10,423	1,231	15,344
Contributions by members	1,183	645	137	1,965
Benefits paid	(584)	(14,901)	(649)	(16,134)
Payments to fellow group undertakings	(15,450)	-	-	(15,450)
Management expense	-	-	(109)	(109)
Exchange adjustments	-	-	8,533	8,533
At 31 December 2008	71,019	247,087	35,637	353,743
Expected return on plan assets	4,870	15,199	1,766	21,835
Actuarial gains	11,070	10,701	1,068	22,839
Contributions by employer	3,840	10,301	1,263	15,404
Contributions by members	980	600	141	1,721
Benefits paid	(2,230)	(15,800)	(447)	(18,477)
Management expense	-	-	(125)	(125)
Exchange adjustments	-	-	(2,678)	(2,678)
At 31 December 2009	89,549	268,088	36,625	394,262

30 Pension schemes (continued)

Expense recognised in the profit and loss account	**2009**	2008
	£000	£000
Current service cost	**(4,193)**	(5,715)
Interest on defined benefit plan obligation	**(24,423)**	(25,172)
Expected return on defined benefit pension plan assets	**21,835**	27,201
Management expense	**(125)**	(109)
Total	**(6,906)**	(3,795)

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

	2009	2008
	£000	£000
Cost of sales	**(3,346)**	(3,628)
Administrative expenses	**(972)**	(2,196)
Pension finance (charge)/income	**(2,588)**	2,029
Total	**(6,906)**	(3,795)

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

	2009	2008
	£000	£000
Actuarial gains/(losses) on assets	**22,839**	(94,286)
Actuarial gains on liabilities	**1,375**	11,263
Actuarial (losses)/gains on changes in assumptions	**(74,767)**	43,974
(Increase)/decrease in surplus not recognised	**(610)**	497
Reversal of deficit contributions in excess of valuation	**1,239**	-
Total actuarial losses for the period	**(49,924)**	(38,552)

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 £78,831,000 *(2008 £28,748,000)*

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

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

	2009	2008
	£000	£000
Equities	**46,439**	30,910
Bonds	**43,110**	40,109
	89,549	71,019
Actual return on plan assets	**15,940**	(17,580)

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

		2009	2008
Discount rate		**5 60%**	6 20%
Expected rate of return on plan assets		**6 54%**	6 87%
Expected return on plan assets at beginning of the period		**6 87%**	7 37%
Future salary increases		**4 70%**	4 25%
Future pension increases	- deferment	**3 25%**	2 60%
	- payment	**3 25%**	2 60%
Inflation		**3 70%**	2 75%

PA92 medium cohort tables have been used as a basis projected up to 2008, subject to a 1% minimum annual increase in line with long cohort, to reflect improvements in future mortality

As part of the March 2007 reorganisation, the current employees were offered the opportunity to have their pension transferred to the new P&O Ferries UK Scheme, with the same benefits as before, and most of the employees accepted The pensioners and deferred pensioners assets and liabilities were retained by the Peninsular and Oriental Steam Navigation Company, along with the risks and rewards of that fund The transfer took place in April 2008, and has no significant effect on the financial position of the Group Figures shown for periods prior to the transfer are in respect of the Group's proportion of the P&O Pension Scheme assets and liabilities

30 Pension schemes (continued)

MNOPF Scheme

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

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

	2009 £000	2008 £000
Equities	**117,294**	102,300
Bonds	**134,094**	127,200
Other	**16,700**	17,587
	268,088	247,087
Actual return on plan assets	**25,900**	(45,180)

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

		2009	2008
Discount rate		**5 60%**	6 20%
Expected rate of return on plan assets		**6 53%**	6 18%
Expected return on plan assets at beginning of the period		**6 18%**	6 50%
Future salary increases		**5.20%**	4 25%
Future pension increases	- deferment	**3.70%**	2 75%
	- payment	**3.50%**	2 75%
Inflation		**3.70%**	2 75%

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)

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

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

	2009 £000	2008 £000
Equities	**9,399**	10,868
Bonds	**26,994**	24,211
Property	**-**	-
Other	**232**	558
	36,625	35,637
Actual return on plan assets	**2,834**	(4,325)

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

		2009	2008
Discount rate		**5 55%**	5 85%
Expected rate of return on plan assets		**5 43%**	5 23%
Expected return on plan assets at beginning of the period		**5 23%**	5 33%
Future salary increases		**3 61%**	3 62%
Future pension increases	- deferment	**2 00%**	2 00%
	- payment	**2 00%**	2 00%
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

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